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Theory and Policy for Developing Countries

Article:

Social and Political Aspects of Financialization Processes:
a preliminary analysis of the relations among financial markets, industrial entrepreneurs and the Brazilian state

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Introduction

The article is part of a research on the relations between financial globalization, ideological orientation of national industrial entrepreneurship and the normative content of state interventions in Brazil. The main goal is to categorize causal socio-political mechanisms that permeate historical processes of financialization grounded on the analysis of the Brazilian case. The working hypothesis is that deregulation of financial markets has altered the correlation of forces between developmental and neoliberal social coalitions within Brazilian society. On the one hand, the influence of financial institutions in the decision-making processes of the Brazilian State was amplified. On the other hand, there was an increase in the share of national industrial entrepreneurs identified with the normative content of neoliberal ideology. With this, we argue that the implementations of developmentalist government agendas are facing not only constraints derived from financial globalization, but also a cohesive opposition from the national bourgeoisie.

The article is divided into three sections. First, we discuss some theoretical issues regarding the study of financialization processes, emphasizing the interactions between capital accumulation, social coalitions and national states. Next, we discuss the theoretical ontological assumptions that differentiate neoliberal and developmentalist states. Finally, empirical evidence is presented, and we provide suggestions for the progression of the research agenda.

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Processes of Financialization: Social Coalitions and State Interventions

Ontologically, it is assumed that financialization refers to a historical macroprocess of social change (TILLY, 1983). From an economic point of view, for example, the concept refers to the path of formation of a capital accumulation regime in which profits are earned by financial channels at the expense of the productive sphere (KRIPPNER, 2005; LAPAVISTAS, 2013). In the political arena, financialization will be understood as expanding the influence of financial capital - high finance and / or transnational financial groups - and of neoliberal ideology in the decision-making processes of national states and international organizations (ARRIGHI, 2007). In both cases, financialization processes are: "consequences of political decisions, objects of social dispute, as well as a source of interests and conflicts" (DAVIS, 2013, p.74).

Here, it should be stressed that, although our focus are the effects of financialization on State-society relations, it is noted that the causes and consequences of the phenomenon are not restricted to the sphere of International Political Economy. In fact, the contemporary research agenda on the subject encompasses multidimensional research objects: hegemonic transitions, crises of liberal democracy, escalation of distributive conflict, social inequality, reformulation of social policies, corporate governance models, growth models and technological transitions (SASSEN, 2006, VAROUFAKIS, 2016, STREECK, 2016). Thus, a broad definition of financialization might be:

> To the network of interrelated processes - economic, political, social, technological, cultural, etc. - through which finance has extended its influence beyond the market and into other domains of social life (ZWAN, 2014, p.102).

We decided to frame the analysis in the epistemological perspective of Weberian institutionalism. In this research agenda, as Charles Tilly (2007, p.15) points out, historical processes are understood as: "combinations and sequences of mechanisms that produce some specified result." Mechanisms, in turn, concerns a temporally smaller analytic unit, constituted empirically by sets of events connected by causal relations that produce similar effects in different contexts (TILLY, 2007). In addition, it is assumed the existence of mechanisms acting to strengthen a dominant tendency identified, or favoring social changes in the opposite direction (PIERSON, 2004; HUI, 2005).

Theoretically, we argue that the connections between economic and political spheres of financialization processes are the results of mechanisms altering the correlation of power between social coalitions within national political systems. In the first place, this transformation is induced by the implementation of neoliberal policies – liberalization, deregulation or strucutural reforms - by state agents. Those changes create the "necessary institutional structures that allow financial accumulation to be the dominant tonic in relation to the accumulation of capital in other sectors of activity" (BRUNO & CAFFÉ, 2015, p.36)[2].

From a political point of view, neoliberal economic policies and institutions will tend to increase the range and means of power of the pro-financialization social coalition[3] over time. Consequentially, a social environment that favors governments with neoliberal agendas and restrict devolpmentalist strategies will emerge. Therefore, financialization processes generates self-reinforcing mechanisms. In other words, it is expected an increase in the probability of formation of "a powerful block composed of large industrial entrepreneurs and rentier interests" (KALECKI, 1942, p.330). This does not mean that financialization becomes an irreversible trajectory, but that it is highly dependent on initial the conditions and the historical trajectory in which the social change is embedded[4].

In the second place, we consider that, although the dispute between social coalitions is one of the explanatory factors of state action, the parameters of the dispute itself are, at the same time, influenced by state interventions. That's because state decisions (or non-decisions) regulate the distributive conflict and alter the distribution of political and economic among private agents within national political systems (Weber, 1981, p.61). Therefore, state interventions may act as mechanisms strengthening the political financialization process, or establishing limits that

[2] Thus, we refer to any kind of economic or institutional policy that produces incentives for agents from different social sectors to invest their savings in financial assets.

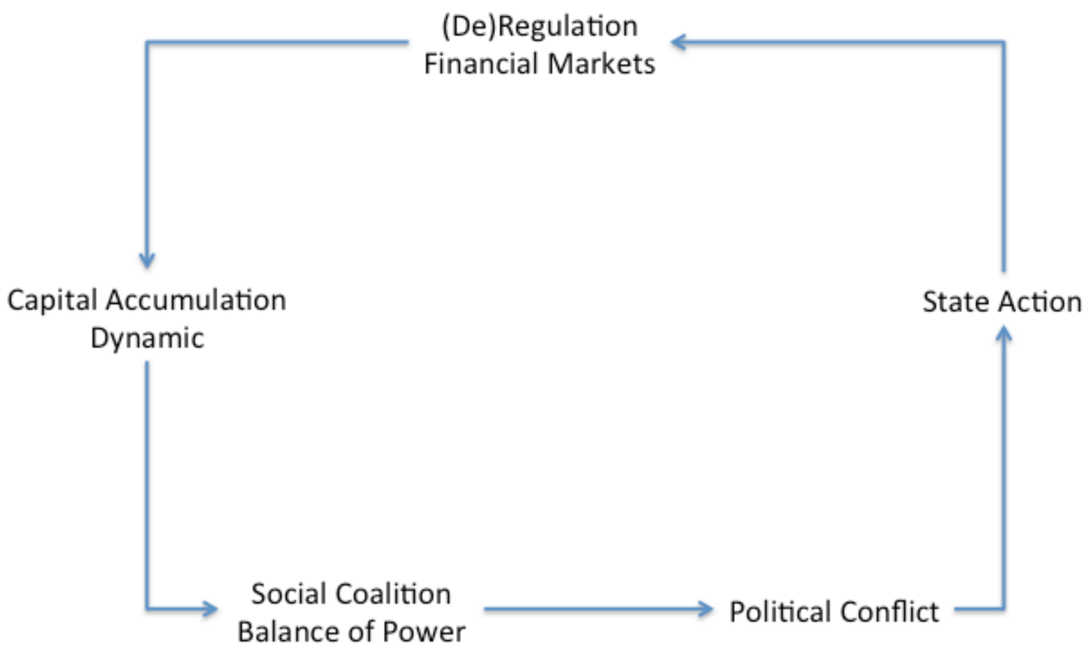
[3] By social coalition, we understand a group of private agents that have convergent economic interests, share similar ideological orientations, and acts politically to influence the orientation of state interventions (BOSCHI & GAITAN, 2016).

[4] As Paul Pierson pointed out: "Historical processes with feedback mechanisms can be highly influenced by relatively modest perturbations in their early stages and thus produce more than a single result. However, it is extremely difficult to reverse a trend when there is a particular trajectory (PIERSON, 2004, p. 10)

counterbalance it (POLANY, 2000). The definition between each alternative is a contingent result of the political conflict around the decision-making bodies of the states. After all, as stated by Wanderley Guilherme dos Santos (1986, p.19): "the dynamics of political competition is not just a metaphorical ballet of what happens in the economy."

Thus, we argue that there is a two-way causal relationship between the correlation of forces between social coalitions and the nature of state economic intervention. The Figure 1 illustrates the theoretical perspective presented above:

Figure 1 – Financialization Processes: political, economic and institutional mechanisms



Financialization has been conceptually delimited as a change in the dynamics of capital accumulation that is both cause and consequence of changes in the correlation of political forces between social groups and of the interactions between state and market. In the next section, we discuss the Developmentalist State (DS), the dependent variable in which the present work aims to investigate the effects of contemporary financialization.

Development and the Developmentalist State

The concept of economic development adopted is inserted in a research agenda that understands it as a process of structural change in national productive systems due to sustained economic growth and the dynamics of capital accumulation (OCAMPO, 2005; CHANG, 2010; BRESSER-PEREIRA, 2016). Examples of such structural transformations would be the increase in per capita income, reduction of heterogeneity among economic sectors, incorporation of technical progress in production systems, displacement of labor for higher value-added activities, and concentration of goods with greater technological content on the export agenda of nations (GERSCHENKRON, 1962 and AMSDEN, 2001).

In addition, it is noted that the concept of development can be understood from two different interpretations. The first conceives of it as technological progress of the productive forces in an abstract way. That is, regardless of the relative position of the country in which structural change occurs (KUZNETS, 1973). The second, in turn, understands it as the process of catching up between the productive sectors of the backward countries and central nations. In this research program, we note the predominance of case studies or comparative historical analyses on trajectories of late development processes (AMSDEN, 2001; OCAMPO, 2005; CHANG, 2007).

In this context, it is important to emphasize that economic and political inequalities among states are fundamental elements for understanding historical development trajectories. According to José Antonio Ocampo (2005), three types of international asymmetries are elementary in this sense. First, the fact that technological knowledge linked to increased productivity is concentrated in a few nations. Secondly, the conditions for access to credit and for financing are unequal, not only between nation-states but also between companies with different nationalities. Finally, countries that are unable to finance their own currencies are more vulnerable to balance of payments crises, capital flight and exchange rate instability. Thus, although there is always capacity for agency, governments on the periphery have relatively greater limitations than their central counterparts.

The understanding that the structural inequalities of world capitalism prevent that convergence between national economies at different stages be achievable only through market forces is a central assumption of the justification for the existence of the Developmental States (JOHNSON, 1982; HEEP, 2014; BOSCHI & GAITAN, 2016). To the extent that in the late industrialized countries the private sector is unable to sustain the investments necessary for the modernization of the productive system, the state needs to assume such responsibility and "function as a surrogate entrepreneur" (Evans, 1993, p. 22). Thus, it is assumed that the catching up process can only be achieved through state intervention in the economy, directing investments to strategic sectors, creating state-owned enterprises, and promoting industrial and innovation policies (JOHNSON, 1982 AMSDEN, 2001, HEEP, 2014). As Ben Ross Schneider summarizes (2013, p.14):

> What sets developmental states apart from other states - since almost all seek to promote growth - is that developmental states are designed to rapidly and permanently change the overall ranking of a country. Ambition is more than just government discourse and campaign promises; Developing states support this ambition with extensive material and institutional investment

In a similar perspective, Renato Boschi and Flavio Gaitan (2016, p.32) consider that:

> The developmental state is understood as a particular type of apparatus, whose policies have concentrated power, autonomy, capacity and legitimacy to shape and achieve explicit goals of economic development, either by establishing and promoting conditions of economic growth, or by organizing them directly.

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Table 1 uses the typology proposed by Peter Evans (1993) to differentiate Developing States from states guided by neoclassical orthodox economic thinking (Neoliberal States). It is important to note that the distinction between the two does not refer to the dichotomy between the presence (absence) of state intervention in the economy, but in relation to the objectives and instruments by which States operate economically (HEEP, 2014; Huber et al, 2015). In other words, "all states intervene in the economy for several reasons. The question is how and for what purpose the government makes such an intervention "(JOHNSON, 1982, p.17-18, our translation).

In the case of the Developmental States, economic intervention is carried out based on the assumption that the catching up process can only be achieved through direct governmental action in the dynamics of capital accumulation. On the other hand, interventions by Neoliberal States are guided by the idea that convergence among nations is a process that naturally occurs in accordance with the free fluctuation of relative prices in the markets. In neoliberal perspective, it is understood that the participation of the public sector in the economy should be as small as possible, preferably only to guarantee private property, to prevent the formation of monopolies and to correct market failures (ACEMOGLU & ROBINSON, 2013; MICKLETHWAIT & WOOLDRIGE, 2014). We reproduce below a passage from Milton Friedman's 'Capitalism and Freedom', which summarizes the main assumptions of the neoliberal perspective on the relationship between State and market

> A government that maintains law and order; define property rights; serves as a means for the modification of property rights and other rules of economic play; judge disputes over the interpretation of the rules; reinforce contracts; promote competition; provide a monetary structure; engage in activities to avoid technical monopoly and avoid the side effects considered important enough to justify government intervention; supplements private charity and the family in the protection of the irresponsible, whether it be an insane or a child; such a government would, of course, have important functions to play (FRIEDMAN, 2014, p. 71).

Therefore, while for developmentalist authors the accumulation of capital is an inextricably political process, for neoliberals the political dimension is perceived as a threat to its achievement. We argue that such ontological distinction about the causes of economic development is the root for the different normative conceptions about the interactions between state and development. For example, while Luiz Carlos Bresser Pereira (developmentalist author) defines the State as a "national collective action instrument" (BRESSER-PEREIRA, 2016, p. 314), John Micklethwait and Adrian Wooldrige affirm that "our perspective is liberal: we want the state is smaller and individuals freer " and that "a small but strong state is preferable to a large but weak one, not only because the big one intrudes into our lives and is expensive, but also because in general, it does not perform its basic tasks "(MICKLETHWAIT & WOOLDRIGE, 2014, p.223-224).

Table 1 - Comparison between Developmental State and Neoliberal State

	Concept of Development (catching up)	State-Market and Capital Accumulation	Objectives of Economic Policy
Developmental State	Convergence between countries' is only possible with the intervention of the Developmentalist State.	State is responsible for guiding the process of capital accumulation..	Ensure the necessary investments to guide the productive system towards the activities of greater productivity.

Neoliberal State	Convergence between countries occurs naturally through market forces	State should only ensure the right institutions. Private initiative is responsible for the accumulation of capital.	Ensure monetary stability, control public deficits, deregulate markets, and reduce state participation in the economy.

Note: From EVANS, 1993; ACEMOGLU & ROBINSON, 2013; SCHNEIDER, 2013; PERISSINOTO, 2014; FRIEDMAN, 2014; BOSCHI & GAITAN, 2016.

Thus, it is noted that the developmental state is understood as an entity endowed with capacities that would allow it to intervene in the dynamics of capital accumulation relatively autonomously to the pressures of social groups within society (HEEP, 2014). Renato Perissinotto (2014) identified that at the heart of such capabilities would be the institutionalization of a state bureaucracy committed to the implementation of the development project, as well as the articulation of social coalitions composed of strategic sectors willing and able to politically support developmental governments:

> A Developmentalist State is, as an ideal type, one that is able to forge a political alliance in order to sustain a process of institutional construction and formation of an economic bureaucracy that is at the same time sufficiently cohesive, socially inserted, with autonomy and the ability to formulate and implement an industrialization policy that will, over the long term, redefine the economic structure of a country (Perissinotto, 2014, p.64).

In this context, it is argued that contemporary financialization engendered structural conditions that compromised the capacity of the Brazilian developmentalist state to guide processes of capital accumulation. On the one hand, the integration of international financial markets prevented the Brazilian government from being able to act autonomously and impose policies unfavorable to the interests of the financial sector. Thus, the use of fiscal deficits and the targeting of the investments required to implement industrial policies are limited. On the other hand, the increase in financial incomes by companies whose activities are not linked to the financial market suggests a reduction in the capacity to form social coalitions that politically support Developing States.

Financial Globalization, Brazilian Economy, and the Developmental State

From a historical point of view, it is argued that the conjuncture that marks the beginning of contemporary financialization process - financial globalization - is the breakup of the Bretton Woods agreements in 1971. Until then, the guarantee of convertibility of international currency (dollar) in relation to gold ensured the maintenance of exchange rates between countries and prevented the occurrence of speculative attacks on national currencies. In this context, governments adopted anticyclical economic policies and imposed capital controls without incurring the risk of monetary destabilization (EICHENGREEN, 2008).

However, the gold dollar pattern disintegrated as the United States accumulated recurrent balance of payments deficits due to military spending in the Vietnam War and increased competitiveness of the Japanese and German economies (SASSEN, 2006). Forced to choose between compromising with the international monetary standard and US strategic interests, the Nixon government unilaterally decides to waive the Breton Woods agreements and allow the fluctuation of the American currency in 1971 (VAROUFAKIS, 2016). Since then, the dollar became an international fiduciary currency, unrelated to any material ballast and sustained only by the economic and military power of the United States (PANITCH & GINDIN, 2012). Thus, while the US government acquired unrestricted freedom to finance large fiscal deficits, other countries are obliged to attract international reserves into the US currency in order to defend themselves against currency speculation (EICHENGREEN, 2008, p. 178).

In this context, the liquidity generated by the decoupling of the dollar from gold allowed the issuance of credit by US private banks with extremely low interest rates (5%) and tied to the basic interest rate set by the Central American Bank (VAROUFAKIS, 2016). In the Brazilian case, Bresser-Pereira (2016) argues that such financing availability was central to the growth strategy with external indebtedness pursued by the Brazilian government during the 1970s. Thus, Brazil's external debt increased from 7,947 million dollars in 1971 to 71,878 million in 71,878 in 1981 (BRESSER-PEREIRA, 2016, p.235).

However, two sharp increases in the international oil prices (1973) and (1979), as well as the increase of the US basic interest rate to 20% in 1981, raised the indebtedness of the countries that had leveraged over the previous decade to unsustainable levels (MEDEIROS, 2010). In the case of the countries that industrialized through import substitution, the External Debt Crisis of the 1980s represented not only the interruption of the development project, but also the flight of the dollar reserves that permitted the realization of foreign exchange policy. Thus, financial globalization disfigured the monetary system that favored the support of the Developmental State in Brazil. Consequently, the Brazilian DS not only found difficulties in financing in the short and medium term, but also became unable to ensure exchange rate stability (BRESSER-PEREIRA, 2016).

In the political and ideological sphere, the defense of financial globalization has materialized in the central countries wit the elections of Ronald Reagan (1980) in the United States and Margaret Thatcher (1979) in England, the consolidation of neoliberalism as a model of macroeconomic management, and the subsequent disintegration of the Soviet Union in 1991. In the United States, Reagan advances an rethoric that the reduction in the size of the state is the solution to the inflationary problem (HARVEY, 2005). In addition, institutions such as the International Monetary Fund and the World Bank start to conditioning the renegotiation of the external debts of peripheral nations to the adoption of austerity, trade liberalization and financial liberalization policies (PANITCH & GINDIN, 2012).

In this context, the Brazilian economy was characterized by external indebtedness and extremely high inflation rates (BRESSER-PEREIRA, 2016). Between 1985 and 1994, while productive investments were scarce due to monetary instability, financialisation manifested itself through the high rates of return of the banks insured by the "floating gains guaranteed by the application in government securities remunerated by the high inflation" (METZNER & MATIAS, 2015, p.29). Thus, while domestic industrial activity faced extremely adverse conditions, financial institutions operating in Brazil consolidated their assets and increased their relative share in the country's GDP.

The establishment of the Real Plan and the control of inflation in 1994 altered the way financialization manifested itself in Brazil. At that moment, the profitability of financial institutions with the floating inflation is replaced by the profits obtained through the application in national public debt securities, which have immediate liquidity, are guaranteed by the Brazilian government and are remunerated by very high real interest rates in relation to international standards (COSTA, 2014, p.345):

> In Brazil, domestic public debt became the main axis of rents-to-equity accumulation and the basis of subordination of public finances to the pressures of global financial markets. As a consequence, the autonomy of economic policy is significantly reduced and its formatting and management are permanently monitored by the expectations and rationality inherent in the financial revaluation of capitals. A strategy of accelerating economic growth and job creation, therefore, finds limits that are structural or endogenous to the current Brazilian growth regime (BRUNO et al, 2011, p.746).

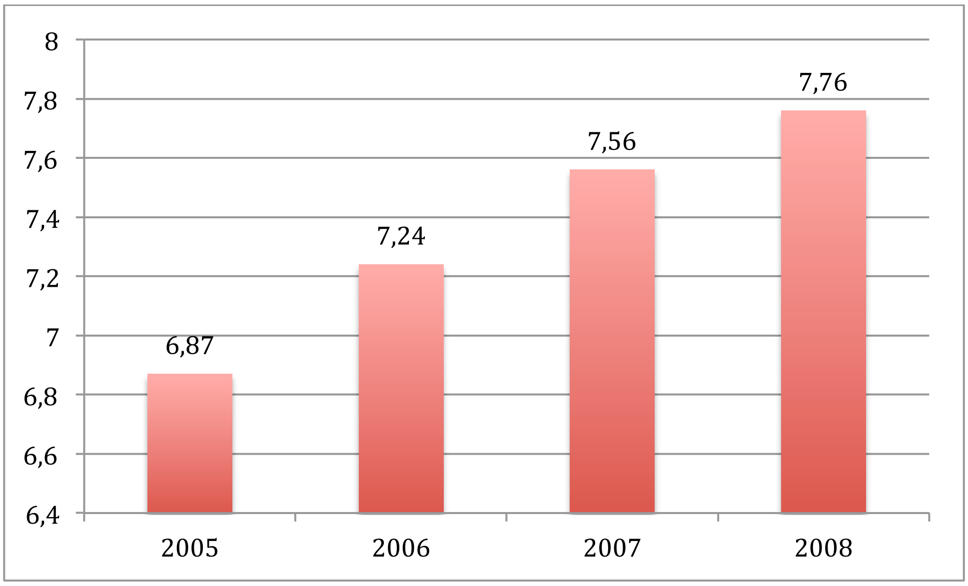
The argument used by proponents of maintaining high basic interest rates is that they are functional in order to mitigate the high risk of application in Brazil and thereby attract external savings, prevent capital flight, and ensure inflation control (BACHA, ARIDA & RESENDE, 2012). In this perspective, no longer the development of the productive system, but rather the control of the relation between public debt stock and GDP becomes the central objective of economic policy (IANONI, 2016). Subsequently, this guideline was institutionalized in Brazil through the Fiscal Responsibility Law in 2000 and, more recently, Constitutional Amendment 95, which constitutionally freezes the primary expenditures of the Brazilian State for 20 years. In fact, both measures represent the withdrawal of countercyclical fiscal policy capacity to stabilize levels of investment and employment during recessive periods

With this, the search for the structural change of the productive system - an objective characteristic of developmentalism - is no longer a priority. The Brazilian State is unable to carry out an exchange rate policy due to the deregulation and liberalization of international financial flows, and is constitutionally limited to carry out expansionary fiscal policies. (BRESSER-PEREIRA, 2016; PAULANI, 2017). Therefore, the austerity measures that guarantee the remuneration of financial speculators become the norm and relegate to the second level the maintenance of the levels of productive investment, employment and well being of the population.

In this context, Diegues and Rossi (2017) argue that the Brazilian industrial sector adapted to financialization by altering its accumulation strategy. The authors suggest that, increasingly, nonfinancial companies "would be associated with the emergence of strategies increasingly unrelated to strictly productive performance" (DIEGUES & ROSSI, 2017, p.17). The argument is based on the measurement of the detachment between the evolution of profit and the productive investment of the industry. Diegues and Rossi (2017) identify that, despite the relative decrease in gross fixed capital formation, industrial entrepreneurs earned high incomes over the assessed period. Thus, they conclude that "the form of capital accumulation of Brazilian industry has enabled it to free itself even partially from the bonds of productive activity" (DIEGUES & ROSSI, 2017, p. 27,).

Miguel Bruno and Ricardo Caffé (2015) obtain similar conclusions when evaluating the evolution of two indicators of the Brazilian economy between 2004 and 2010. The first one is share of interest income in the total product of the economy. According to them, approximately 33% of the total Brazilian product was absorbed in this way. Next, they disaggregate the composition of interest income. In this case, in line with the Diegues and Rossi (2017) hypothesis, the data indicate an increase in interest income by non-financial corporations. While they represented 6.87% in 2005, they had risen to 7.76% of GDP in 2008 (Graph 1). Thus, the hypothesis of financialization of Brazilian industrial entrepreneurship and, consequently, of a reduction of the social base of support for the Developmentalist State is reinforced.

Graph 1 – Interest income of non-ninancial Companies (% GDP - 2005-2008)



Note: from Bruno e Caffé (2015).

Therefore, financial globalization mitigated the ability of the Brazilian state to impose controls on capital flows and carry out foreign exchange policy. In addition, the macroeconomic regime that emerged under the Real Plan discouraged private productive investment due to the possibility of remuneration through public debt securities, as well as undermining public investment by constitutionally restricting countercyclical fiscal policy. In other words, financialization limited the instruments of economic policy by which the Developmental State directed the accumulation of capital in Brazil.

Financialization and Social Coalitions in Brazil

In the previous section, it was argued that financial globalization and the macroeconomic structure established after the Real Plan compromised the Brazilian state's ability to lead an economic development project. Now, it is important to remember that the emergence of such a model of capital accumulation is the result of conflicts and decisions formulated within Brazilian society. Thus, two essentially political elements need to be analyzed: i) the agents that make up the social coalition that politically supports financialization in Brazil, and ii) the mechanisms by which financial institutions are able to influence the decision-making process of the Brazilian State.

In this perspective, it is noted that the research agenda that deals with the relationship between development and social coalitions presupposes that the formation, implementation and sustainability of an economic project involves not only the interaction between actors directly linked to the political system, but also the interests and pressures of strategic agents located in the civil society (AMABLE & PALOMBARINI, 2009, DINIZ, 2011, BOSCHI & GAITAN, 2016, IANONI, 2017). Specifically, it is a question of analyzing the role of the private sector in the establishment of models of capital accumulation, "including the relation between the State and the Market, the articulation between classes and class fractions, and the motivation of the actors to establish collective actions" (BOSCHI & GAITAN, 2016, p.32).

In Brazil, a significant part of the literature identifies the clash between two social coalitions with opposing interests within the business sectors. André Singer (2012), for example, suggests that, on the one hand, there is the 'productivist coalition', formed by the alliance between industrial entrepreneurs, workers and unions. Such groups would share the perception that the Brazilian government's economic policy should encourage the strengthening of the national industry. On the other, is located the "rentier coalition" made up of banks and national and international financial institutions. In this case, the common objectives are related to the maintenance of high interest rates and the overvaluation of the Brazilian currency, which ensure the profitability of public debt securities. In addition, the rentier coalition would have the implicit support of the middle class, as the valued exchange rate guarantees the conservation of the consumption pattern of imported goods by this population stratum.

In a similar interpretation, Bresser-Pereira (2016) points to the existence of a division between developmental and liberal coalitions from the economic point of view. The first, consisting of industrialists, bureaucrats and workers who would claim the developmental state as a promoter of growth and industrialization. The second is made up of agents who earn rents mainly through financial speculation and not through production. As summarized by the author:

> While in developmentalism a coalition of entrepreneurs, public bureaucrats, progressive intellectuals and workers defend for the state a coordinating role within the economic system alongside with the market, in economic liberalism capitalists rentiers and financiers affirm that it is enough for the state to guarantee property and contracts, and keep your accounts balanced, because the rest of the market will coordinate optimally (BRESSER-PEREIRA, 2016, p. 142).

Our working hypothesis is that financialization has altered the characteristics and correlation of forces between developmental and neoliberal social coalitions. This is because the relative increase of profits by financial means by firms whose main activities are the productive sector indicates that the interests of Brazilian industrial entrepreneurship would be associated with the dynamics of our financial markets.

In the political arena, an indicator that reinforces the argument is the convergence in the content of the public manifestations of industrial and financial leaderships on Constitutional Amendment 95. For example, while the President of the Brazilian Federation of Banks (FEBRABAN), Murilo Portugal stated that "the effort to approve the reforms must continue" (ABDIB, 2017), the President of the Federation of Industries of São Paulo, Paulo Skaf said in interview that the freezing of public spending is the "mother of all fiscal reforms, indispensable signal that we are prepared to repair the public accounts broken by successive debts of previous governments "(SKAF, 2016). Therefore, if this proposition is pertinent, the logical consequence is the reduction of the social agents committed to the political support of a Developmentalist State in Brazil.

The second political element of Brazilian financialization consists of understanding the mechanisms used by agents linked to the financial sector to influence the decision-making processes of national and international institutions. Therefore, we emphasize the importance of a research agenda that deals with the specific instruments through which financialization permeates the public sector and constrains governments to adopt specific public policies. Preliminarily, three mechanisms recurrently mentioned in the literature stand out:

- **Capture of institutions responsible for monetary policy and regulation of financial markets**

The first indicator considered is the constant presence of individuals with linkages to the private financial companies in command position in the institutions responsible for the definition of Brazil's monetary policy and financial standards. In Brazil, the main bureaucracies on these sector are the National Monetary Council (CMN), the Central Bank (BC) and the Securities and Exchange Commission (CVM).

There is an expressive literature that suggests that CMN, BC and the CVM as agencies that directly represent the interests of the financial sector in the Federal Government (SOLA, 2000, KASAHARA, 2011, CAMPELLO, 2015, LIMA & DUARTE, 2017, IANONI, 2017). According to Kasahara (2011, p.213), for example: "the ability to define the agenda of these bodies results in the channeling of financial sector lobbying resources to actions that aim to influence their decision-making process." Table 1, below, presents an expressive indicator of this dynamics. It can be seen that since 1990, except for Alexandre Tombini, all Brazilian BC presidents worked in private financial institutions before their appointments or acted in the financial market after the end of their term.

Table 1 – Presidents of Brazil's Central Bank (1990-2015)

Name	Government	Period as President of Central Bank	Worked in Private Financial Institutions Formerly	Worked in Private Financial Institutions After

Ibrahim Eris	Collor	1990-1991	Yes	Yes
Francisco Roberto André Gros	Collor	1987 e 1991-1992	Yes	Yes
Gustavo Jorge Laboissière Loyola	Itamar e FHC	1992-1993 e 1995-1997	Yes	Yes
Paulo César Ximenes Alves Ferreira	Itamar	1993	No	Yes
Pedro Sampaio Malan	Itamar	1994	No	Yes
Pérsio Arida	FHC	1995	Yes	Yes
Gustavo Henrique de Barroso Franco	FHC	1997-1999	No	Yes
Armínio Fraga Neto	FHC	1999-2003	Yes	Yes
Henrique de Campos Meirelles	Lula	2003 – 2010	Yes	Yes
Alexandre Antônio Tombini	Dilma	2011 - 2015	No	No
Ilan Goldfajn	Michel Temer	2016 – 2018	Yes	Yes

Source: CPDOC.

- **Transnational Financial Oligopolies.**

The control of the international financial market by a relatively small number of large banking and financial conglomerates means that the stability of the world economy depends on the proper functioning of such institutions. Thus, through merger and acquisition processes, corporate financial groups have become too important for governments to allow their bankruptcy. In the case of the financial sector, this condition has the incentive of encouraging high-risk applications by agents, as it creates the perception that the states will guarantee the solvency of financial institutions in the event of a crisis (CHESNAIS, 2016).

An exemplary event of such a mechanism is the absence of substantive reforms in the US financial system following the 2008 Financial Crisis (VAROUFAKIS, 2016). In that case, even though it was estimated at $ 8 trillion to inject liquidity into the market and prevent the bankruptcy of the big investment banks, the US government was not able to reform the financial market regulatory framework or even to judicially punish financial institutions whose behavior were responsible for the crisis (Helleiner, 2014). Therefore, the report of the United Nations Conference on Trade and Development (UNCTAD) is categorical:

> With the financial system again strengthened, politicians and policymakers are once again powerless with regard to global forces. Therefore, they chose not to change their economic policies and to continue doing business as usual. Financial markets remain deregulated, levels of indebtedness continue to rise and indicators of inequality continue to deteriorate. In addition, while corporate earnings of financial institutions resumed a positive trend, adjustments after the 2008 Crisis negatively affected wage levels, employment, productive investment and welfare provision by the United Nations (UNCTAD, 2016, p.II).

In Brazil, the high degree of concentration of the National Financial System allows the maintenance of high levels of profit rates in the private banking sector, even in times of economic instability[5]. In 2017, the DIEESE report highlighted that:

> The five largest Brazilian banks in assets showed significant profits and higher yields, despite the adverse economic scenario that the country has gone through. These results are due to the increase in revenues with tariffs and services and the decrease in funding expenses that accompanied the reduction of the Selic rate.

Graph 2, below, illustrates the argument. It can be seen that the short falls in revenues through financial intermediation are offset by increases in revenues from services rendered. Thus, the concentration of Brazilian financial markets makes largest financial institutions capable of adjusting their profit making sources to market oscillations and, therefore, makes them immune to economic crises (PAULA, 1998; DOWBOR, 2017).

Graph 2 - Gross Income from Financial Intermediation and Income from Services from the Three Largest Private Banks in Brazil

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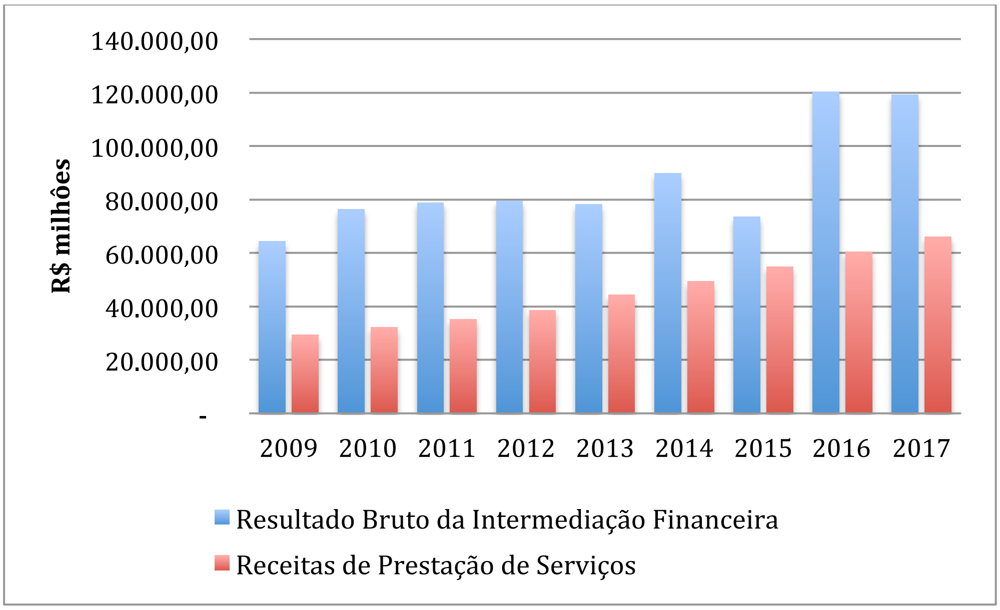
[5] According to a DIEESE study, in 2016, the five banking institutions owned 87% of credit operations in the country.



Note: From Financial Statements of Itaú, Santander and Bradesco

- **Manipulation of Market Expectations**

The manipulation of market expectations refers to the ability of financial institutions to produce moments of macroeconomic instability (or stability) that politically weaken governments that do not meet their demands. Such capacity derives both from the privileged position of the financial market in the context of the availability of credit in the economy, and from the production of reports and analyzes that guide the expectations of the economic agents and, consequently, alter their respective investment decisions.

An exemplary situation of the operation of this mechanism is the differentiated performance of international risk rating agencies in the governments of Dilma Rousseff and Michel Temer in Brazil. In 2014, during the Rousseff administration, Standard & Poor's, Moody's and Fitch announced the downgrade of the Brazilian investment grade. The main justification alleged was the fiscal deterioration of the federal government, whose deficit had reached the figure of 119 billion reais (FOLHA DE SÃO PAULO, 2015). In turn, in 2017, when the Government Michel Temer announced the revision of the fiscal deficit target to 159 billion reais, the same three rating agencies agreed not to downgrade Brazilian rate due to the political commitment of the current Minister of Finance, Henrique Meirelles, to advance with the Pension Reform in the National Congress in 2018 (O ESTADO DE SÃO PAULO, 2017).

Thus, risk-rating agencies have the discretion to assign assessments according to criteria that are not necessarily technical. Therefore, deliberate political actions by such organizations are capable of aggravating (or impeding) the escalation of economic crises that undermine the political support of economic agendas contrary to their interests.

Conclusion

As conclusion, the question that arises is: **how can governments sustain development projects in a socio-political context that is adverse to developmentalism?** Without pretending to exhaust the issue, it is understood that the answer to this question requires the comprehension that financial globalization did not expressed homogeneously throughout the periphery of the capitalist system. While the vulnerability of many states is evident, it is possible to identify others that have preserved satisfactory capacities to discipline their markets and pursue politically defined national projects. The case of economic growth and structural change promoted by the People's Republic of China over the past 30 years is exemplary. In this period, the Chinese government carried out economic and industrial policies of developmentalist character, and maintained strong public control over the financial market of the country.

Thus, it is not claimed that the Chinese capital accumulation model is not permeated by contradictions, or by proposing the functionality of the Asian nation's political institutions for Brazil, but rather by emphasizing that economic development in financial globalization is not necessarily antagonistic in relation to the national state. Indeed, we consider that:

> What is at stake is not only a deeper understanding of the process of financialization but also the question of how to create a more just and stable capitalist system in a context of financial market expansion (ZWAN, 2014, p.101).

In the Brazilian case, it is understood that the main challenge is the creation of socio-political conditions that allow the coexistence of: (i) internationally competitive private national companies; (ii) a democratic political system and (iii) a state able to guide the dynamics of capital accumulation in accordance with democratically defined objectives**.** Thefore, we reinforce the need to construct a research agenda that investigates the political variables that formed and sustained a model of capital accumulation whose consequences are growing inequality and the stagnation of economic development.

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