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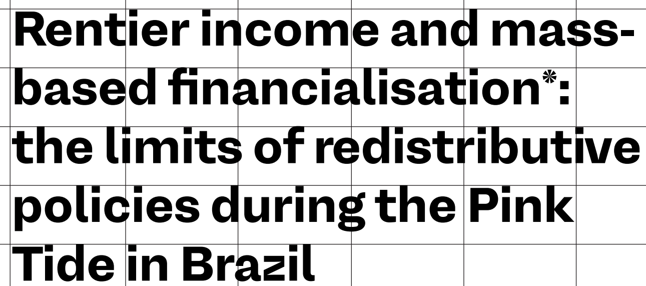

Rentier income and mass-based financialisation*: the limits of redistributive policies during the Pink Tide in Brazil

Fernando Rugitsky & Pedro Romero Marques

Abstract

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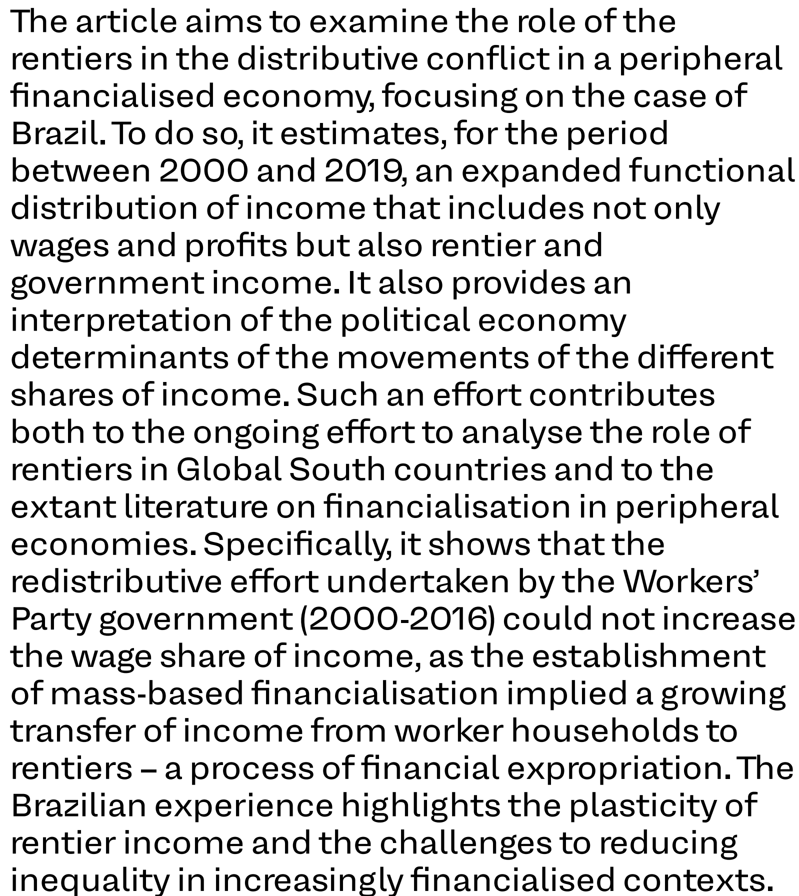
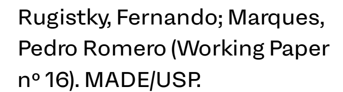


The article aims to examine the role of the rentiers in the distributive conflict in a peripheral financialised economy, focusing on the case of Brazil. To do so, it estimates, for the period between 2000 and 2019, an expanded functional distribution of income that includes not only wages and profits but also rentier and government income. It also provides an interpretation of the political economy determinants of the movements of the different shares of income. Such an effort contributes both to the ongoing effort to analyse the role of rentiers in Global South countries and to the extant literature on financialisation in peripheral economies. Specifically, it shows that the redistributive effort undertaken by the Workers' Party government (2000-2016) could not increase the wage share of income, as the establishment of mass-based financialisation implied a growing transfer of income from worker households to rentiers – a process of financial expropriation. The Brazilian experience highlights the plasticity of rentier income and the challenges to reducing inequality in increasingly financialised contexts.



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Fernando Rugitsky is a senior Lecturer in Economics at the University of the West of England Bristol and Co-director of the Bristol Research in Economics.

Pedro Romero Marques holds PhD in Economics, University of São Paulo. He is the Research Coordinator at the Research Center on Macroeconomics of Inequalities (Made-USP).

* This text builds on the analysis presented in WP 02. With revised and updated data, the findings are discussed more concisely. It presents the political economy of the distributive conflict in a longer perspective but leaves out the details about the methodology for estimating the functional distribution of income. A revised and shortened version of the present paper will be published in B. Sanghera (ed.), Global Rentier Capitalism: theory and development. London: Routledge, forthcoming.

made.feausp@gmail.com

‘The rentier is now everywhere’ recently claimed Brett Christophers (2020). Pages and pages of books and articles have been recently devoted to investigating the role of rentiers and the trajectory of rentier income in contemporary capitalist economies. As wealth inequality soars, the fact that a lucky few – idle and rich – live on income reaped from assets they own, amidst a sea of working poor who toil in precarious conditions and struggle with debt, can no longer be brushed aside by meritocratic fallacies.

This article aims to contribute to such a research effort in two ways. First, it broadens the scope of the research on rentiers, which has predominantly focused on the Global North, by analysing the specific conditions observed in a major economy from the Global South. The Brazilian case seems to be of particular interest as it illustrates more general trends observed in large, middle-income economies: the travails of monetary policy, from currency anchor to inflation targeting; the credit boom stimulated by foreign reserve accumulation during the period of abundant liquidity in the 2000s; and the heightened distributive conflict as the commodities boom ended in the 2010s, to mention a few. The story of the diffusion of financialised practices, full of twists and turns, shows similarities with developments observed in rich countries (like the fast increase in household indebtedness) but also differences that may prove to be illuminating (like the interaction between financial expropriation and wage inequality).

Second, it contributes to the ongoing effort to study financialisation in the Global South (see, for a recent summary, Volume 46, Issues 4 and 5 of the *Cambridge Journal of Economics* on ‘Financialisation in Developing and Emerging Economies’) by examining the impacts of the changes in financial institutions, relations, and practices on cyclical distributive conflict. In this way, this article builds on previous attempts to map the changes in financial behaviours and the structure of the financial system in Brazil (Kaltenbrunner and Painceira, 2018; Lavinas, Araújo and Bruno, 2019; Loureiro, 2020; Gonçalves and Lavinas, 2022), and relates it to the literature that has focused on the role of distributive conflict in the ups and downs of the economy in the last two decades (Carvalho, 2018; Singer, 2018; Martins and Rugitsky, 2021; Serrano and Summa, 2022).

Borrowing insights from the previous works that aimed to identify the rentiers’ role in cyclical distributive conflicts, starting with Michal Kalecki’s seminal 1943 article, the results presented here revise substantially the predominant understanding of the trajectory of the functional distribution of income in Brazil in the last two decades, indicating how financial expropriation shifted income from the working classes to the rentiers. The money flowing towards the poor as a consequence of the Workers’ Party redistributive effort ended up in the rentiers’ coffers as mass-based financialisation consolidated itself. Besides, the present research provides a framework to examine the political economy of the expanded distributive conflict (which takes into account not only profits and wages but also rentiers’ and government’s income) in specific contexts, taking forward the theoretical literature on the topic. Last but not least, this article offers evidence about the plasticity of rentier income, putting in question views that attribute its rise to a certain stance of monetary policy or a certain trajectory of the labour market.

The article is organised as follows. The next section addresses the theoretical literature on the expanded distributive conflict. Then, the following briefly presents the adopted definition of rentier income and presents the estimates for the expanded functional distribution of income in Brazil between 2000 and 2019. The third section offers an interpretation of the results, summarising the political economy of the Brazilian distributive conflict since the mid-1990s in light of the data previously presented. Finally, the last section draws the lessons from the Brazilian case and provides suggestions for taking forward this research.

Boom tired? Rentiers and the functional distribution of income

The attempt to critically assess the distinction between profit and interest income, or between capitalists and rentiers, goes back at least to Karl Marx. In the third volume of *Capital* (Part V), Marx (1894/1991, pp. 397-398) discusses how interest income and profit of enterprise differ qualitatively. Each implies that ‘the same capital (...) does go through a double and completely different movement’. While interests derive from the mere characteristic of owning an amount of capital, profits of enterprise exist as ‘product of capital in its actual functioning’. Marx stresses that this qualitative division also applies to the ‘persons

who play quite different roles in the reproduction process'. They are the money capitalist (rentier) and the functioning capitalist (industrial or merchant), the latter borrowing capital from the former to put it in operation in industry or commerce.

Distinct functions performed by capital in the reproduction process imply different sources of capital income and, more importantly, the emergence of contradictions that may divide the capitalist class into factions. Rentiers' income (interest) originates from the existence of 'mere property in capital before the production process and outside it' (p. 400). The 'inactivity' of what Marx calls interest-bearing capital contrasts with 'the movement and performance of [productive] capital', which generates profit of enterprise. As rentiers and functioning capitalists employ contradictory forms of capital and compete for the same prize (surplus value), Marx argues that they emerge as direct opposites. Nevertheless, he also stresses that associating distinct functions of capital to the division of the capitalist class is not straightforward. For example, a capitalist that does not employ borrowed money 'breaks down into two persons, the mere owner of capital and its user' and relies on capital that yields both interest and profit of enterprise (p. 400).

The changes observed in capitalism almost a century and a half after Marx last writings have made the correspondence between capital functions, income sources and capitalist class factions more complex, blurring the division lines between functioning capitalists and rentiers. As finance increases its role in capital accumulation, ownership and management become increasingly separated, industrial corporations acquire financial assets and rely on financial gains, and financial corporations own increasing shares of non-financial companies (Krippner, 2005; Duménil and Levy, 2018; Rabinovich, 2019). Undeniably, these developments may, in many instances, align the interests of functioning capitalists and rentiers, reducing the scope for intraclass conflict. However, the turbulent dynamic of capitalism continuously puts in question political alliances, and even apparently solid capitalist coalitions eventually melt into the air as the complementarity and conflict between rentiers and functioning capitalists remain in constant tension.

Such an insight was picked up by Kalecki in 1943. In a classic paper on the political limits of full employment policies in capitalist economies, the Polish economist hinted at a tripartite distributive conflict, in which capitalists, rentiers and workers fought for changing slices of aggregate income. The main focus of the paper is the conflict between capitalists and workers, but Kalecki makes the case that rentiers can become 'boom tired' and join forces with the capitalists in calling for austerity. If an economic expansion leads to tighter labour markets, wage increases and – assuming constant markups – inflation, it may push down rentier income. The validity of the specific dynamic suggested by Kalecki should not be taken for granted, as his schema disregards crucial aspects of the cyclical distributive conflict, like monetary policy and exchange rates. The importance of the Kaleckian insight is rather stressing the need to examine the cyclical interaction between intraclass and interclass conflict in capitalist economies or, in other words, calling for an analysis of the expanded functional distribution of income.

Kalecki's suggestion was revisited later on a few times. First, UMass Amherst economists attempted to revise some aspects of his insight and build on it. Boddy and Crotty (1975, pp. 4-5) empirically challenged Kalecki's argument about the ability of corporations to 'maintain their profit margins under full employment conditions.' Vindicating Marx's observation that the 'labor share typically rises in the latter half of an expansion,' they argued that not only rentiers but also functioning capitalists tend to be negatively affected in the cyclical boom, and both economic and political interests would forge a capitalist coalition against full employment. Epstein (1996), in his turn, argued that different exchange rate regimes might influence the political challenges faced by full employment policies. Under flexible rates, for instance, industrial capitalists would have more tolerance to expansionary policies because they would be able to raise prices to compensate for cost increases without being harmed by foreign competition. A mismatch of economic interests between them and rentiers – whose income cannot be protected against inflationary pressures, according to him – would thus arise. Capitalist coalitions would be less easily forged, in this view, under flexible exchange rates.

Second, Sraffian economists went back to the Kaleckian insight and investigated the role of interest rates (and monetary policy) on the expanded functional distribution of income (Pivetti, 1985, 1991; Panico, 1988). *Contra* Marx, the Sraffians argue that wages are determined after profits and, therefore, represent the residual component of the income distribution. Hence, the wage share of income would depend on the interactions between profit and interest rates, being influenced by the interest rate set by central banks. In this way, monetary policy decisions affect the costs of production (borrowing costs) and may positively impact prices. Both profit and wage rates are conditioned on the level of the interest rate. Therefore, the expanded distributive conflict is doubly influenced by the interest rate as 'intra-capitalist conflict (...) might be one factor (among others) that is likely to exert an impact on the central bank's monetary policy,' but the latter 'is in turn likely to influence not only the intra-capitalist, but also the inter-class income distribution (...)' (Argitis, 2001, p. 464).

Estimating rentier income

Even if the literature that built on the Kaleckian insight went a long way in clarifying the likely relationship between different variables and policy regimes in the course of the expanded cyclical distributive conflict, it is probably pointless to aim for the identification of a general dynamic that could be observed in different economies and different periods. The interaction between different sources of income and different macroeconomic variables is contingent and historically variable, as is the role played by changing financial structures on the distributive conflict. Perhaps a more fruitful way forward is to empirically estimate the expanded functional distribution of income for particular economies and examine the cyclical distributive conflict in these specific cases, focusing on the concrete interaction between intraclass and interclass conflict. As Brenner (1999, p. 61) once suggested, the challenge in understanding capitalism 'is to maintain in "unresolved tension" both structural-theoretical and historical-empirical approaches to the problem, without slipping either toward a mechanism that obscures the ultimately historical nature of the reality to be grasped or toward an historicism that ends up substituting description for explanation.'

An empirical estimate of the expanded income distribution can build on previous efforts to estimate rentier income, even if they had different aims.[i] Two main strands of research are noteworthy. One was undertaken by Gerald Epstein and his co-authors (Epstein and Power, 2003; Epstein and Jayadev, 2005) and the other, by Petra Dünhaupt and her collaborators (Dünhaupt, 2012; Hein et al., 2017; Hein et al., 2018). The formers defined rentier income as 'income received by owners of financial firms, plus the return to holders of financial assets generally' (Epstein and Power, 2003, p. 5), and divided it by the gross national product net of government expenditures to arrive at the share of income appropriated by rentiers. They do not calculate, however, the other shares of income and stop short of presenting an expanded functional distribution of income, as their focus is rather on the historical trend of the rentier share in rich countries. Dünhaupt and her collaborators attempt to fill this gap, developing a method to account for a tripartite distribution of national income. In contrast with the previous approach, though, Dünhaupt (2012) associates rentier income with the net property income earned by households, excluding from it the earning of financial corporations. Therefore, the profits and property income earned by financial corporations are included in the profit income share. The first approach offers a definition of the rentier share of income that better fits the theoretical literature previously examined, but it does not indicate how wages and profits interact with it. The second approach overcomes this important limitation but adopts a narrow definition of rentier income. In the current research, a combination of these two methods is employed.

Using data from the Brazilian System of National Accounts, national income is divided into four parts: wage income (W), profit of enterprise (P), government income (G) and rentier income (R). The latter comprehends the gross operating surplus of financial firms (GOS_f), the net property income received by them (NPI_f) and, lastly, the interest income received by households and non-profit institutions serving households (henceforth referred as households) (IIR_h). This leads to a revision of the conventional method of estimating the wage share of income: interest income paid by households (IIP_h) is subtracted from the usual measures of the wage share, that is, the sum of employees' compensation (EC) and the share of gross mixed income attributed to labour (GMI_w) (Gollin, 2002). It is assumed in this way that interest is paid exclusively by worker households and that all interest received by households is received by rentier ones.

Marques and Rugitsky (2023) discuss the ways in which this simplification may bias the estimates, an issue that could be addressed by future research.

The decision to include interest payments on the rentier income share and deduct interest payments from the wage share is based on the recent Marxist interpretations of household indebtedness. These works emphasise how financial companies have increasingly relied on wage income to sustain their profits via interest income appropriated from households, that is, 'financial expropriation' (Lapavitsas, 2009; Dos Santos, 2009; Fine, 2009; Lattanzi-Silveus, 2019). Despite these authors' disputes on the material foundations of financial expropriation (on how it is related to exploitation), there is a common understanding that it entails a transfer of wage income to rentiers.

The profit of enterprise includes all the non-government income that is left: gross operating surplus of nonfinancial and family firms ($GOS_p = GOS - GOS_f - GOS_g$), gross mixed income that was not attributed to the workers ($GMI_p = GMI - GMI_w$) and net property income resulting from the deduction from total net property income of the shares attributed to financial firms and the government as well as the interest appropriated by households ($NPI_p = NPI - NPI_f - NPI_g - NII_h$, where $NII_h = IIR_h - IIP_h$). NPI_p is usually negative, as functioning capitalists as a rule share part of their earnings with the rentiers. Finally, government income refers to the government's gross operating surplus (GOS_g) plus taxes (net of subsidies) on production and imports (NT) plus the government's net property income (NPI_g). The sum of all kinds of income ($R + W + P + G$) is equal to gross national income. Table 1 summarises the definitions described above, and Figure 1 and Table 2 present the trajectories of the four shares between 2000 and 2019.[ii] The following section provides an interpretation of the results.

[SEE TABLE 1 AND 2, AND FIGURE 1 AT THE END]

Distributive conflict and rentier income in Brazil

The nature of the distributive conflict that played out in Brazil in the last two decades is better understood by going back a bit further and identifying the processes that led to the establishment of the current macroeconomic framework in the country. In the 1980s and 1990s, Brazil went through simultaneous – if contradictory – processes of democratisation and neoliberalisation, as the military dictatorship in place since 1964 came to an end amidst rising inflation and economic stagnation, and a gradual deconstruction of the apparatus of the authoritarian developmentalist state was set in motion (Saad-Filho and Morais, 2018, chaps. 2-3). In this regard, the country was part of a more general trend, as the worldwide diffusion of neoliberal policies and reforms combined itself with processes of democratisation in Latin America and Eastern Europe (Madariaga, 2020) – a series of shock therapy experiments that weakened the democratisation processes in their inception or, as Madariaga (2020, p. 4) argues, 'facilitated the connection between resilient neoliberalism and constrained democracy'.

After several failed stabilisation efforts in the 1980s, the Real Plan quashed hyperinflation in 1994 and consolidated the neoliberal strategy. Politically, the stabilisation plan was premised on an alliance between centrist and right-wing parties that made viable imposing the costs of the adjustment on the workers and firms harmed by the sudden trade liberalisation and the overvalued exchange rate – which was pegged to the US dollar as part of the stabilisation strategy (Nobre, 2013). The conflicting claims spiral that had been fuelling inflation came to an end. Notwithstanding the undeniable one-off boost to the living standards of the poor brought about by stabilisation – as they had been especially harmed by hyperinflation – it soon became clear that the Real Plan was shifting income against the working classes and increasing income inequality. Economically, the pegged exchange rate relied on extraordinarily high interest rates, austere fiscal policies and the liberalising reforms that have been undertaken since the late 1980s (De Paula and Alves Jr., 2000; Saad-Filho and Morais, 2018).

The overvalued currency anchor did not survive the effects of the 1998s Russian crisis, having barely weathered the global liquidity shocks caused by the Mexican and Asian crises of the mid-1990s. In 1999, large devaluations imposed the shift to a floating exchange rate regime, and the inflation targeting

framework was institutionalised, following the example of a few other countries, including some Latin American ones (Mishkin, 2000; Fraga, Goldfajn and Minella, 2003). To strengthen the commitment to the inflation target, Arminio Fraga, an economist with vast experience in Wall Street, was appointed to head the Central Bank. Also, a fiscal rule requiring the establishment of fiscal targets and constraining subnational spending was approved by Congress in a hurry, in 2001, with the government clamping down dissent to meet the promises it had made to the International Monetary Fund in the context of successive bailout negotiations (Prol, 2014).

The macroeconomic framework that remains dominant to this day was thus established – it is referred to as the macroeconomic tripod, comprising inflation targets, floating exchange rates and a commitment to primary fiscal surpluses (Nassif, Feijó and Araújo, 2020).[iii] The tripod did not represent a rupture either with the main foundations of the Real Plan – inflation control via exchange rate appreciation – or with the structural feature of contemporary financialisation in peripherical economies – providing profitable financial returns to global capital or, to borrow Leda Paulani's (2010, p. 269) phrase, becoming an 'international platform for financial valorization' (see also Bonizzi, 2013; Bresser-Pereira; Paula and Bruno, 2020). On the contrary, monetary and exchange policies under the tripod seemed to be intertwined to assure price stabilisation via high levels of interest rates and exchange rate overvaluation (Summa and Serrano, 2018).

Although the data for the expanded functional income distribution is only available from 2000, there is evidence that the period between the adoption of the Real Plan and the early 2000s saw a decline in the wage share of income, as persistently high unemployment and the labour market shocks from trade liberalisation reduced workers' bargaining power (Marquetti, Maldonado Filho and Lautert, 2010; Miebach and Marquetti, 2022). Profits, in their turn, were very volatile, as the foreign vulnerability of the economy led to frequent recessions and, thus, oscillations in the capacity utilisation rate (Martins and Rugitsky, 2021). What about rentier income? The end of hyperinflation forced substantial changes in the financial system, with the failure of many banks and the privatisation of several state-owned ones (Carneiro, 2002). The banking system that emerged from the transition, highly concentrated, was able to retain its high profitability in the new context by changing its operations in typical *gattopardo* fashion. The inflation-era earnings related to indexation were replaced by a huge transfer of government funds to the banks as payment of interest on the holding of government bonds, which paid sky-high interest rates: the average policy rate between 1996 and 1998 was just under 24 per cent per year, and it declined only slightly to an average around 20 per cent in the period between 1999 and 2002 (Bruno, 2007; Bresser-Pereira, De Paula and Bruno, 2020). No wonder Brazil is sometimes labelled as a rentier's paradise.

In the mid-2000s, as the world economy rearticulated itself around China, a boom in commodity prices and abundant international liquidity allowed the Brazilian government to keep inflation close to the target – as usual, via currency appreciation – with a gradually declining policy rate (see Figure 2, below). The stimulus represented by the foreign bonanza was reinforced by expansionary redistributive policies adopted by the incoming Workers' Party government of Luiz Inácio Lula da Silva (2003-2010). Once more in line with developments taking place in neighbouring countries, Brazil became part of the Pink Tide, that is, the group of centre-left South American governments that rose to power on the back of the social movements' resistance to neoliberal shock therapy of the 1990s, and took advantage of the commodities boom to reduce wage inequality and unemployment and accelerate economic growth (Rojas, 2017; Webber, 2017; Loureiro 2018).

[SEE FIGURE 2 AT THE END]

The Workers' Party programme included the expansion of social security and social assistance benefits, incentives to reduce labour informality, a commitment to real wage gains through regular increases of the minimum wage and increases in health and education provisions (Serrano and Summa, 2012; Silveira and Palomo, 2023). In Lula's first (2003-2006) and second (2007-2010) terms, public spending, in real terms, increased respectively 6.1 and 8.5 per cent on average per year (Orair and Gobetti, 2015). Consequently, Brazil experienced a boom in domestic demand and an acceleration of economic growth: from 2004 to

2010, real GDP growth was consistently above 3 per cent annually (except for 2009, due to the effects of the 2008 financial crisis).

The expanded functional distribution of income presented in Figure 1 above shows, however, that the distributional effects of such a strategy were not what one may have predicted. More importantly, they were not what has been suggested by conventional estimations of the functional distribution of income, which show an increasing wage share of income from 2004 onwards (Serrano and Summa, 2012; Dias and Ruiz, 2016; Rugitsky, 2017; Saramago, Freitas, and Medeiros, 2018). Once the role of financial expropriation is taken into account, it turns out that, despite the redistributive policies and the gradual tightening of the labour market, income was not shifted towards the working classes but against them. The share of employee compensation in income did rise from 39.5 to 43.4 between 2004 and 2009, but the payment of interest by worker households more than compensated such an increase, leading to a decline in the wage share of income.

The data on household debt provides clear evidence of the increased role of financial expropriation. Between January 2005 and January 2011, Brazil's household debt-to-income ratio (excluding mortgages) went from 13.8 per cent to 27.1 per cent (see Figure 3, below).[iv] As several Brazilians accessed banking services for the first time and credit constraints were overcome by rising income, borrowing spread to the poorer sections of the population. The government also supported new credit modalities, like automatic repayments from the paycheck (the *crédito consignado*, authorised in 2004*)*, which assured borrowing at relatively lower interest rates for formal workers and public servants. Finally, to accelerate the expansion of health, education and housing provisions, the government counted on financialised circuits that also contributed to the trajectory of household debt (Loureiro, 2020). All that was reinforced by the global financial cycle, as the accumulation of foreign reserves by the Central Bank – which increased more than sevenfold during Lula's governments – and the ensuing monetary sterilisation expanded the volume of liquid assets on financial institutions' balance sheets, stimulating them to provide credit (Kaltenbrunner and Painceira, 2018). In short, government-stimulated financial inclusion backed by abundant global liquidity increased access to durable goods and private services at the same time that it led to rising financial expropriation and mass-based financialisation (Lavinas, 2017, ch. 3; Garber et al., 2018; Lavinas, Araújo and Bruno, 2019).

The result was a profound change in the composition of rentier income (Marques and Rugitsky, 2023). In the early 2000s, the bulk of interest payments flowed from the government to the richer households, handsomely remunerated for owning government bonds. However, as the policy rate gradually declined in tandem with the global financial cycle, government interest payments fell as well, but worker households did not let rentier income be squeezed, picking up the mantle from the government. The average interest income paid by the government, as a share of gross national income, declined from 6.2 to 4.8 per cent between 2000/2003 and 2008/2011, whereas the interest income paid by households shot up from 1.5 to 5.0 per cent. In the latter period, interest payments from households were larger than the ones from the government. Comparing the same two periods (2000/2003 and 2008/2011), the real policy rate almost halved, from 9.6 to 5 per cent, but rentiers more than compensated for the decline in interest rates by shifting lending from the government to higher-paying borrowers and increasing the volume of credit. As can be seen in Figure 1, during Lula's government, the rentier share of income presented a slightly positive trend. Brazil remained a rentier's paradise, but now with very different heavenly contours.

In an expanding economy, the tensions potentially created by mass-based financialisation were alleviated by rising incomes and optimism about the future. As Lula left office in 2010, at the height of his popularity, and transferred power to her former minister, Dilma Rousseff, economic conditions were about to change. The global financial crisis of 2008 led to recessions in most economies in 2009, but its more enduring effects for the global periphery would come to the fore a bit later. As rich economies contracted, foreign demand for the goods produced the world's new workshops, especially China, declined. Production in those countries was adjusted downwards, as a consequence, and their demand for primary goods and raw materials also fell, ending the commodities boom in 2011 and squeezing global liquidity.

In Brazil, with the end of the foreign bonanza, it became more difficult to manage the distributive conflicts. It was no longer possible to make all groups better off. As growth faltered, one's improvements were another one's losses. Rousseff's strategy was to keep in place the redistributive policies inherited from Lula and complement them with tax cuts and a devalued exchange rate aimed at appeasing the functioning capitalists. Part of the cost was to be borne by the government, as fiscal expenditures decelerated only slightly in face of falling tax revenues, and the primary surplus was gradually squeezed. It was an attempt to buy time, to borrow the phrase from Wolfgang Streeck (2014), but part of the cost of such a strategy was transferred to rentiers via a further reduction of the policy rate to allow for currency devaluation and, more importantly, a reduction of the interest spreads charged by state-owned banks, to put competitive pressure on the private financial institutions – an episode that was named the 'battle of the spreads' (Singer, 2018).

The deliberate challenge to the private financial institutions came when financial expropriation had stalled. Partly due to lower demand for credit, as income growth decelerated, partly due to macroprudential measures adopted by the Central Bank, household debt as a share of disposable income (excluding mortgages) stagnated from 2011 onwards (Figure 3, below). The impact on the rentier share of income can be clearly seen in Figure 1 and Table 2 above. The share was squeezed between 2011 and 2013, and the gains it had accumulated since 2004 were reversed[v]. The government share of income also fell. And the corresponding increase was shared evenly between the workers and functioning capitalists. Regarding the workers, their ability to capture a larger slice of aggregate income was not only allowed for by the stagnation of financial expropriation but also by the tightness of the labour market after a decade of slowly falling unemployment (Martins and Rugitsky, 2021). During Rousseff's government, a strike wave took place, the likes of which were not seen since the 1980s. Class conflict was back at the fore, with functioning capitalists resenting empowered workers and rentiers up in arms against the government.

[SEE FIGURE 3 AT THE END]

Rousseff was re-elected in 2014 by a very narrow margin and, in a volte-face, attempted to regain the trust of the ruling classes by appointing Joaquim Levy, a Chicago-trained economist, to the Finance Ministry and authorising an abrupt turn towards austerity. Such a move transformed a recession into an economic collapse – GDP fell almost 7 per cent in 2015 and 2016 – alienating her support even among the popular classes, opening the way to a parliamentary coup that removed her from office in 2016 (Carvalho, 2018; Singer, 2020). Across South America, as the commodities boom ended, Pink Tide governments fell one by one, some of them defeated electorally, others removed by force. The governments that succeeded them not only aimed at reverting the redistribution observed in the preceding decade but also at imposing institutional changes that prevented its recurrence. In the case of Brazil, this meant changes in the labour legislation, a pension system reform, and a ceiling on public spending, all of them aiming to dismantle redistributive mechanisms that were introduced in the Brazilian state mainly by the 1988 Constitution. This strategy began with the rise to power of Rousseff's vice-president after her impeachment and was taken forward by the far-right government of Jair Bolsonaro (2019-2022).

The recession ended in 2016, but the Brazilian economy barely grew in the following years, unemployment remained high, and inequality increased. As intended, the working classes were weakened by the contraction, and the share of employee compensation in total gross national income fell every year between 2016 and 2019. However, as unemployment and falling incomes imposed a process of deleveraging, the decline in interest payments by worker households more than compensated the trajectory of employee compensation, resulting in the observable increase in the wage share of income (Figure 1). The decline in interest payments can also be seen by the slow reduction of the household debt service ratio in Figure 3.

What about the rentiers? Have they profited from the shift in government policy? According to the data presented in Figure 1 above, they have not. During the recession, the rentier share of income recovered on the backs of the soaring interest rates, but from 2017 onwards, it fell again. Such a decline was both a result of the ongoing reduction of financial expropriation and of the fall of the policy rate. Regarding the former, high unemployment and falling wages imposed the mentioned process of deleveraging: the household

debt to income ratio (excluding mortgages) declined continuously between 2013 and 2018 and started to recover only then (Figure 3). Regarding the latter, the depth of the crisis was such that it pushed inflation below the target and led the Central Bank to reduce the policy rate to unprecedently low levels (Figure 2): the average real rate in 2019 was 1.5 per cent.

It could be argued that the rentiers were expelled from Eden, and their paradise, lost. That does not seem to have been the case, however. First, in the period between 2017 and 2019, rentiers probably compensated for low interest receipts with capital gains, which is not incorporated in the estimated functional income distribution for lack of adequate data. Stock prices increased substantially between 2015 and 2019 and probably led to the convergence of Brazilian rentier practices to those observed in the Global North – in the latter, low interest rates and asset inflation have been, as is well known, two sides of the same coin.

Second, the period of low policy rates in Brazil turned out to be short-lived. The Brazilian Central Bank started to tighten its monetary stance in March 2021, before the recent global turn towards tightening. It took the policy rate to the position it usually occupies, as one of the highest in the world. Besides, after half a decade of deleveraging and a recovery – however gradual and uneven – of the labour market, the household debt to income ratio started to grow again, and in 2021 it broke the previous record observed in 2012 (Figure 3). Throughout this whole period, it should also be noted, financial interests never ceased to push the government to foster new rounds of financial expropriation – and they succeeded in 2022 when cash transfers for the poorest households were authorised to be used as collateral for the *crédito consignado*. The government decided to direct a literally starving population, harmed by antipopular policies, to the loan sharks. When data becomes available to estimate the functional income distribution for the years after 2019, one should not be surprised to find a recovery of the rentier share of income.

As drama is never absent from Brazilian politics, Lula was elected for a third term in 2022 after being imprisoned for almost two years on controversial charges. As he returns to office, he is faced with a Central Bank which gained institutional independence and is headed by an economist with close links to Bolsonaro. It remains to be seen whether his frequent complaints about monetary policy reveal an intention of breaking with the financialised practices that became widespread in his first two terms, 'challeng[ing] the hegemony of big finance and rescu[ing] the economy from rentierism' (Gonçalves and Lavinas, 2022). His complaints could alternatively be based on the hope that lower policy rates may stimulate another episode of debt-led growth, doubling down on the strategy implemented twenty years ago. At this point, it should be clear that the rentiers will not stand still but will adjust their practices to preserve their paradise.

Cautionary tales

The study of rentier income in Brazil can offer at least a few cautionary tales. One of them regards the limits of redistributive policies coupled with state-sanctioned mass-based financialisation. With Lula again in power, it is more urgent than ever to critically assess the previous experience of the Workers' Party government and draw the lessons from its defeat. Roughly speaking, it has been sustained, convincingly, that the development strategy implemented during the Pink Tide in Brazil carried with it the seeds of its own undoing as it increased the foreign vulnerability of the economy and its international financial subordination, and demobilised the popular classes at the same time that it led to the aggravation of distributive conflict (Lavinas, 2017; Rugitsky, 2017; Kaltenbrunner and Painceira, 2018; Singer, 2018; Loureiro, 2018; Rojas, 2020). The rise of financial expropriation, underlined in the present article, suggests yet another limit of the strategy: the expansionary household credit policies that helped the economy grow and unemployment fall ended up entrenching structures that reproduce income inequality, deepening through indebtedness the subordination of the working classes, and sabotaging (even if unwillingly) the rebalancing of power in the labour market that was the goal of other policies adopted. Future bets on debt-led growth may be seen as the path of least resistance, especially in unfavourable economic contexts, but its side effects are bound to recur in ever more perverse ways.

Second, looking beyond Brazil, the present study may offer some insights to the current debate on monetary policy and income inequality. After a decade and a half of ultra-loose monetary policy and unbounded asset purchases by Global North central banks, people started to ask questions about the distributional effects of this unprecedented policy (Barker, 2023). Even mainstream economists, usually hesitant to dig up uncomfortable topics, took part in the debate (Hansen, Lin and Mano, 2020; McKay and Wolf, 2023). Instead of questioning the unwarranted predominance of monetary policy and the side-lining of fiscal tools – in themselves regressive political developments – some in the Left went as far as defending higher interest rates (Varoufakis, 2022). The Brazilian case suggests, however, that the rentier income share is not mechanically related to the monetary policy stance, as rentiers can adapt their actions to appropriate substantial shares of income both in high- and low-interest-rate contexts. The rentier share increased in Brazil in the 2000s, as the policy rate fell, and it increased again in the mid-2010s, following an increase in the policy rate. Challenging financial hegemony will require going beyond changing interest rates.

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[i] For a more extensive discussion of this literature, see Marques and Rugitsky (2023).
[ii] More details about the estimate, including its disaggregation, and an explanation of the trajectory of many of their components, can be found in Marques and Rugitsky (2023).
[iii] The tripod was assiduously respected during most of the Workers' Party governments (2003-2016). Still, slight deviations were sufficient to generate distrust and resistance.
[iv] Even at its peak, the Brazilian household debt-to-income ratio is very low according to international standards. OECD data shows that most rich countries have ratios that are at least more than twice as large as Brazil's. However, given extraordinarily high interest rates, the household debt service ratio is higher in Brazil than in the rich countries, according to estimates from the Bank of International Settlements.
[v] Facing pressure from financial interests, the Central Bank reverted course in 2013, raising the policy rate, which contributed to increasing the rentier share of income in the following year.

TABLES AND FIGURES:

TABLE 1: EXPANDED FUNCTIONAL INCOME DISTRIBUTION

	Rentier income	Wage income	Profit of enterprise	Government Income
EC		EC		
GOS	GOSf		GOS – GOSg – GOSf	GOSg
GMI		GMIw	GMI – GMIw	
NT				NT
NPI	NPIf + IIRh	– IIPh	NPI – NPIf – NPIg + IIPh – IIRh	NPIg

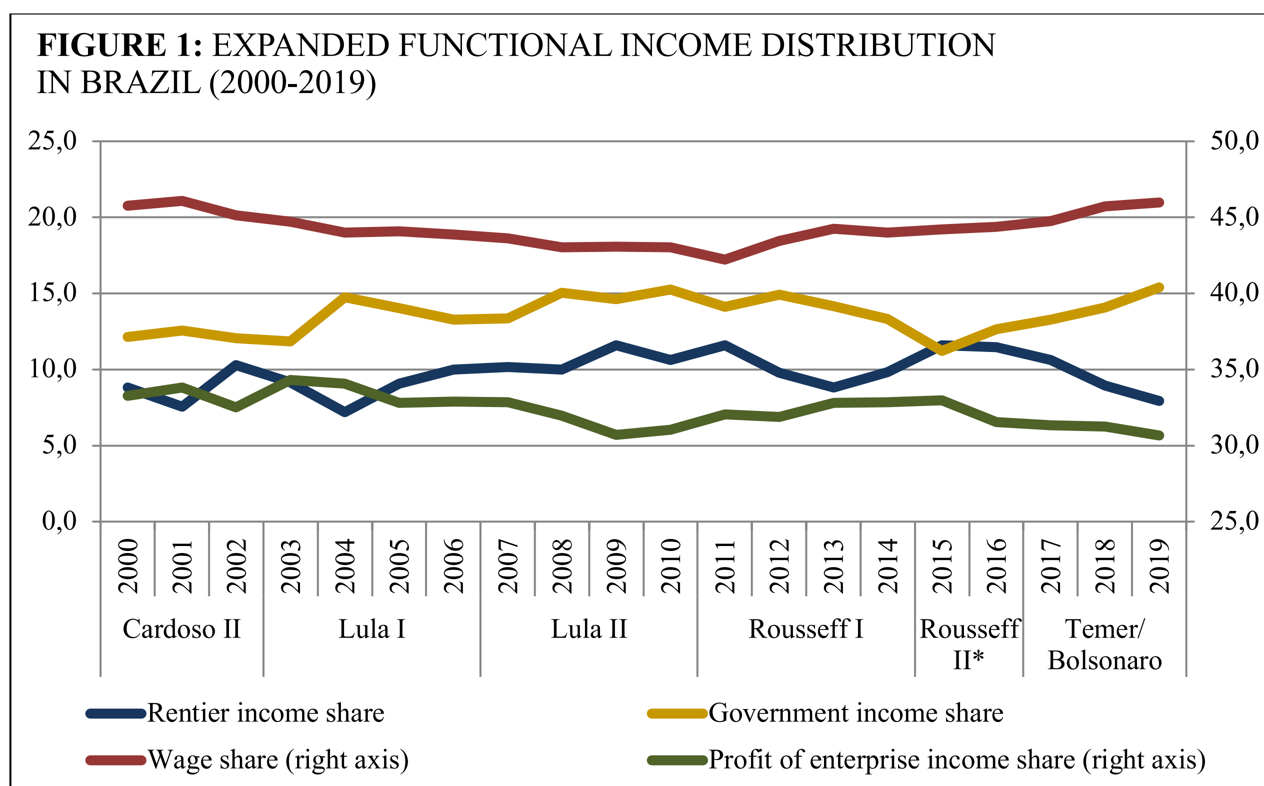
TABLE 2: INCOME SHARES AND MACROECONOMIC INDICATORS (2000-2019)

	Expanded Functional Income Distribution				Other selected variables			
	Rentier Income Share	Wage Share	Profit of Enterprise Share	Government Share	Inflation rate	Nominal policy rate	Real policy rate	GDP growth
2000	8.83	45.76	33.29	12.13	5.97	17.45	10.83	4.39
2001	7.53	46.08	33.83	12.55	7.67	17.32	8.96	1.39
2002	10.28	45.13	32.53	12.06	12.53	19.16	5.89	3.05
2003	9.16	44.69	34.31	11.84	9.30	23.34	12.84	1.14
2004	7.19	43.99	34.06	14.76	7.60	16.24	8.03	5.76
2005	9.06	44.07	32.82	14.05	5.69	19.04	12.64	3.20
2006	9.98	43.86	32.88	13.28	3.14	15.08	11.58	3.96
2007	10.17	43.62	32.84	13.37	4.46	11.85	7.08	6.07
2008	9.98	43.02	31.96	15.04	5.90	12.48	6.21	5.09

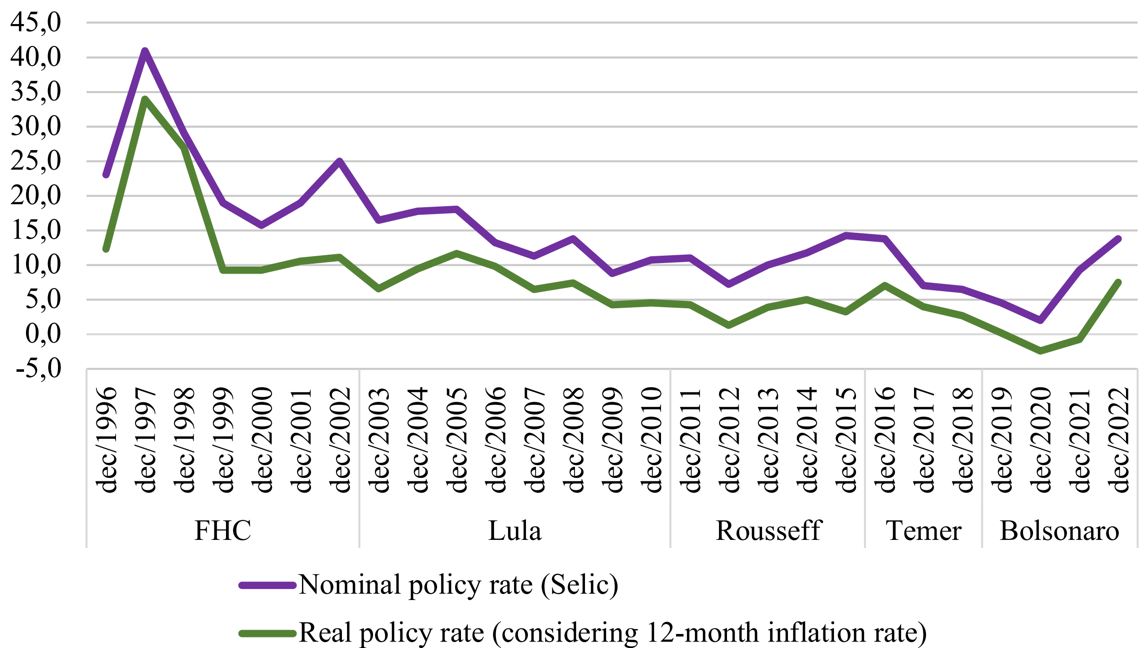
2009	11.58	43.08	30.72	14.61	4.31	9.92	5.38	-0.13
2010	10.64	43.04	31.05	15.27	5.91	9.78	3.66	7.53
2011	11.59	42.22	32.06	14.12	6.50	11.62	4.80	3.97
2012	9.77	43.45	31.87	14.91	5.84	8.48	2.50	1.92
2013	8.80	44.25	32.79	14.15	5.91	8.21	2.17	3.00
2014	9.83	43.98	32.87	13.31	6.41	10.91	4.23	0.50
2015	11.57	44.22	32.98	11.22	10.67	13.29	2.36	-3.55
2016	11.47	44.37	31.53	12.64	6.29	14.03	7.28	-3.28
2017	10.64	44.75	31.33	13.28	2.95	9.96	6.81	1.32
2018	8.94	45.71	31.27	14.09	3.75	6.42	2.58	1.78
2019	7.95	45.99	30.66	15.39	4.31	5.95	1.57	1.41

Sources: Own elaboration. Distribution data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Inflation rate refers to IPCA from the Brazilian Institute of Geography and Statistics (IBGE). Nominal policy rate refers to the annual average of the SELIC rate, calculated from monthly averages published by the Brazilian Central Bank. Real policy rate is defines as 100*(1+Nominal Rate)/(1+Inflation Rate). GDP growth refers to real annual change of GDP at market prices, from the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (SNA/IBGE).

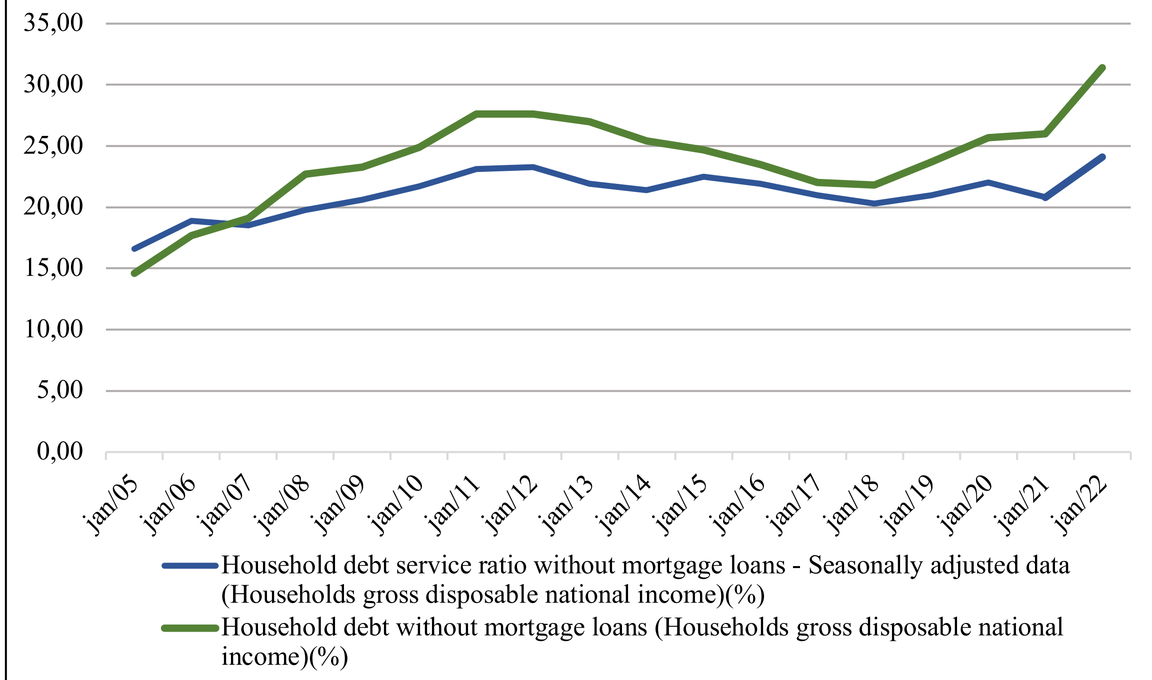
FIGURE 1: EXPANDED FUNCTIONAL INCOME DISTRIBUTION IN BRAZIL (2000-2019)



Source: Own elaboration. Brazilian System of National Accounts. *Michel Temer took office in August 2016 after the approval of Rousseff's impeachment by the Congress.



Source: Own elaboration. Brazilian Central Bank and Brazilian Institute of Geography and Statistics - IBGE



Source: Brazilian Central Bank