CHAPTER 5

Digitalized Finance in the Brazilian Context

As demonstrated by Paulani (2009), Brazil has figured in the history of the financialization of capitalism since its beginnings.

> Initially, the country formed a large part of the demand for credit that caused the first global asset bubble of finance-led capitalism, united in the crisis of Latin-American debts in the first half of the 1980s. From the second half of the 1990s on, it became an emerging financial power, having implemented the necessary structural reforms, from monetary stability to unconditional financial openness, and from social welfare reform to changes in the bankruptcy law. It thus positioned itself as an international platform for financial valorization, or in other words, as an emerging economy in which it was possible to make extremely high gains in a strong currency, with these gains sometimes being the highest in the world. At the time of the fixed exchange rate, this was possible thanks to the very high interest rates and, following the crisis of 1999, and more particularly after 2003, thanks also to the recurrent and self-referenced appreciation of the Brazilian currency, boosted, as it only could have been, by a reliance on derivatives. […] This way of inserting the Brazilian economy into the world economy strengthened the domestic rent seeking sectors and imposed financial logic on the domestic process of accumulation.
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> PAULANI 2009, p. 34

Citing Bruno et al. (2009), the researcher highlights various points which indicate this situation. The rate of accumulation of productive fixed capital, for example, fell by around 40 percent at the beginning of the 1980s and stayed at this low level for almost 25 years. Furthermore, the relationship between the stock of financial assets and the stock of productive assets grew enormously, rising from 15 percent in 1992 to around 75 percent in 2008. This has been evaluated thus (Paulani 2009, p. 33):

> Over the last 30 years, the means responsible for financial wealth have been changing, but it has grown in all situations. During the years of high inflation, the existence of two currencies (one functioning as an account unit and means of exchange, and another as a store of value) formed the

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> basis for rent seeking accumulation and the financialization of wealth. After the stabilization of currency, inflation is replaced by extremely high effective rates of interest, by even greater differences between the interest paid and that received by the financial and banking sectors, and by the unshakeable growth of the public debt as a proportion of the GDP.[1]

Data also drawn from Bruno et al. (2009, pp. 16–21) further demonstrates that an investor who acquired a government title indexed at the Selic[2] rate in January 1991, would, in January 2009, have seven times that amount of capital – the result of an average annual appreciation rate of around 28.4 percent over the period; this, according to Paulani (2009, p. 37), is a performance that is "virtually unobtainable by any project tied to the real economy anywhere in the world (except through contravention)".

As such, it is by means of the flow of dollars, or in other words, by absorbing the scarcity of US savings, that Brazil has inserted itself as a peripheral platform of valorization in finance-led capitalism, contributing to a system whereby the direction of finance is not so shaken at its center, whilst staying strong here in Brazil. Such logic – that anchors its fragile sustainability on financed consumption through extensive credit (that also strengthens financial dominance in the Brazilian economy) without the corresponding investments in infrastructure and manufacturing capacity – imposes a high cost on development in the country in so far as it pressures the exchange rates (almost entirely defined in the derivatives market), upsets the trade balance, prevents investments in manufacturing, and increases the remunerated public debt to one of the highest interest rates in the world, a valuable asset traded on the markets. Therefore, the current economic policy, centered on a three-point base consisting of inflation targets, primary surplus and a floating exchange rate, with ample freedom of mobility for the capitals, strengthens the privilege for interest-bearing capital, by providing high remuneration for the fictitious forms of capital. With the country playing this role in the scenario of international financial valorization, its capitals market gains additional importance.

As far as its operating and management model is concerned, however, the Brazilian capitals market differs in various aspects from that of the United States, where the scenario that we refer to as *digitalized finance* is especially representative. The first, and perhaps most important of these, in this case, is

1 Data drawn from Bruno et al. 2009 pp. 16–21.

2 The Sistema Especial de Liquidação e Custodia (SELIC) (Special System for Settlement and Custody) is the Brazilian Central Bank's system for performing open market operations in execution of monetary policy. The SELIC rate is the Bank's overnight rate.