

## **After "deregulation": employability and sociability in a context of flexibilization**

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### **Abstract**

This paper analyzes the impacts on Brazilian society of the monetary therapy adopted to stabilize markets after financial deregulation. The focus relays on the discussion about the nature of the transformations induced by high liquidity preference on the finality of work as a human activity, since labor market tends to be subordinated to the economic logic of financialization. As a consequence, social exclusion increases. In this context, we privilege the discussion of microcredit proposals aimed to minimize social exclusion because of their crucial role in the process of national resistance in face to the effects of globalization.

**Key words:** *financialization, employability, sociability, microcredit*

### **Introduction**

The process of financial deregulation after the 1970's is a result of the tensions that reveal the crisis of the accumulation pattern of the postwar period, centered on public investment and on the investment of the big private corporation, supported by segmented financial systems of national character. The tensions observed disclose the limits of the State indebtedness and the capacity of accumulation of the big corporation in the landmark of national capitalisms. In this process the growth of public debts and transnational mergers and acquisitions, in the bulge of the expansion of international finance, are signals of a new scene in which the "regulated national capitalisms" have changed. It is possible to think about the relation between financial deregulation and the current expansion of world-wide capitalism, in which processes of reorganization of the economies and the societies under the perspective established by banks. The instability of macroeconomic dynamics of this period is reinforced by the expansion of global finance and by the high liquidity preference of universal banks, that search increasing flexibility, so as to guarantee the necessary mobility to liquid wealth in a context of migration to new forms of accumulation.

In the period between 1950 to 1973, predominated the idea of national development associated to the State intervention, that would guarantee the sustainability of this process handling macroeconomic policies. In this context, linked to a particular conception of the relations among individuals and society, enterprises defined their strategies and the construction of citizenship became a constitutive aspect of the process of national development. The conditions of production

and reproduction of material life, as well as the conditions of citizenship and inclusion in the industrial society, were guaranteed by the way of economic growth.

After the crisis of the industrialized economies in the seventies and with the advance of financial globalization, the institutional arrangement of the Welfare State is shaken: the traditional instruments of economic policy and the attendance of social demands were put in question. In a critical context of transition, we analyze the impacts of financialization on social organization that have been expressed through an intense process of normatization, that stimulate high liquidity preference and new labor relations.

In this new picture, the current agenda of multilateral organisms to achieve economic growth defends free markets, attributing to the State the definition of “friendly” policies and actions towards social and economic inclusion. In this proposal, the interface between finance and social inclusion is decisive. In particular, the objective of microcredit policies is to extend the access to credit among formal and informal micro entrepreneurs, agricultural and urban, aiming at the generation of income and work and contributing to the development of enterprises located in the small cities or micro regions; besides extending the access to financial services (banking accounts, saving, insurances) to low income population.

The Brazilian experience can be considered paradigmatic to analyze how international integration and economic policy, guided by monetary rules and market credibility, broadens social exclusion. After financial deregulation, labor market becomes a key variable in macroeconomic adjustment. In this context, the meaning of work is discussed, since fragile conditions of social protection, low standards of income and job instability have been forcing the reorganization of survival strategies. While the expansion of new forms of productive organization is based on quality, competitiveness and flexible criteria, new qualifications and aptitudes are required. In the process of increasing enterprise efficiency and fiscal adjustments, the responsibility of employability is supported by the citizens, that must redefine their skills or become informal entrepreneurs. The dynamic of the intersections between the circuits of formal and informal expense and income strengthens marginalization and social exclusion in Brazil, shaping new perspectives for social mobility. Thus, the relationship between financialization and inequality encloses different aspects in the frame determined by global integration and social vulnerability. There are tensions between the financial hypertrophy and the expectations of society about citizenship, work and income.

In Brazil, the pattern of accumulation, in the process of modernization in the 20th century, was characterized by public investment articulated with transnational companies and national private capital. In this context, the pattern of job and social benefits did not guarantee universal

conditions of social inclusion, but strengthened the heterogeneity of society and defined the existence of an informal sector of income and labor still to be incorporated. The impact of income concentration on the structure of demand and private investment decisions is important to understand the dynamics of the consumer society in the Brazilian economy.

Since neoliberalism has had decisive impacts on labor incomes, new forms of credit access conditions have been considered by multilateral institutions to reorganize social interactions and to mitigate poverty. This paper states that capacity of microcredit policies directed to defeat inequalities to reestablish the social dimension of credit and work depend on the strategies and operation of social and political institutions. In Brazil, some experiences of microcredit loans managed by unions, non governmental institutions and communities have presented more fruitful results and can be thought in this perspective.

Section 1 discusses the impacts of economic policies on employability and sociability in a context of financial deregulation. Section 2 presents an overview of microcredit practices in Brazil, considering the retail banking system and the microcredit experience of Banco do Povo de Santo André. Finally, the conclusions.

## **1. Global Integration, social vulnerability and financial access**

In recent years, after recurrent global crises, there has been broad recognition that the present operation of financial markets does not generate market equilibrium and economic growth. Otherwise, it leads to instability and growing poverty. In fact, the indicators of economic performance were not satisfactory in Brazil in the 1994-2003 (Table 1): financial liberalization has been associated with recessive macroeconomic adjustment and stabilization policies.

**Table 1**  
**Brazil: Rates of growth (1960-2004, in%)**

Period	GDP	Population	GDP per capita
1961-1970	6.17	2.89	3.19
1971-1980	8.63	2.44	6.04
1981-1990	1.57	2.21	-0.63
1991-2000	2.65	1.43	1.20
2001-2003	1.23	1.01	-0.23
2001-2004	2.23	1.01	0.75

Source: Banco Central do Brasil

In the 1990s, the turbulence and the volatility of financial markets have reinforced such deleterious effects and the vicious circle that involves: increase of external indebtedness, instability and new crises. The logic of short term decisions, that imposes volatility to the rate of interest and product, has not allowed to lengthen the horizon of forecast of economic agents and, provokes movements of stop-and-go in the dynamics of economic growth. At the same time, economic openness restricts the options of investment in a framework of destruction of productive chains and regression of industrial structure. While the importance of exporting integration advances, the performance of domestic product becomes dependent of the international economy dynamics. They are not created, in this process, structural changes relative to the diversification of productive structure so as to achieve systemic competitiveness. As a result, it is reinforced in Brazilian economy the historical high liquidity preference.

The process of Brazilian industrialization, after the 1930's, was characterized by the notion of national development in which the articulation of macroeconomic policies by the State made possible to overcome the restrictions to the volume of investment necessary to consolidate the pattern of industrialization. In the interpretations of this process the behavior of private economic agents can be emphasized. When this behavior is analyzed in historical perspective, it is noted that the formation and consolidation of Brazilian society under the aegis of mercantile capital, generated an attitude towards investment conditioned by a restricted framework of possibilities, characterized by uncertainty, instability and high liquidity preference that reinforced short run horizon for the decision making process of private agents. In the process of industrialization, the strategies involved in the solution given to this private investment fragility expressed the Keynesian roots of the logic of State intervention in Brazilian late capitalism, making possible the achievement of long run investments and the articulation of financial conditions<sup>1</sup>. In this way, after Second World War, the behavior of private economic agents in Brazil was conditioned by the monetary, fiscal and exchange rate policies in an international context that favored the implementation of policies of Keynesian nature. The expansion of public banks and the articulation with foreign flows of capital was decisive in the industrialization process.

After the crisis of the industrialized economies in the 1970's and with the advance of the process of financialization, this Keynesian institutional arrangement is shaken: the traditional instruments of economic policy and the role of the State are increasingly reviewed. In Brazil, the exhaustion of the pattern of public financing was expressed in its domestic and external dimensions: the crisis of the external debt and the expansion of the internal public indebtedness. In fact, the

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<sup>1</sup> The specificities of Brazilian industrialization are developed in Tavares (1972) e (1978), Cardoso de Mello (1982).

crisis of the Brazilian State capacity of articulate macroeconomic policies towards long run stimulated private decisions centered on high liquidity preference. The crisis of this long run investment pattern meant disorganization of industrial investment, restrictions to investment in traditional sectors, concentration in banking system, external adjustment, and high inflation.

Given to the scene of inflation and stagnation, in the 80s, the critics to the old pattern of development grew and advanced the expectations in the forces of global markets that would make possible economic growth. After years of negotiations subordinated to macroeconomic adjustment policies recommended by the FMI, the market liberalization of the 90s happened in a context characterized by a notion of wealth focused on liquidity preference. The agenda centered on the reduction of State interventionism, liberalization of markets and macroeconomic stability was implemented, encouraging reforms that would favor the attraction of financial capital flows and would minimize the restrictions to commercial flows. The implementation of this agenda would involve the redefinition of the agents responsible for the process of economic and social development. In Brazil, financialization would redefine the operation of the economy, inducing macroeconomic policies and regulation of markets under new parameters.

In fact, monetary stability and international integration are two concepts that synthesize the debate around the choices of economic policy in the 1990s. In this context of crisis of the institutions that founded the development process after the Second World War, the new growth agenda is centered on private economic agents decisions. As a result, employability conditions turned out to be conditioned to private decisions, and therefore, to private investment decisions.

In the 1990s, the State makes possible the economic, institutional and politic reforms following the direction of the Washington Consensus in order to materialize the modernization process. Such reforms redefine the economic relations in a context where the regulation of markets establish new parameters for economic decisions. These new parameters were imposed to society in the form of decrees, norms and instructions.

The huge growth of deregulated finance has been associated with deflation domestic policies. In Brazil, throughout the 1990s, the process of financial deepening in Brazilian economy advanced due to the differential between profitability in financial and productive spheres. Unemployment turned out to be a permanent and cumulative process, because of the evolution of effective demand. In order to consolidate price stability and to get the approval of the financial markets, the economic policy options strengthened deleterious effect on labor and income. Between 1994 and 2002, the management of domestic interest rates attracted capital inflows that were sterilized so as to avoid the inflationary effect of monetary expansion in the short-term. Otherwise, this policy did not only increase short-term public debt but also the importance of

interest rate policy to avoid speculative movements against domestic currency. As a consequence, the evolution of GDP was conditioned by the reduction of the volume of investment (see Table 2). The evolution of the rate of unemployment and the real incomes reveal the kind of adjustment implemented focused on price stabilization (see Tables 3, 4 and 5)

**Table 2**  
**Brazil: Gross Domestic Product, Gross Investment, Capacity of Utilization**  
**and Gross Domestic Product per capita , 1994-2003, real annual variation, in %**

Year	Gross Domestic Product	Gross Investment	Capacity Utilization *	Gross Domestic Product per capita
1994	5.9	14.3	-	4.2
1995	4.2	7.3	78.1	2.6
1996	2.7	1.2	78.2	1.1
1997	3.3	9.3	78.7	1.7
1998	0.1	-0.3	78.2	-1.4
1999	0.8	-7.2	80.7	-0.7
2000	4.4	4.5	80.3	2.8
2001	1.3	1.1	80.7	-0.2
2002	1.9	-4.2	79.8	0.4
2003	0.5	-5.1	82.3	-0.9

Source: IBGE, National Accounts and CNI

Note: \* Degree of capacity utilization in industry.

**Table 3**  
**Brazil: Total unemployment considering the economic active population\*,**  
**1994-2003, in%**

1994	3.7
1995	6.2
1996	6.1
1997	7.0
1998	7.8
1999	9.0
2000	9.6
2001	9.4
2002	9.2
2003	9.7

Source: IBGE, PNAD

Note: \* all people of 10 years old or more

**Table 4**  
**Brazil: Real income of people employed, 1994-2001,**  
**index 1993=100 and US\$**

Period	Index	US\$
Dec/94	114.43	518.27
Dec/95	128.46	620.48
Dec/96	134.60	661.97
Dec/97	139.79	668.20
Dec/98	138.96	628.92
Dec/99	128.09	411.16
Dec/00	129.28	410.06
Dec/01	117.89	340.07

Source: IBGE and Banco Central do Brasil

**Table 5**  
**Brazil: Rates of Inflation (1994-2002)**

Period	IPC - FIPE	INPC	IPCA	IGP-DI	IGP-M
1994	941.3	929.3	916.5	1,093.9	1,246.6
1995	23.2	22.0	22.4	14.7	15.2
1996	10.0	9.1	9.6	9.3	9.2
1997	4.8	4.3	5.2	7.5	7.7
1998	-1.8	2.5	1.7	1.7	1.8
1999	8.6	8.4	8.9	20.0	20.1
2000	4.4	5.3	6.0	9.8	9.9
2001	7.1	9.4	7.7	10.4	10.4
2002	9.9	14.7	12.5	26.4	25.3

Source: Banco Central do Brasil

The problem of inequality and social exclusion in Brazil becomes more evident when we compare labor and capital incomes. Table 6 shows the fall of the participation of labor incomes in GDP in the context of neoliberalism. The evolution of the composition of capital incomes can be observed in Table 7.

**Table 6**  
**Brazil: Labor income as % of GDP, 1949-2003,**  
**selected years, in %**

1949	56.5
1959	55.5
1970	52.2
1980	50
1991	49
1994	46
1999	41.3
2000	42.48
2001	41.74
2002	40.57
2003	39.71

Source: IBGE

**Table 7 Brazil: National Accounts. Capital incomes, 1995-2003,**  
**base=1995, deflator IPCA, n %**

Period	Profit shares	Interest
1995	100	100
1996	106.3	113.3
1997	180.4	128.6
1998	211.5	142.6
1999	234.8	237.3
2000	172.3	223.0
2001	252.5	276.5
2002	340.4	275.7
2003	323.6	251.4

Source: IBGE/SCN ANNUAL

In the process of redefinition of productive and social structures, a reduction of jobs in industry and agriculture is observed and the increase in the sector of services was incapable to absorb the unemployment originated by the other sectors (Table 8). Such movement was also followed by a precarization movement during the nineties: there has increased the number of

workers on its own and the formalization rate has fallen. The sector of services growths, being its dynamics not only determined by the expansion of job and income in the formal sector, but also by the advance of informality. This dynamic may enlarge social exclusion and inequality.

**Table 8 - Brazil: Distribution of workers by sectors - 1992-2001, in %**

Economic Sectors	1992	2001
Agriculture	25.0	18.3
Industry	21.1	20.4
Services	53.9	61.3

Source: PNAD

It is necessary to consider the transformations occurred in the international financial scene to apprehend the nature of the crisis of the postwar Keynesian system. Current macroeconomic policies have been guided to preserve price stability, instead of preserving employment. Chesnais (1999) synthesized these changes, explaining the logic of high real interest rates in deregulated finance. In his own words (Chesnais, 1999:51): “A pattern of high financial return was universally imposed by financial markets, with local variations, depending on the influence of financial arbitrages on domestic monetary policies. The evaluation of domestic currencies in exchange markets was submitted to this new financial regime, as well as the practices of Central Banks”. This pattern is centered on the expansion of public debt that offers high yields. (Tables 9 and 10).

**Table 9**

**Brazil: Public Sector Financing Needs (PSFN) and Public Debt in % of GDP, 1993-2002**

Year	PSFN - in % of GDP	Public Debt/GDP
1993	--	17.52
1994	--	21.58
1995	2.82	25.19
1996	3.15	29.33
1997	4.14	30.04
1998	4.32	35.55
1999	4.73	38.99
2000	4.17	39.66
2001	4.46	42.16
2002	1.15	42.66

Source: IPEA

**Table 10**  
**Brazil: Nominal Interest Rate, Exchange Rate and Industrial Profitability on sales, 2001-2003**

Year	SELIC in % aa	R\$/US\$	Profitability on sales*	Bank profitability **
2001	19.05	2.3196	4.6	10
2002	23.03	3.5325	1.6	14
2003	16.91	2.8884	--	20

Source: Banco Central do Brasil, IEDI and Austin Asis

Note: \* 280 industrial corporations that include the 500 biggest of Exame, except Petrobras

\*\* Excludes the losses of CEF and Santander/Banespa

In the World War II institutional framework, the State guaranteed the handling of macroeconomic policies so as to achieve employment goals. The specific and historical market mechanisms condition the shaping of economic policy and its capacity to stabilize the economy, affecting the results of decentralized market processes on employment and income distribution. Minsky (1986:50) pointed out that “the economic instability since the late 1960s is the result of the fragile financial system that emerged from the cumulative changes in financial relations and institutions over the following World War II.” This instability is inherent to capitalist system, that is to say, it does not present the tendency to auto-regulation so as to achieve growth and full employment (Keynes, 1936), while the post World War II era was abnormally stable. After deregulation, the institutional setup turned out to be inadequate to “stabilize instability”<sup>2</sup>.

After deregulation, Minsky considered that (1976:130) “it is finance that acts as the sometimes dampening, sometimes amplifying governor of investment. As a result, finance sets the pace of investment”. Investment decisions must be analyzed in a context of capitalist speculative finance in which financial liquidity redefines the dimension of time and space, shortening the length of decision periods and broadening the spectrum of possibilities of valorization. While considering investment in a dynamic perspective, the macroeconomic and institutional adjustment process is conditioned to the national dimensions of structural realities, historically constructed and consolidated. In contemporary Brazilian economy, structural instability strengthened a fluid horizon of yield for investment decisions that become centered on the short run. In the new institutional arrangement of the 1990s, the State established a yield horizon, centered on the rate of interest of public debt, that has become incompatible with productive investment profitability. The growing liquidity of capital and investment decisions are incompatible with society claims of citizenship,

<sup>2</sup> Minsky (1986) considered as urgent a through-going agenda of institutional reform so as to control the working of a capitalist economy. As Minsky (1986: 8) states “ Although the full force of Keynes’s insights into the workings of a capitalist economy has not been absorbed into the ruling economic theory and policy analysis, enough of his message – that our economic destiny is controllable- has come through to make conscious management of the economy an avowed aim of governments in the post- World War II era”

employment and income. The vulnerability of labor market is not independent of the global financial structure, nurtured by speculative behavior

When we analyze the relationship between investment and employment in a deregulated context, it can be said that the social dimension of labor is being redefined. The discussion of employability characteristic of modernization after the Second World War was overwhelmed by the advance of industrialism and urbanization, which dynamics tended to incorporate workers in the formal market by means of economic growth. Current flexibilization and informality are connected with the increasing growth of insecurely-employed and low-skilled workers. Employability is conditioned to private portfolio investment decisions, since in the new development agenda the State has transferred the growth dynamics to private agents. As a result, investment decisions are also conditioned by labor risks: the level of monetary wages, labor qualification, the normatization expressed in labor contracts and the capacity of collective organization of workers union movements.

The heterogeneity of labor market in Brazil expresses that the process of social inclusion was not achieved in the post-war pattern of accumulation, centered on the action of the State and the big corporation, that is to say, the abilities that make possible employability were not universalized. The development conditions, framed by the industrialization dynamic, have created a social heterogeneous situation, where, at the same time, as mobility became more intense, the access to benefits produced by society turned out to be restricted. In the modernization process, the impact of financialization provokes changes in sociability conditions. In this context, the expectations of society about work are redefined because the characteristic activities of industrialization has turned out to be considered as traditional, with exception of those integrated in the new flows of foreign direct investment. The access conditions to income are modified and are configured new perspectives of social mobility.

In the 1990s, the narrowness of the Brazilian economic agenda centered on the integration in the global order, reinforcing credibility and monetary stability, explains the incapacity to generate sustainable conditions of stability of real variable such as investment and jobs. It also establishes, in a new pattern, the historical question of social exclusion in Brazil. Mechanisms of exclusion because of the submission to the logic of international economy are stimulated in a context in which the State has its space of maneuver minimized due to the loss of the management capacity of the macroeconomic and social policies. In the allocation of public resources, the action of the State has privileged the private management criteria of efficiency, efficacy and effectiveness.

In Brazil, this financial pattern has been possible because of the effort of the new agenda of normatization that can be apprehended in the agenda of “saving and investment” (Secretaria de

Política Econômica, 2002) that the government has imposed to society. The tensions observed in the new institutional arrangement characterize the processes of homogenization and resistance in a context in which the social dimension of wealth and the social dimension of work are changing.

## **2. Microcredit and Social Inclusion**

In the 90s, the agenda centered on the reduction of State interventionism, liberalization of markets and macroeconomic stability was implemented, encouraging reforms that would minimize the restrictions to the dynamics of Brazilian capitalism integrated in the global order. Despite the orthodox credo, the State has been responsible for the creation of the new *laissez-faire*. The adjustment of domestic policies to the requirements of the global economy would occur by means of the expansion of self-regulated markets to achieve economic development. The commercial, financial and tax reforms, besides the processes of liberalization of capital account, privatization and flexibilization of the labor market would achieve the recovery of economic growth rates, in the context of a strategy of development in which the economic role of the State involves the definition and protection of property rights, offering legal, judicial and normative efficient systems. In relation to the imperfections of the markets, the World Bank recognizes two areas that must be object of State intervention: infrastructure and essential services, also financial services, to poor people.

The participation of new actors in the solution of social challenges would create new forms of social protection in a globalized market system. The role of the State in public policies lost credibility and began a process of redefinition of the responsible agents for the attendance of social demands. The possibilities of social inclusion would have to be apprehended considering the structural limits imposed by fiscal restrictions. The new norms of solidarity assumed by society would complement the conception of minimum State. The provision of basic services of health, education, energy, water, among others, would contemplate diversified arrangements among the public power, the corporate responsibility, non governmental organizations and communities.

Current market flexibilization is connected to the process of eliminating restrictions so as to enlarge the integration in consumer society in Brazilian capitalism. As a result, important consequences to the social system can be observed. In the period between the 50s and the 70s, national development was linked to the State intervention, that would guarantee the sustainability of this process through the handling of macroeconomic policies and economic restrictions. The conditions of production and reproduction of material life, and integration in the consumer society were guaranteed by the institutional arrangement that defined the development conditions and the

way of economic growth in the industrialization process. In Brazil, this process of integration to the consumer society was not completed in the post-war pattern of accumulation.

In Brazil, after the 1990s, the flexibilization of financial activities, enlarging access to credit to low income population increases the chances of integration to consumer society, in a macroeconomic frame whose dynamics is characterized by recessive adjustments, under the monetary rules imposed by financial market. In this framework, the centrality of economic growth is centered on the private corporation: the social responsibility values and practices become part of the private business. As a result, the corporation redefines the space of public policies and the well-being would depend on the dynamics of the self regulated markets. The changes in the relation between the State and the corporations under the perspective of social actions need to be apprehended in the context of the enterprise reorganization. In an adverse macroeconomic context, the strategies that are being used for cost reduction and innovations involve new labor relations and impacts on social organization because labor flexibility must be compatible to capital mobility.

In Brazil, the processes of financial openness and internationalization of the banking sector express a narrow connection among the national State, the exercise of its sovereignty and the financial capital. The increasing efficiency in enterprise management involves new labor relations and decisive impacts on social organization that express the paradox among the results of the policies chosen and the promotion of citizenship and the attendance of the long run needs of society.

The adjustment of domestic policies to the requirements of the global economy would occur by means of the adoption of a new model of economic development. The endogenous growth is identified with a higher efficiency in the use of inputs, that can be explained as a result of the implementation of market friendly policies such as microcredit policies. As a consequence, the central question relays on the policy measures to enlarge access to financial services to micro entrepreneurs in order to increase economic growth.

In the Brazilian microcredit experience, the challenges identified by the Government involve the need to increase competition and efficiency of a diversity of financial agents and institutions, in order to achieve significant impacts on the scale and the operational costs of microcredit loans. In accordance to World Bank, the State is a key actor in the creation of institutional mechanisms favorable to growth by means of the adoption of measures that favor the access to the financial services by low income population.

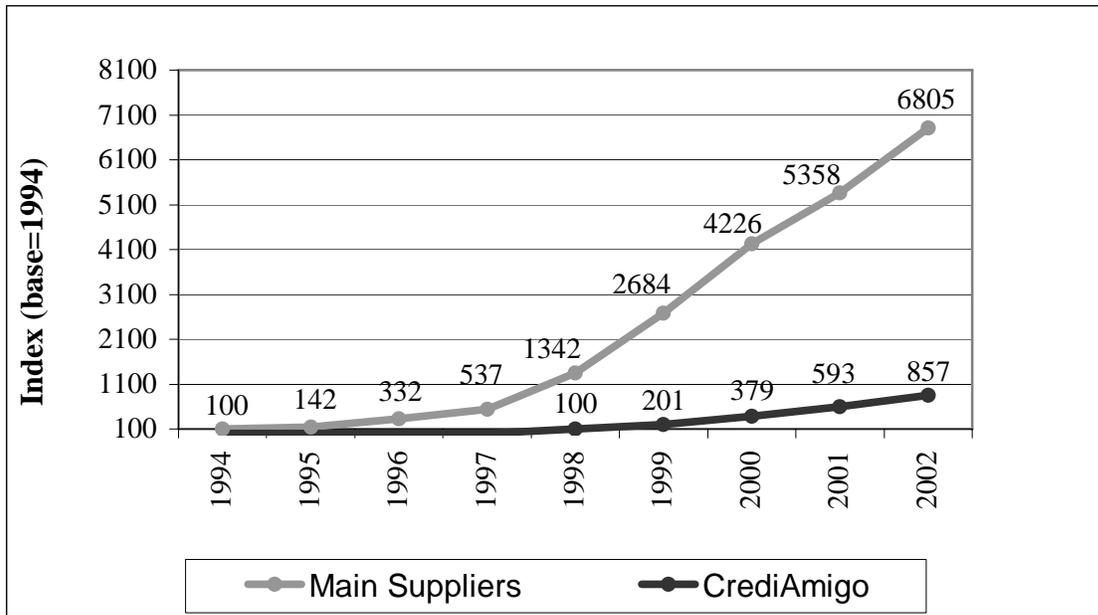
This model has limits and failures in face of the empirical realities observed relative to microcredit experiences. The State cannot achieve the commitment of private financial agents, in other words, the State cannot establish a notion of long run development, so as to avoid that private

agents guide their decisions towards liquidity. In fact, banks have developed the banking inclusion strategies in the context of market segmentation policies, enlarging the financial access to the new clients that belong to lower income population. On the other hand, the micro entrepreneurship notion, while synthesis of the process of reconfiguration of capital dynamics, expresses a qualitative change in social interactions and in the possibilities of economic growth.

Nevertheless, the results of the local experience that has been developed by the Banco do Povo de Santo André expresses that microcredit could be thought as an instrument oriented to actions that may overcome social exclusion when the operations are guided by the social dimension of credit. When the objective of credit is the accumulation of private wealth, this social dimension disappears. That is why when we analyze the microcredit experience managed by the Banco do Povo de Santo André, it certainly reveals actions that express the possibilities of resistance in Brazilian society.

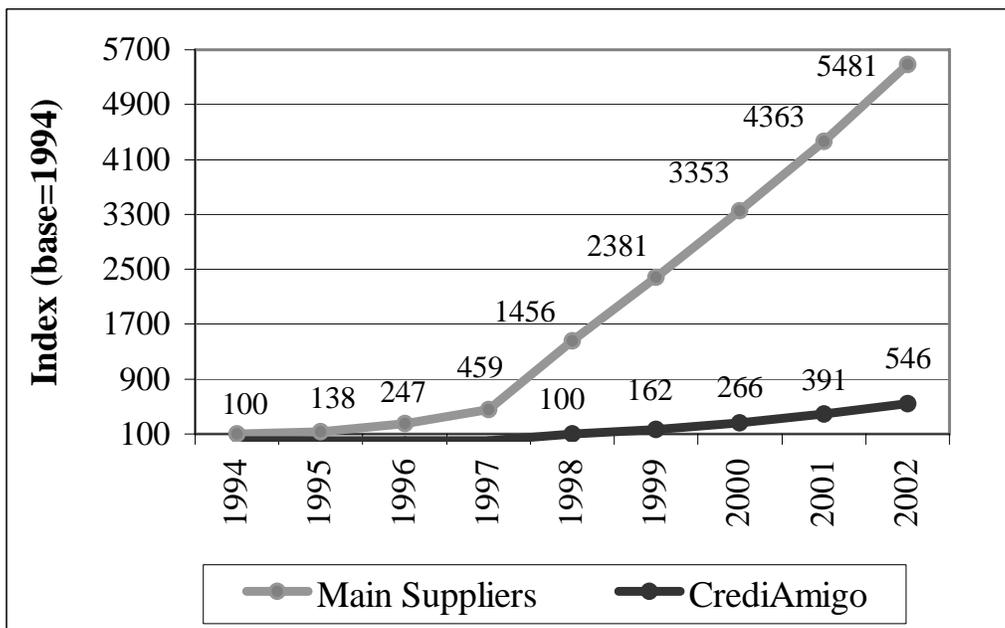
At the end of 2001, one of the features of Brazilian microcredit market was that microcredit loans were supplied by small financial agents, with dependence of transfers of resources to make possible loans oriented to micro entrepreneurs. The performance of these institutions put in doubt their financial sustainability that involves the evaluation of the scale and operational efficiency of small value loans. The expansion of microcredit loans speeds up from 1998, growing in average 50% between 1998 and 2002 (Figure 1), in a context of low participation of credit in gross domestic product (Table 11). In 2002, the Banco do Nordeste answered for practically half of the microcredit market, with the Crediamigo program (Figures 1 and 2).

**Figure 1**  
**Volume of microcredit loans in Brazil: main Suppliers and Crediamigo (Banco do Nordeste), 1994-2002, in index numbers.**



Source: World Bank

**Figure 2**  
**Base of customers of microcredit in Brazil: main suppliers and Crediamigo (Banco do Nordeste), 1994-2002, in index numbers**



Source: World Bank

**Table 11 Brazil:**  
**Participation of credit in GDP, in %, 2001-2002**

<b>Períod</b>	<b>Free resources</b>	<b>Oriented Resources</b>	<b>Total</b>
Jun-01	15.17	8.69	25.66
Dec-01	15.50	9.30	26.44
Jun-02	15.86	9.19	26.62
Dec-02	13.38	9.00	23.83

Source: BACEN

Since 2003, the initiatives of increasing the level of bank access in Brazil, implemented by the federal government, have involved the public retail banks Caixa Econômica Federal (CEF) and Banco do Brasil (BB), that have started to function as stimulators, through competition, of the incorporation of segments of lower income<sup>3</sup>. This strategy of banking access was followed by private retail banks, with the objective to occupy segments of the market that have not been still explored. In the period of August of 2003 to December 2004, the performance of the private retail bank Bradesco was decisive when analyzing market growth, not only in terms of monetary values but also in contract numbers, overpassing the performance of public retail banks, when considered separately. The active loans in December of 2004 confirms such results (Table 12).

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<sup>3</sup> The official bank CEF, using the advantage of the experience of dealing with lower income segments, initiated operations with simplified bank accounts in May of 2003, totalizing, in December of 2004, 2,5 million new accounts. The public retail bank retail BB created a separate bank from its administrative structure, the Banco Popular do Brasil, in order to implement a segmentation strategy including low income market, hindering that the quality of loans directed towards this market could have negative effects on its global performance.

**Table 12**  
**Brazil: Microcredit, monthly rates limited to 2% - number of contracts and volume - 12/2004**

<b>Banks</b>	<b>Number of contracts</b>	<b>Volume (in US\$ '000)</b>
CEF	1,094,765	860,328.5
<b>Banco Popular do Brasil</b>	197,736	76,210.7
Banco do Brasil	670,858	1,018,800
BASA	18,597	35,939.2
BNB	288,406	636,610.7
Bradesco	1,172,399	2,174,014
TOTAL	3,442,761	4,801,903

Source: Ministério da Fazenda, Brazil

It is undeniable that the scale of microcredit loans increases with the entrance of the big retail banks when we compare the jump of the volume of loans from December of 2002 to the end of 2004. Taking into account the destination of the oriented resources, the microcredit operations oriented to consumption (or free use) overpass the loans directed towards the micro entrepreneur (Table 13).

**Table 13**  
**Brazil: Microcredit, monthly rates limited to 2% - december 2004**

Direction of the loans	Loans (balances in 12/04) (US\$ '000)	Flow of loans in 2004 (US\$ '000)	Number of contracts in 2004	Average value of contracts (US\$ '000)	Average maturity in months
Consumption ( or free use)	2,342,314	3,321,980	3,678,187	903	9,9
Microentrepreneur	216,667	889,103	360,409	2,467	7,0
<b>TOTAL</b>	<b>2,558,981</b>	<b>4,211,083</b>	<b>4,038,596</b>	<b>1,043</b>	<b>8,4</b>

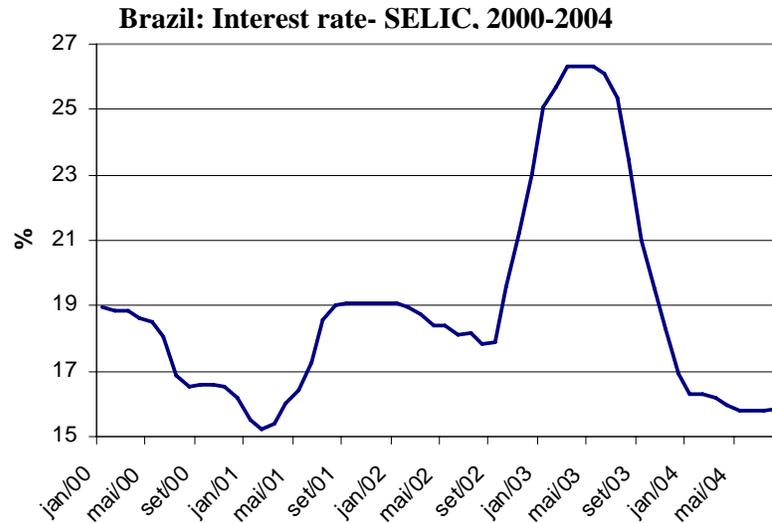
Source: Banco Central do Brasil

We need to remember that, in 2004, the rate of investment in Brazil was of 21% of the gross domestic product, that is, the investment reached US\$ 343,421 billions. Analyzing the relative importance of microcredit supplied by banking system, when considering the investment possibilities, we verify that the loan balances directed to microcredit amounted to US\$ 216,428 millions in December of 2004, representing an insignificant fraction of total investment.

Despite the increase of the scale of the operations after the entrance of retail banks in the segment of microcredit, the volume of loans continue below that required by the federal government. At the end of 2004, the total volume of sight deposits in Brazilian economy reached US\$ 250 billions approximately, being 2% compulsory directed to microcredit loans. Nevertheless, banks did not achieve the microcredit goals determined by the federal government and, as a punishment, those fraction of sight deposits not lent have to be compulsory collected in the Central Bank. The private retail banks consider that the lack of real estate guarantees and the cost of deposits are incompatible with the charge of a monthly interest rate of 2% in microcredit loans, such as the government policy established.

In this way, the evidences signalize that private banks are not interested in the oriented micro enterprise segment because their perception is of low return, given the high levels of risk and costs of transactions. The lack of interest of private retail banks is also related to the macroeconomic policy. In the context of deregulation, financial markets exert its disciplinarian action punishing discretionary economic policies. The defense of monetary rules and low inflation is the new parameter of macroeconomic management, in order to guarantee real returns to liquid wealth. In Brazil, after 1999, the regime of target inflation represents the adoption of the monetary rule, lead by means of the adoption of an interest rule. Recently, the management of interest rate has followed the achievement of the target inflation determined by the Central Bank (Figure 3)

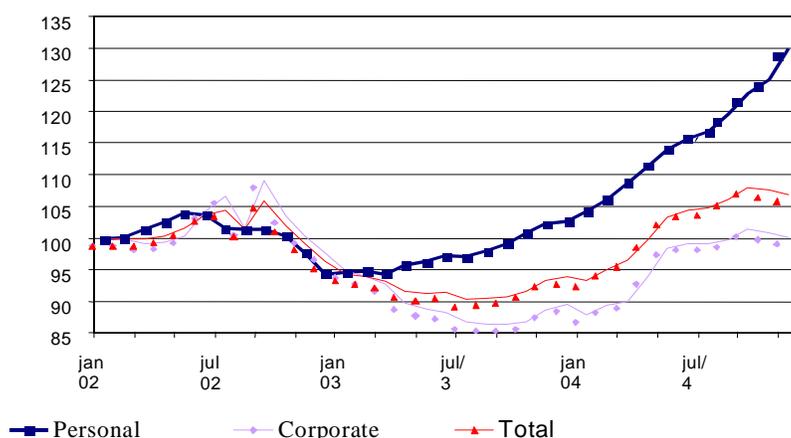
**Figure 3**



Source: BACEN

Banks in Brazil have focused on free credit segments of higher returns, taking advantage of the variations of short-term demand, preserving mobility for a quick change of such strategies. The short-term maturity of consumer loans allows banks to redefine their strategies in case of conjunctural reversion of expectations about the future evolution of the economy (expenses and profits) and the validation of accumulated debts. The strategies are being developed so as to attend personal loans (Figure 4), that presents higher spreads (Table 14). The high level of spreads is partly justified by the macroeconomic instability, that provokes the increase of the risk of insolvency of the borrowers, and by the "cost of opportunity" of the active credit operations when compared with the alternative to compose assets with public debt (Oliveira & Carvalho, 2004). It is important to remember that the dynamics of the banking structure in Brazil is typical of a differentiated oligopoly, or either, it involves mainly differentiation of products and services.

**Figure 4**  
**Brazil- Evolution of Credit , free resources, jan. 2002 to nov. 2004,**  
**(in Number Index ,Base jan. 2002, IPCA deflator)**



**Table 14\_ Brasil: Spreads, free resources, annual average, 2000-2003**

Period	Personal loans	Corporate loans	Total
Jun/00	57.88	12.84	28.37
Dec/00	49.68	12.28	25.95
Jun/01	45.92	10.76	25.43
Dec/01	50.99	13.31	28.7
Jun/02	46.61	12.00	26.92
Dec/02	54.51	16.28	31.05
Jun/03	58.54	14.62	33.2
Dec/03	50.85	14.4	30.01

Source: Banco Central do Brasil

After 2004, banking system also expanded personal credit operations based on the guarantee of future wages and pensions, redefining risk criteria. This behaviour need to be apprehended in the context of high interest rates and new capitals standards in the framework of the Basle Agreements. More riskier credits have to support more capital and provisions, that affect the banks the rate of profitability adjusted to risk. As a result, the expansion of credit was also stimulated by the way of the expansion of consigned credit. The participation of consigned credit in

the total personal loans presented a positive variation of 10.0% in the period between May 2004 and May 2005, because of the performance of the interest rates of both segments (Table 15). Banks are turning elastic the credit conditions by the means of the differentiation of interest rates in the retail banking system. This strategy is affecting the composition of revenues in the banking system (Table 16).

**Table 15- Brazil: Personal credit and consigned credit, 2004 /2005, variation , in %**

	Consigned Credit Public sector/2	Consigned Credit Private sector	Consigned Credit Total/1	Personal credit /total credit	Consigned credit /personal credit	Consigned credit / Interest rates	Personal Credit Interest rates
In 2004	42.7	33.7	41.4	25.4	3.7	-3.6	6.4
From May 2004 to May 2005	114.8	158.9	120.1	52.3	10.0	-2.9	4.5

1/ Research including the top 13 banks operating in personal credit.

2/ Includes active and inactive and aposentados of the public system

Source; Banco Central do Brasil

**Table 16 – Brazil : Composition of bank revenues,  
2002 to 2004, in %**

	2002	2003	2004
Credit	43.1	43.7	46.5
Public debt titles	30.6	32.8	27.8
Fees and commisions	11.9	16.3	19.3
Others	14.3	7.3	6.3

Source: Austin Asis, research including 24 banks

Considering the retail baking system, the expansion of oriented microcredit operations has presented limits. In addition to high operational costs emphasized by retail banks, the low income segment does not consume many of the products and services offered by banks, that represent important sources of profitability. In the process of expansion credit operations, the banking system

has preferred short-term decisions that involve credit contracts based on wages and pensions, personal loans offered by other specialized financial agents that belong to the same conglomerate, besides the associations with nets of commerce retailing. The short-term bank strategies express the limits of the State to establish a notion of long run growth in which competition and market forces could be the foundations of microcredit policies in order to achieve growth and social inclusion.

It can be asserted that microcredit in Brazil guided by retail banking system does not face the challenges created by the historical conditions of social exclusion. Evidences from the Brazilian recent experience also showed that other kind of microcredit institutionality tends to be a form of resistance to the effects of the financialization process. We take as reference the experience of the Banco do Povo de Santo André, an Organization of the Civil Society of Public Interest, (OSCIP), articulated with city hall of Santo André who receives resources from the BNDES (an official development bank); but also of the European Union and the unions associates. In the set of 60 investigated cases<sup>4</sup>, the parcel of small businesses that develops commercial activities (Table 17) is slightly superior to the parcel of other services (46.6 and 41.6%, respectively). In commerce, the activities of ambulant commerce and little markets are distinguished. In the services sector, the activity of the group of bars and similars is most present. The industrial activities are restricted, with prominence of confection of clothes (5.0%).

**Table 17**  
**Main activity**

<b>Sector</b>	<b>Main Activity</b>	<b>More than 3%</b>
Industry (13.3%)	Manufacture of cakes and candies	5.0
	Workshop of sewingt/shirt confection/ industry confection	5.0
Commerce (46.7%)	Maintenance and repairing of vehicle (auto body/pintura)/workshop mechanics	3.3
	Little Markets	10.0
	Bomboniere	6.7
	Retail commerce of clothes	5.0
	Ambulant commerce	11.7
Services (40.0%)	Video and videogame location	1.7
	Bar/Pastry	25.0
	Ambulant services (ice cream, hot dog)	6.7
Total 100%		

Source: Banco do Povo de Santo André

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<sup>4</sup> The analysis is divided in two moments: in the first one, immediately previous to the attainment of the credit, the bank credit agent collected information; in the second, after the attainment of the credit, but before its complete amortization, a new data-collecting was provided.

The majority (91.7%) of businesses was declared not regularized, that is, they are informal in the concept of not being registered in official agency (Table 18).

**Table 18**  
**Condition of functioning of the business of the microcredit borrower**

<b>Classification</b>	<b>%</b>
Registered Microcompany	3.3
Registered autonomous worker	3.3
Cooperative	1.7
Activity registered or not legalized	91.7
<b>Total</b>	<b>100.0</b>

Source: Banco do Povo de Santo André

At the time of the request of the credit, proprietors declared that they do not possess legal account and 46.7% declared current account for personal use (Table 19). The totality almost does not use current banking account in the modality legal entity, exactly after the attainment of the credit. However, about half of the proprietors had informed to possess current banking accounts as natural person, while the majority also makes use of personal banking accounts for commercial transactions.

**Table 19**  
**Conditions of bank access of the microcredit borrowers, in %**

<b>Type of movement of the banking account</b>	<b>Natural person</b>		<b>Legal entity</b>	
	<b>Before the attainment of the credit</b>	<b>After the attainment of the credit</b>	<b>Before the attainment of the credit</b>	<b>After the attainment of the credit</b>
It does not possess current account	53.3%	48.3%	100.0%	98.3%
It possesss current account	46.7%			-
It possesss, only for its personal use or of its family.		11.7%		-
Only for its business		1.7%		1.7%
For its personal use and business		38.3%		
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Banco do Povo de Santo André

Some demographic and occupational characteristics of borrowers can be put in evidence:

- Predominance of proprietors between 35 and 49 years (45.0%); the average age corresponds to 41 years;
- Slightly superior predominance (56.7% against 43.3%) of masculine proprietors;
- The average years of formal education corresponds to five years;
- 88.3% of the borrowers had searched job in the six months before the request of the loan;
- The majority of interviewed (86.6%) declared as main occupation the exercise of activity of autonomous worker or established on its own;
- The average income proceeding from the declared main occupation corresponds to less than US\$ 200, while 58.3% of the interviewed ones have as income source only such occupation.

When considering the destination of the financial result of the business, it is observed that microcredit contributes for the improvement of consumption of the families. Among the results observed, the increase in basic expenditures (in some categories such as: feeding, clothes, transport and education), magnifies the family comfort perception (Table 20).

**Table 20**  
**Basic expenditures of the families; variation after the microcredit**

	Variation % of the average
Expenses with feeding/hygiene/cleanness	27.5%
Expenses with transport	122.6%
Expenses with education	99.4%
Expenses with housing	0.2%
Expenses with health	19.6%
Expenses with clothes	60.7%
Expenses with diversion/leisure	-64.2%
Total of expenses with basic expenditures	25.3%

Source: Banco do Povo de Santo André

Nevertheless, the financial result is not generally used to expand the scale of business in a sustainable way (Table 21).

**Table 21**  
**Destination of the financial result of the business: before and after the attainment of the credit**

Destination of the financial result of the business.	Before the attainment of the credit	After the attainment of the credit
The financial result of its business total is consumed in the sustenance of family	73.3%	23.3%
The financial result of its business partially is consumed in the sustenance of the family, allowing that a small part is saved or reinvested for purchase of merchandises or equipment	10.0%	63.3%
The financial result of its business total is reinvested in proper business	-	5.0%
The financial result of its business makes possible to make investments and to keep wage-earning workers	1.7%	5.0%
All money was for paying debts (it closed)	-	3.3%
Total	60 cases 100.0%	60 cases 100.0%

Source: Banco do Povo de Santo André

When analyzing the results of the business performance, the main difficulties are centered on the lack of short-term capital, low demand, lack of installations adjusted for the accomplishment of the activity, competition and difficulty in regularization or registration of the business. The data collected after the concession of the loans evidence four cases of closing of the activity. Table 22 presents the results pointed as the main difficulties for the development of the activities after the microcredit loans.

**Table 22**  
**Main difficulties for the development of the businesses after the attainment of the microcredit**

Situations	% of cases
Lack of short-term capital	13.3
Insolvency of customers	11.7
Lack of customers	10.0
Competition	10.0
Lack of installations adjusted for the accomplishment of the activity	10.0
Difficulty of regularization or register of business	8.3
Difficulty to get bank credit for rotative capital	8.3

Source: Banco do Povo de Santo André

This experience expresses that the growth of activities related to commerce and other services is also a consequence of the expansion of microcredit loans. As a result, the sector of services expands, while its dynamics is determined by the expansion of jobs and income in the formal and informal sectors, in a context of reconfiguration of the productive and social structures. Microcredit has had decisive impacts on the expansion of the informal sector, in a macroeconomic frame whose dynamics is threatened by macroeconomic adjustments, under the monetary rules imposed by financial markets.

### **3. Final conclusions**

Neoliberalism has been a response to the crisis of capitalism development pattern after World War II (Minsky, 1986). The organization of economic and social institutions as well as the operations within this framework condition the configuration of economic policy goals and results.

In the World Bank perspective, banks could guide the economic modernization process enlarging their microcredit operations. In this context, employability and the success of the micro entrepreneurs depend on the development of new abilities. At the current moment, banks assume decisive role in the definition of alternatives of investments and new parameters for social behavior. These possibilities suggest that the notion of risk has become a decisive element in the evaluation of the behaviors of the economic agents. As a result, the behavior towards risk is essential to understand investments demands. In addition, new abilities are required for the actions of economic agents. These abilities, produced by social interactions, could be developed by means of education and training. This economic agent suggests the necessity of the adequacy of its behavior to new parameters that frame its proper social interactions. Social responsibility has new dimensions, therefore, the responsibility of economic growth is divided with the social citizen that it redefined because of its proper conditions of social insertion, its employability. In fact, after deregulation, the conditions of social exclusion have been redefined and enlarged because of the lack of social adequacy to the new behavior parameters. In this frame, it is ratified the fallacy underlying the arguments of the multilateral organisms proposals.

Data collected from the Brazilian experience show that micro entrepreneurship, that the microcredit institutionality is decisive to achieve the social goals. The retail banking management criteria seemed to have failed in facing the challenges of growth and social inclusion. On the other hand, the microcredit experience of Banco do Povo de Santo André has nurtured new survival perspectives for low income families. Nevertheless, this small financial agent has dependence of

transfers of resources to make possible loans oriented to micro entrepreneurs. The financial sustainability involves the refinancing conditions to viabilize small loans. This transfers are conditioned by political criteria while the State emphasizes the technical character of the allocation of saving in the context of financial modernization. In other words, the macroeconomic adjustment centered on the monetary rules and cuts in public budgets creates restriction to the impacts of this kind of “microcredit resistance”.

In this framework, it can be stated that microcredit, even though managed in this alternative institutionality cannot eliminate the set of difficulties faced by low income population. The results express the possibilities and challenges of resistance strategies oriented to accomplish the social dimension of credit in a context of market flexibilization.

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