Money, Wealth and Patrimonialist Capitalism in Brazil:

Towards a Monetary Theory for the Brazilian's Political Economy

Daniela Freddo[1]

André Calixtre [2]

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5.1 - Economia monetária e financeira

[1] Master's degree Economics at the State University of Campinas (Unicamp) and Phd candidate in Economics at the University of Brasília (UnB).

[2] Master's degree in Economic Development from the State University of Campinas (Unicamp), and Researcher at the Institute for Applied Economic Research of Brazil (Ipea)

Abstract

This paper aims to point some differences out on the evolution of Brazilian's monetary and financial system in comparison on the United States' system. The analysis will focus on how those countries faced different trajectories along the financial crisis that started in 2007, especially to understand Brazilian's political economy particularities and to discuss on how patrimonialism-based wealth affects its economic and monetary dynamics.

Key-words: Patrimonialism; Brazilian Economy; Monetary Theory

Resumo

Este trabalho tem como objetivo destacar algumas diferenças na evolução do sistema financeiro e monetário brasileiro, tendo como base comparativa o sistema norte-americano. A análise concentrar-se-á nas diferentes trajetórias desses países ao longo da crise financeira internacional iniciada em 2007, especialmente para compreender as particularidades da economia política brasileira e para debater como a riqueza fundamentada no patrimonialismo afeta sua dinâmica econômica e monetária.

Palavras-chave: Patrimonialismo, Economia Brasileira; Teoria Monetária

Introduction

If regulating the unstable nature of capitalism is a practically impossible task on the long terms for central economies, how a peripheral – albeit modern and dynamic – economy as Brazil could recently deal with capitalism uncertainty in a reasonably manageable level? The financial crisis had impacted strongly in the tropical country only after the Lehman Brothers bankruptcy which started systemic crisis and provoked a “credit crunch” in Brazilian soil, finally leading it to a crisis of expectations. That late convergence to the already shaking central economies was interpreted to most economic analysts that Brazil was one of the last to enter in the crisis and would be the last to leave it. Surprisingly, Brazil left economic crisis while North-American and European central capitalism are still trying to do so, although this does not mean that the Brazilian economy has become immune to new crisis’ developments.

Compared to transition economies like China and Russia or to predominant archaic capitalism economies like India, the surprise came from frustrating the assumption that Brazil – as a modern capitalist economy, though an underdeveloped one – would trail the same path of central economies and crashes into the expectations crisis that was fully spread by late 2008. Despite it, Brazil rapidly faced international “credit crunch” with a strong increase in national public banking credit, plus a strategy to turn external demand crisis over to the internal market, combining monetary and fiscal anti-cycle measures. By a year after the start of systemic crisis, and after only a slight recession, Brazil had already recovered the same dynamic and inclusive growth that characterized 2003 to 2008.

At the same time, financial crisis was ravaging another era when the myth of stable and equilibrated capitalism ruled amongst conventional academy and public policies centers. The theoretical approach developed to deal with radical capitalism instability – a tradition represented by J. M. Keynes for explain 1929s crisis and amplified by H. Minsky to explain North-American financial changes in the late 1960s – has become once again important to academicals and policy makers who urges to understand something that conventional models cleverly, but not wisely, struggled to ignore: that in modern capitalism instability is so radical that the attempts to control its anarchism leads to circumventing behaviors by private and public agents.

This particular behavior of capitalist agents in a monetary system of assets, completely consolidated by the end of the 19th century in central economies has the banking activities as the core representative of regulation’s bypassing. In Brazil’s case, though, only in the mid of the 20th century and, more specifically, after the 1980s National Developmentalism’s crisis, that, respectively, public and private banks were consolidated with a particular behavior towards circumvention. Differently from money-assets economies like the USA’s it is argued that Brazilian historical formation consolidated wealth based on patrimonialist social relations of property, fostering a permanent link between colonial-archaic past structures to independent-modern present ones.

To define that Brazilian capitalism’s particular dynamics, the first intention of this article is to reconstruct Keynesian and Minskynean tradition on unstable capitalism, on banking activities and its ability to create and validate money. The authors of this article stand that banking circumventions since the organization of post-war economy is a key element to comprehend how the present crisis was originated in United States. To understand its impact on Brazilian economy, however, it is necessary to analyze how the economic relations of money, wealth and patrimonialism in Brazil differs, given its particularities, from that anglo-saxan economy.

The difference from central economies is that the meaning of wealth, in Brazil, is strongly related to personal patrimonialism, while that interposition (“veil”) between real assets and wealth owners – classically developed by Keynes[3] – has different results in Brazilian's capitalism. Also, it is intended to exam the national public banking system’s particularities and the double-edged blade effect of high interest and public debt in which the owners of wealth constantly speculate and maintain its assets. So the circumventing behavior of Brazilian private and public agents is from a different nature that should be explored. The final objective of this article is to further discuss on the consequences of Brazilian particular relations between wealth, finance, money and patrimonialism and the intersections with Keynesian-Minskynean tradition and to USA’s money manager capitalism that leaded to 2009’s world crisis.

[3] (KEYNES; 1963; p. 169)

1. The Keynesian monetary theory approach and the challenges to explain Brazilian dynamics

> There is a multitude of real assets in the world which constitute our capital wealth – buildings, stocks of commodities, goods in course of manufacture and transport, and so forth. The nominal owners of these assets, however, have not infrequently borrowed money in order to become possessed of them. **To a corresponding extent the actual owners of wealth have claims, not on real assets, but on money**. A considerable part of this 'financing' takes place through the banking system, which interposes its guarantee between its depositors who lend it money, and its borrowing customers to whom it loans money wherewith to finance the purchase of real assets. **The interposition of this veil of money between the real asset and the wealth owner is a specially marked characteristic of the modern world[4].**

At the rich paragraph showed above, Keynes discusses about the particularities of wealth property, and emphasizes that "the actual owners of wealth have claims, not on real assets, but on money", what shows a great deal of impersonality in economic relations. Money is used as a social instrument which not only separates producers and buyers but also both real and financial assets. It behaves as "veil" in all kinds of exchange in the "modern world", what makes the social relations quite impersonal. This impersonality is resulted from centuries of social and economic transformations in the transition from feudal to capitalist society, whose zenith of antagonism was achieved by Lord Keynes' England but its best example is the United States of America's (USA) social formation. The struggle between modern and archaic ways of life opened a new form of social reproduction based on contracts' positive affirmation. The once personal forms of economic power – such as: clerical, state and private patrimony – is overcome by contractual property, based on social conventions outside from personal connections of the assets' bearer.

Although this idealistic transition through capitalism represents a bulwark to economic theory, its manifestation is as much clearer as more each society has approached to antagonism between archaic and modern structures. In England, this was at a maximum level, in the USA's that antagonism is so profound that Alexis de Tocqueville classically defined it as a society without traditional classes, made by a single and typically modern middle class. But that is not the same for Brazil. The latter's history is not based in antagonist archaic and modern society, but on the mutual reproduction of these both spheres of live, in which personal and archaic forms of wealth has created itself in what has been called by Florestan Fernandes (1968) the core dynamics of "modernization of archaic", which has its another pole in "archaicization of modern". In other

[4] (KEYNES; 1963; p.169; put in bold by the authors)

words, it can be said that Brazil's social forms of wealth depends on more personal ways of definition of property that on Anglo-Saxons impersonal societies.

It could be just a sociological debate on the modernization' problematic in central and peripheral economies, but these suppositions on social structures are determinant to the debate of economics as a moral science like the Keynesian *démarche*. As fundamental economic categories as money, wealth and patrimony are based on conventional forms of materialization in society, it is core important to understand which kind of society deals with each validation. It is impossible to generalize that all forms of capitalist economies deals with money's social validation the same way of England's or USA's liberal structures of conventionalism does, though there is no doubt that all kind of capitalist economy is based on money as standard of value for accumulation, private property and mercantilization of life. Wealth, on the other side, is especially related to historical and social structures of each different economy.

To deal with this diversity of social forms of wealth's validation in capitalism, it should require an analysis centered on how works the relation of social structures with property and the former with wealth. For the first relation represents economic power of individuals' command and, the second, welfare's social validation. Combined together, its materialization depends on how much personalized can the contractual form of property appears on economic dynamics, the same way how much objectified personal relations of wealth can be recognized and collectively validated.

There are different types of modern capitalisms. Based on ideal typologies Gøsta Esping-Andersen (1990) proposes *Three Worlds of Welfare Capitalism*, named as Liberal, Conservative and Social-democratic. In Calixtre and Freddo (2010) it is suggested that those categories are mixed in a hidden world of occidental thought, the Latin-American fourth world of capitalism. For this mixed categories that has transformed in new ones are essentially important to understand Latin-American formation (which includes the Brazilians' case) and even the classical themes of politics and economic theories.

The key idea to understand Brazilian patrimonialism-based capitalism is the persistence of both seigniorial politics and slavery labor as core social references even after the independence and abolitionist processes, not taken at the same time in history. That persistence along 19th Century, which will be further discussed below, establishes a permanent contradiction between the absorption of modern, contractual, impersonal structures of industrialized capitalism and the survivor and the update of personalist political power and negative centered labor society with an empty labor market, although there was so many men free to work at that time (MELLO; 1976).

Although this Brazilian historical specificity does not invalidate the hierarchy of money created by modern capitalism, its materialization is based on crystalized patrimonial forms of wealth, instead that observed on liberal societies in which the hierarchy of money is based on money itself. On one hand, the more impersonal and money-centered is wealth taken in a society, the Keynesian moral economics, i.e. – the social convention of wealth – is closer to a money assets capitalism; on the other hand, when social structures tends to block contractualized and impersonal economic relation through money, the more patrimonial forms of wealth is important to explain the gears of this society, founded on the cult of patrimony, i.e., on patrimonialism. Those two scenarios can never define *per se* a given economy, thus these are only ideal types for segmenting the anarchic reality. Some economies, nevertheless, will manifest a wider basis of functionality on patrimonial-wealth bounds, and others on money-wealth ones, and that is what concerns to this paper.

1.1 The Keynesian's tradition on Money-Asset Capitalism

To understand the functioning of the capitalist economy, according to Keynes ideas, it is crucial to analyze the role played by money. There is a close relation between money, monetary authority, banks and investment in a monetary economy.

Further than being means of payment and unity of account, the inherent instability of capitalist economy is due to money's role as *the* standard of value. As argues Belluzzo & Almeida (2002), when money designates future contracts, it performs this role not only measuring the wealth's value but, mostly, guaranteeing its future value in present terms. This guarantee is uncertain; it depends on the social pact about money and its capability on expressing properly the wealth's value. In other worlds, modern capitalism depends mostly on social foundations of thrust to make minimally stable relation between money and wealth.

Money has as main function to be the only asset capable of satisfactorily bring the future wealth's value in present terms. When uncertainty about the future prevails, the agents will prefer to keep their assets in money terms, for they see it, as the value's wealth guardian. For those reasons, it is possible to interpret money as having an essentially conventional character in commodity's circulation process. Two conventional norms are accepted about money to the system works: the first is that it can keep the value stored in it; the second is that it can perform the role of being the intermediary in commodities' exchange.

Another typically modern capitalist core institution is banks, a special kind of economic agent, due to their close relation to money creation, additionally than being a financial intermediary.

Bank–money's creation is an important ability which allows banking system to expand monetary supply. Most part of the money used in the modern capitalist societies to settle transactions is bank-money.

As financial intermediaries, they make the connection between financial and productive spheres. They participate actively on the payment system. Banks are sources of instability due to their ability to create money and to leverage with other's people money to buy assets. With strong capacity to monetize the credit lent to the borrowers, since cash deposits are used as means of payments, banks act to keep credit-money inside of the banking system to be able in expanding the monetary supply, as Keynes (1971) argues:

> (...) the transference of claims to money may be just as serviceable for the settlement of transactions as the transference of money itself. It follows that members of the public, when they have assured themselves that this is so, will often be content with the ownership of transferable claims without seeking to turn them into cash.[5]

The creation of money by Banks, as it is strictly related to money wealth assets, gives liquidity and flexibility to modern capitalist economy, financing the expenditure, the effective demand, whose result for society is income, profits, employment and welfare. The relation between banks and others agents (Monetary Authority, others financial intermediaries, no financial firms and households) is the base of capitalist system's expansion cycles and crisis.

There are certain consequences to the economy in using bank-money in commodities' circulation. As argues Aglietta (1979), credit-money defers in time the commodities' social validation. This validation does not occur at the moment that the commodity is bought and sold, but only when the credit used in circulation is settled. However, commodities' circulation can be interrupted if money is kept for its function as value's standard. The monetary economy has as instability's origin the moment that commodities cannot be sold or validated. If the funds used in the production were credit-money; to the producer remains the burden of past debts and to the banking system the default. By only conceiving money as an exchange's intermediary and a standard of value it is possible to understand why there are interruptions in the exchange process and accumulation's crisis.

More money as standard of value is the main objective of private gains. There is a contradiction between social functions of money – money of account and medium of exchange – and its function as expression of wealth. The first is responsible for social relations among individuals in capitalist society and the second is the expression of wealth. And the money's

[5] (KEYNES; 1971; p. 20)

concept unifies these functions. When there is uncertainty about the future, the second one will prevail over the others two first, and it will be interruptions in the social exchange of products. The second function, the standard of value, corresponds to the impossible – but necessary – search for assurance about the quantitative measurement of the wealth[6].

Due to the banks' essential role on the monetary economy as money creators they have its activity supervised by the Monetary Authority, whose intervention allows the State to assure the credit money's purchasing power in the present and in the future. The instability generated by banks in the economy is the result from intrinsic money uncertainty. They produce an asset which needs a convention to subsist therefore they have to assure the public about the credibility of money created. There is transference of instability from money to banks, and therefore the Monetary Authority's role in guaranteeing the payment system is crucial. Society needs to be assured to accept and believe in the convertibility rules of private money into State money and also in the latter into universal money.

Therefore there is a close relationship between money, commercial banks and State based in mutual confidence. Commercial banks by obeying rules dictated by Monetary Authority can obtain credibility from public which keeps their income and their wealth in deposit accounts in the banks. Central Bank assures both the convention and the confidence that relies over money, allowing private money to be accepted by the public.

Finally, the Monetary Authority unifies the several bank monies which exist in national space, by emitting enforced currency and creating national money:

> Enforced currency is a coercive practice of the state, imposing the unrestricted social acceptance of the monetary tokens issued by the central bank. The central bank money replaces the commodity form of the general equivalent within the national economic space of the nation. The national money market is no longer an arena where tokens are validated by reference to a universal commodity. It becomes an arena where all bank money is unified by the central money. This unification forms *national money*[7].

There is a hierarchical superiority between State Money, which is genuinely the standard of value, and bank money which is essentially a substitute of the money proper in passing from one hand to another to settle a transaction (Keynes, 1971, p. 5). Credit-money cannot be a standard of value since it is essentially an acknowledgement of a private debt. That is why it needs the Monetary Authority to survive on the payment system. Only with this support it is possible for banking activity to multiply bank's deposits and, as a result, money supply.

The State money is at the top of the monetary hierarchy and tries to stabilize and guarantee the ones which stand below; by assuring that they have the same value as itself. It is the

[6] (BELLUZZO & ALMEIDA; 2002; p.28)
[7] (AGLIETTA; 1979; p. 343)

States' interest to assure the banking system due to their social function in financing investment. The State recognizes bank's importance to development of capital accumulation, but also submits then to a double restriction of their activity when compared to the other financial intermediaries; they are regulated as a financial intermediary and as a money creator.

In that ideal capitalist system, Monetary Authority has the role to unify all several kinds of private monies, guaranteeing them as if they were public. When that happens, State money is at the top of monies hierarchy, unifying wealth convention on a singular form, impersonalized by contractual relation between citizens, guaranteed on State. Every time the subaltern monies escape from the normal cycles of credit and expansion, pointing to any systemic crisis, the Central Bank would act as the lender of last resort transforming private money into public money. This is how private money can survive on the financial system, but this is also why – even in those ideal terms – capitalist economy is intrinsically unstable.

1.2 The mutual existence of wealth and patrimony in Brazil's history and its impacts on monetary theory

In a wide view on the historical Latin-America's economic formation, there is one core logical translation to the dynamics of capitalism that creates periphery, made by denying an intrinsic antagonism between archaic and modern and affirming that the development and expansion of the capitalist system is uneven and combined[8]. This unevenness on the distribution of wealth among national economies divided between central and peripheral ideal types does not point to a convergence on time, hence each undeveloped nation should just make chronological steps over economic development to enter the first world. Instead, the capitalist system diffusion process creates different times of accumulation combining uneven social wealth structures.

In Brazil's social thought, the known scholar that systematically relates the specificity on capitalism expansion and social foundations on peripheral economies is Florestan Fernandes. His central idea is that occidental civilization did not spread through world capitalism in a homogenous way, but seeded – by immigration and constant cultural diffusion – the roots of the way of life in these new lands, which build a particular history at economic, social and cultural fields. This singularity on peripheral economies is relative to the colonial's condition and also to all others

[8] It is not intended to further discuss the Theory on Uneven and Combined Development, which is essencialy an interpretation on dynamics of accumulation on capitalism expansion in National States systems. To the origins of this fundamental debate on national development in Latin-America, it is never enough to read: (LENIN; 1963) and (TROTSKY; 1977).

structures carried within[9], that through time sourced patrimonial capitalism. It is in Brazil that one can find its greater example.

The constitution of occidental expanded societies in Latin-America created a new civilizational matrix by the social organization of evident paradoxes like liberalism with slavery, contracts with colonial exclusiveness, impersonality with seigniorial power, private property with patrimonial forms of wealth. The persistency of those paradoxes by the end of the 19th Century is the main reason of Brazilian example in illustrating this patrimonial society. In other words, Brazilian society merged typically occidental structures represented by the modernity in a different form of modernization, in all kinds of social levels. As part of the expansion of European civilization towards mercantilism, the colonial condition of Brazil and most of other parts of Latin-American was based on a contradiction between the ideal of modern life and the reality of making it without its prerequisites.

By all means of that specific colonial condition in Latin America, it is undeniable that endogenous forces, bred from social reproduction inside the plantations and bounded by seigniorial power, continuously added more complexity to this social formation. Nevertheless, this system was unable to integrate all people living around the plantations – not everybody was suitable to be a slave, and even less could be a landlord. As the population of free and poor men kept growing outside the slavery system and the patrimonial property (based on lands and on slaves as foundations of wealth), the organization of cities and of social relations of those free men put a constant threat to the reproduction of slave-lord internal system.

This particular condition in Latin-America was solved or absorbed by several different ways after the disorganization of colonial power by the French Revolution and the Napoleonic Era. In Brazil's case, the formation of free men outside slavery system did not oppose landlords and free men, but mostly consolidated a hybrid form of social relation between those two groups, putting patrimonial wealth and slavery values on the top of social hierarchy based on *personal favors*. As the free and poor man could not subsist in slavery system as a slave, it submitted himself to the power of landlord by offering services[10] based on strictly personal bounds to the landlord in exchange of him and his family reproductions.

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[9] Quoting Fernandes in portuguese: "A civilização ocidental não se espraiou como as águas de um rio que transborda, ela se corrompeu, se transformou e por vezes se enriqueceu, convertendo-se numa variante do que deveria ser, à luz dos modelos originais. O que interessa (...) é que, apoiando-se nos rebentos de uma mesma civilização, transplantada ao longo de um amplo e contínuo processo de migrações sucessivas ou por meio da difusão cultural, **os homens reconstruíram esta civilização e, por isso, escreveram através dela uma história econômica, social e cultural particularíssima**, que nos dá a justa medida do que pode e do que deve ser a dita civilização a partir de uma condição colonial permanente, embora instável e mutável." (FERNANDES; 1968; p.26)

[10] (FRANCO; 1976)

After the independence process, resulted from the colonial world's disorganization, Brazilian landlords managed to perpetuate slave regime with extraordinary efficiency, taking it far away, it survived long term after the industrial revolution in England and its pressures around globe to wage up labor forces and create consumptions markets to its industrial products. Altogether with more than half a century of slavery basis inside the newborn sovereignty, patrimonial wealth stands upon society as the fundamental form of economic relation between landlords and the rest of the recognized social beings, ie, the free and poor men. By the end of the 19th Century, Brazilian society faces abolition process without possibilities of abolishing slave relations and patrimonialist wealth. The constitution of wage forces had been imposed by external immigration with few integration on the local force. Also previously made agrarian reform (named the Lands Law of 1850) was nothing but the crystallization of patrimonial property in the hands of landlords, a very different figure from the Homestead Act taken in the USA.

It is almost impossible to stand that this society was based on any slight definition of capitalism, but instead to its fundamental force of accumulation. Yes, Brazilian society in 19th was a mercantile and agro-export based accumulation economy, that integrated its economy to the world's capital fluxes through seigniorial power and organized by patrimonialist wealth. It's hard to assume, nevertheless, that there was some kind of monetary capitalism based on money assets, although it could be existed national money, incipient stock market and (a couple) national banks since the independence. Money and assets' circulation was restricted to exports centers inside the agrarian economy and rarely spread towards national space, the same to bank's activities. It was necessary to impose industrial forces to change this restriction on money-asset capitalism inside of Brazilian post-colonial society.

The start of Brazilian systemic industrialization process after the first third of the 20th Century was also the construction of nationally integrated accumulation space, toward the connections of production markets and the consolidation of urban life. Industry was the key element of agrarian societies' disruption, and it was believed that also would destroy patrimonialist wealth and seigniorial power. That strong ideal represents the core of national developmentalism thought. As agrarian society faded away, though, patrimonialism-based wealth and seigniorial power managed to reinvent itself on modernization process, blocking substantial parts of new urbanized society away from typical modern, from impersonal and from contractual life.

On the one hand, money-assets oriented capitalism institutions took place in dynamic centers of industrial accumulation, with an undoubted National Developmental State protagonist. By the end of the 1960s, centralization of external currencies transactions, State Money (and the

Central Banks), newborn bank money and legally designed capital markets formed altogether a modern capitalist system inside Brazilian national economy.

On the other hand, the supposed formation of civilized values – by making typical modern structures of contracts and impersonal relations – was hidden by the mask of modernization, which became the new figure of patrimony and of seignior power, whose struggle to survive in urban soil leaded from private relations to the *coup d'État* in 1964, establishing authoritarian modernization. The industrial society built on Brazilian's peripheral capitalism was nothing else but a guise to sustain new patrimonialism-based relations, outside from its roots in agrarian life. Resulting from this renewal of seigniorial power there are typical modern institutions and modernized archaic institutions in Brazilian society.

Consequently, State Money, at the end of the 1960s, was a standard not only of liquidity values, but also of patrimonial wealth. The link between those two dimensions was made by a singular type of public debt; one that should be capable of transforming, immediately, liquidity into patrimony along time. It should not, thus, be only a link between present and future (Keynes), but also represents value in patrimonialist forms of wealth. In sum, this kind of public debt must never lose its real value, hence the birth of Indexed Treasures Debts, a particular Brazilian way of validating Sate Money. As it evolved in time, the indexed public debt's invention put Brazil aside of most part of the 1970's economic turmoil, being able to capture international capital flows and internalize it in form of private debt and simultaneously neutralizes international inflation by saving both money-wealth and patrimonial-wealth inside State Money.

However, the variable that ended the equation of this process was the linkage between patrimonialist wealth and international wealth, or else it would dismantle the founding reference of modernity, that is, the typical industrial capitalism built on developed countries. The same external public debt that linked patrimony in agrarian exportation of post-colonial Brazil to the world, after the patrimony's urbanization was also taken as external references of welfare. The modernization was a resulting process of this new form of urban patrimonial wealth with social reference to industrial modern world. When that international flow went dry, at the beginning of the 1980s, the validation process of patrimonial wealth loses its organizing properties and throws Brazilian economy and seigniorial power into another round of deep changes and mammoth turbulences. This discussion will be continued on item 2.2. For now, it shall be discussed how industrial standard of wealth became financialized standard of wealth, by the tensions living inside the hegemonic USA economy, forcing Brazil and almost all countries in Latin-America to great social and economic changes on the 1980s.

2. Different paths of financialized capitalism on the USA and on Brazil.

2.1 The making of the United States' *money manager capitalism*

The transformations occurred in North-American financial system which drove the system to the crisis that began in 2007 can be analyzed as a result of tensions existent in the relationship between banking activity, other financial intermediaries and its regulatory mark. Capitalist financial competition in North-American economy provoked innovative practices which destabilized the financial system.

The deregulation period, started at the end of the 1970s, has its roots in the financial reform of the 1930s. By the Glass Steagal Act of 1933, it was made a distinction between investment and commercial banks, establishing in which areas these institutions were allowed to have business in. And it imposed different types of supervisions over them. In fact, the Regulation Q (Reg Q) established ceilings of interest rates to pay on deposits and earn in mortgages applied only to the thrift industry. In the long run, even though banking system had became stronger than it was before, the result of these differentiations had the effect of strengthening financial markets in detriment of the bank system (Vitols; 2001; p. 11).

The path trailed by North-American financial system, since the 1930's regulation reform, led the North-American economy to a market-based system model, in which "securities that are tradeable in financial markets are the dominant form of financial asset[11]" and "the capital markets are very large, corporations rely heavily upon these markets for finance, and the commercial banks face major competition at home from other financial intermediaries[12]". The regulatory mark has a deep influence in the way that banks compete with others financial intermediaries, and also in activities which banks chosen to use to search for yields, because it designs and surrounds the framework and the environment that banks can act.

Banking system, as explained before, suffers limitation in its activity for being capable to create money and for behaving as financial intermediary; therefore it has high costs and needs elevated spreads when compared to other financial institutions. During the legality of Reg Q, the increase in interest rates had strong effects in bank's costs. On the liabilities side, considering that generally banks have longer-term assets and short-term liabilities therefore they need to constantly refinance their funds, with the increase of interest rates they have to pay more for liabilities. And they also suffer from "disintermediation", that is, withdrawals of their clients, since they are not

[11] (VITOLS; 2001; p.1)
[12] (ZYSMAN; 1982; p.73)

allowed to pay for deposits interest rates above the limitation imposed by the Reg Q. On the assets side, the yields of investments that they can offer to their clients is below of others investment's opportunities at money market. Furthermore, banks, with the increase of the interest rate, also relatively lose the profitability of their assets; they are not allowed by the Reg Q to elevate charges from their clients due to the raising costs. As argues Minsky, the consequences of the squeeze in bank profitability is a financial innovation's process and the acceptance of greater risks: "the implication of a protracted period of high interest rates is that banks will reach for yield, will accept greater risks, in an effort to improve earnings" (Minsky; 1991; p. 21).

As Minsky (1991) pointed out, the competitiveness difficulties between banks with others financial intermediaries became patent after the experience of "practical monetarism" in the United States, from 1979 to 1982. The monetarism defends restrictions on monetary base's growth by controlling bank-money through increasing reserve's deposits at the Central Bank to contain inflation. The central point of this theory is to control directly the monetary base and leave the interest rates to fluctuate accordingly to the market forces. However, in addition to the monetary restrictions, it started a period of increase in interest rates, implemented by the Federal Reserve, under the Paul Volcker's command to restore the dollar's strength at the international order (Tavares; 1997).

The consequence of this monetary policy to banking system was a severe squeeze in their profitability. In addition to the obstacles imposed by the elevation of the interest rate, the monetary base constraints blocks banks to increase their leverage and so their assets' profitability. Others financial intermediaries who are not submitted to the Reg Q have opportunities to offer credit and take part of banking market share. Banking system, to recover their profitability, creates new market based financing techniques to increase their shares on capital markets. They try to circumvent the limitations imposed by the distinction between commercial banks and investment banks.

The banking innovation initiated at the end of the1970s searches for techniques that limit the necessity of reserve's deposit at the Fed, circumventing the liquidity constraints imposed by the regulatory mark. A process of bank credit's securitization begins. As argues Freitas (2009; p. 239), the banks prefers the acquisition of negotiable assets, whose market's value fluctuate according to interest rates' oscillations. The development of secondary market's mortgage, at the early 1980s, was a consequence of the Monetary Police conduct by the Fed. As argues Minsky (2008b) it was in this market that the securitization evolved:

> The ability of the thrifts to create mortgages was unimpaired even as their ability to fund holdings was greatly impaired. Securitization as we know it began in the U.S. mortgage market. It enabled thrifts to continue to initiate mortgages even though their funding ability

> was sorely compromised. Although modern securitization may have begun with the thrifts, it has now expanded well beyond the thrifts and mortgage loans.

Another way found by banks to recover their profitability, was to orient part of their liabilities' operations to the Eurodollar's market, making a step forward on the process of the North-American banking sector's globalization, which was still very concentrated on domestic economy[13]. As argues the Levy Institute (2011), the competition on this market was quite high and after the bankruptcy of the German Herstatt Bank, in 1974, the international community has realized the necessity of regulating in the same way the activity of different nationalities banks, originating the Basel Agreements.

With the evolution of new financial techniques to circumvent the restrictions of the regulatory mark, the off-balance-sheet transactions used by banks grew in numbers to overcome the exigencies of minimum capital requirements established by the Basel Agreement of 1988 (Basel I).

In this context, of high competition among financial intermediaries and the difficulty of banks to recovery their profitability, there is a trade-off between the share of institutional investors (pension funds, mutual funds and insurance companies) and the share of banks in total financial assets.

During the 1980s, as a consequence of the Monetary Police executed in this period, the *money manager capitalism* is consolidated and banks – to compete with the growing participation of the institutional investor in the financial markets – orient their activities to market techniques. They leave behind their major social role of granting credit to the society to become an important investor on the capital market.

Instead of having, during this period, an increase on supervision over the banking system, the regulatory mark was loosed. In 1980, by the Depository Institutions Deregulation and Monetary Control Act, the interest rates ceilings of the Reg Q was gradually extinct to strengthen thrift industry to face competition and the new invented financial techniques were validated by the Monetary Authority.

With the financial competition's intensification, there is a strengthening of the role played by the institutional investors as alternative to bank financing, as agues Minsky (1991; p. 22):

> The growth of the alternatives to bank financing did not occur because of purely market forces. The money supply control path to the constraining of inflation implied that the competitive position of banks in financing markets was weakened. The growth of alternatives to banks was an outgrowth of the constraint upon banks. One standard critique of regulation is that the regulator soon becomes an advocated for regulated. In the case of Central Banking and banks the opposite happened in the monetarist period as the attempt to control inflation by controlling bank liabilities provided room for the growth and prosperity of non-bank institutions.

[13] (LEVY INSTITUTE 2011)

The deregulation process and the institutional validation of financial innovation which destabilize the economic system had its peak in 1999 with the Congress approval of the Gramm-Leach-Bliley Bank Reform Act which repealed some parts of the Glass Steagall Act of 1933, opening up the market among banking, securities and insurance companies. The differentiation between commercial and investment bank was officially extinct.

As argues Minky (1991; p. 26), the money manager capitalism can be seen as a consequence of the successful post war's capitalism. Since the latter promoted a wide distribution of the ownership property which has taken positions in mutual funds and beneficial interest in pension funds. However, "these funds need to be managed. The managers of these funds presumably operate in the interest of the owners or the beneficial interests, but they also have interests of their own[14]".

The growing importance of the role played by institutional investors as an alternative to bank financing on the financial markets has spread "financialization" out at global scale. Also, as a consequence of this process, there is a deep change in bank's activity to fit into this new institutional framework. The banks advance on their ability as financial intermediary and act as a broker in the financial markets. They increase their yields by charging commissions and taxes due to the service rendered to their clients. The credit is leveraged by the relationship between banking institutions and non-banking financial institutions, the first can remove transactions from theirs balance-sheet by selling them to the second and the second can buy them borrowing credit from the first. Therefore banks were able to circumvent the limits established by the Basel Agreements (1988 and 2004) about capital requirements. And the non-banking financial institutions could act as banks creating quasi-monies.

Those flaws in the regulatory mark allowed changes and transformations in the main role played by financial institutions – banks acting as brokers and other intermediaries creating (quasi) money. This process opened possibilities to several types of financial innovation develop, which acted to destabilize the financial system and drove the American financial system to the deepest crisis since 1929.

In 2008, this crisis spread around the world, after the Lehman's Brother Bankruptcy. It touched Brazilian economy and threatened it to another global crisis as it happened in 1997, with the Asiatic crisis. But, at this time, History has presented Brazilian economy with a different

[14] (MINSKY; 1991; p. 26). That's an apparent characteristic of impersonal money manager capitalism. Since it is based on money wealth assets and its property is based on impersonal contracts, managing wealth is a matter for institutional investors, not for personal ones. That said, it is that belief on objective impersonality that leaded most of financial managers to a perception of complete objectivity of economical science, specially their econometric models on risks an on financial markets.

chapter. The reasons why Brazilian economy would respond well to the crisis will be explained in the following item.

2.2 The struggle to survive of Brazilian's national money and the reproduction of patrimonialist capitalism on financial basis.

At the beginning of the 1980s, the first important consequence of money manager capitalism for Brazil was the disruption of patrimonial wealth mounted on indexed public debt State Money and constant flows of international capital by private external debt. Firstly, after the raising prices of international wealth standard – based on the Paul Volcker's high interest policy on the dollar – it started a deterioration process in private debt along Brazil and others Latin-American countries, which in Brazil leaded to deteriorating financial conditions of the most important private borrowers on international market, the state's enterprises. The more Brazil kept trying to maintain the same arrangement of patrimony made by 1960s last modernization, the heavier private external debt's component was on state's enterprises.

The second disruption's stage was when private external debts became public default at the beginning of the 1980s. To avoid patrimonial wealth's deterioration and to maintain State Money by public internal indexed debt, serious amounts of this private external debt was bailed out by the Brazilian State during International Monetary Fund (IMF) negotiations. The new international standard of wealth built by finance led capitalism constrained the order of patrimonial wealth development. The latter should now remake its linkages with finance wealth standard in different terms, due to industrial wealth standard had fallen into decay. To this new form of patrimonial wealth appears, it would take a decade of political, economic and social changes – on what has been known as the national developmentalism crisis or "the lost decade".

The public debt's indexation, as argues Belluzzo & Almeida, faced the new world phenomena of prices' financialization. On the one hand, when uncertainty in the economy threatened patrimonial wealth, goods' pricing produced in the domestic market (non tradeables) were seriously disorganized, obstructing investments on this sector. On the other hand, the exportation goods (tradeables), for being the source of the standard's value money (the dollar), became the center of State's policy, in contradiction to the unsteady internal market. As the 1980's Brazilian economy allows the tradeables goods determine the pricing formation of the non tradeables ones, it increases the possibility of economy's dollarization. To avoid that, an over-indexed architecture of public debt and nominal interest's rate, specially the overnight, became the reference of goods pricing and the main salvation's source to Brazilian State Money.

But that resistance of national money must had been politically sustained by seigniorial power and by patrimonialism, who controlled domestic market both of tradeables goods, for exchange currency, and of non tradeables goods, for the reproduction of society itself. To do that, policy makers protected Brazilian patrimonial wealth by increasing the public debt's interest rate to avoid capital's outflow and also inflation's increase. After patrimonial wealth's owners took almost total control over the State's action, they have preferred to allocate their portfolios on quasi-monies indexed assets, preserving their liquidity to speculate on the financial system in the two monies of the economy: the financial one and the real one. The sense to this financial circuit in real terms was the constant and crescent raising of all prices, guaranteeing production's profitability. One consequence of the national money's resistance was an extraordinary inflation, but that was enough to briefly stabilize patrimony in it new form of financial wealth. The other and most important consequence was the late consolidation of private banking system, by managing the indexed quasi-monies.

The 1980s was characterized by a profound monetary crisis in the Brazilian Economy and can be considered as a transition period. Thus the crisis of national developmentalism pattern was solved by the liberal development's pattern. In 1987, the Brazilian National Monetary Council took measures that initiated the liberalization of both commerce and financial accounts which were deepened in 1991. Those measures allowed Brazilian economy to accumulate foreign exchange reserves which would be used later as anchor to the national currency exchange rate.

The roots of economy's transformations on the next decade were seeded during the 1980s; the contract's indexation was kept by the high interest's rate and also the patrimonial wealth's polarization in its decaying industrial form and in ascending financial form. After reestablishing the conditions for international capital flows – known as the Brady Plan (1989) in which Brazil took part on 1994, slightly before the Real Plan – by transforming public debt on international securities, the new linkage with patrimonial wealth was not only guaranteed by interest rates but also to the securitization of public debt. Hence the State's permanent obligation to national bond's owners – an inversion of Keynes' public debt concept. In exchange, Brazilian patrimonialism should synchronize its real profits to world's inflation to allow international flows and economic global searching for yields of money manager capitalism.

At the Real Plan success on updating – once more – patrimonial wealth now on financialized capitalism, Brazilian State had created a double self-enforcement. Firstly, interest rates of public debts must not be only the resulting liquidity preference, but a real standard of patrimonial wealth. Secondly, the indexed quasi-money that survived the 1980s was metamorphosed on financial funds and on saving accounts, all of them with high liquidity and hierarchically based on interest rate of public debts. That phenomenon exceptionally constrained Monetary Authority's capacity in executing monetary policy. For the interest policy must provide a minimum financial remuneration to compensate the profitability loss that the Brazilian banking system would have with the end of the inflationary process. The lost of banking receipts originated from speculation between the financial and the real national monies would impact negatively in the banking profitability. That easy money provided by the inflationary process hid the existence of high operational and patrimonial costs in these institutions.

The Brazilian financial system is restructured after the Real Plan. There was an internationalization of the banking system, but only few international banks could adapt their activity to the Brazilian particularities and survived in the patrimonial financial system. Several regional banks were privatized, though the biggest national banks as Banco do Brasil, Caixa Econômica Federal and Banco Nacional de Desenvolvimento Econômico e Social (BNDES) were kept in the hands of State. Also there is a concentration process, many small banks went to bankruptcy or were bought by the stronger and bigger ones. During this period, however, Brazilian private banking profitability is kept at high levels, especially when compared to international basis. Since their full adaptation to the Basel Agreements, which started in 1994, private banks managed to keep both their leverage below the ceilings allowed by the Basel Agreements and their Basel index above the minimum required[15].

After the Asiatic financial crisis in 1997, the Brazilian pact between patrimonialism and State took a step forward. In 1999, the Macroeconomic Stabilization Plan reassured the centrality of financialized patrimony by objectively obligating not only the Monetary Policy, but also Fiscal Policy to public debt securitization. The obligation of State to financial patrimony was now based on a triad of: Primary Surplus; Inflation Targeting and Floating Exchange Rate. In all kinds of external combinations, that triad has always managed to put Brazil on the 5% top real interest rate of the world, not for the risks taken by international capital to invest in peripheral soils, but for the internal success of patrimonialist wealth in Brazilian's social dynamics, thus the consolidation of national State Money, the Real.

That success on updating patrimonial wealth leaded to a new growth cycle, subordinating domestic industrial forces but also allowing an extraordinary distribution of wage income in Brazilian society. That singularity on Brazilian development – to match economic growth with wage income distribution – is the positive part of an even more profound updating process of patrimonialism. For it was not only capable of reinventing itself on finacialized capitalism by merging with high interest-indexed public debt, but was also able to reintegrate Brazilian society on

[15] (FREITAS; 2006)

an internal market of mass consumption process. Patrimonialism could've assumed another guise on Brazilian society: the late-night "Brazilian *New Deal's"*[16].

The "Brazilian's New Deal" would be made of three big pillars. First, the economic growth based on price stability and wage income distribution. Second, the tropical consolidation of Welfare State based on universal social security and on the affirmation of representative democracy. And third, the consolidation of a mass consumption internal market. As a consequence of this process, in 2003, starts a cycle of credit expansion by the banking system, resulting from interest rate fall (which remains high but smaller than it were in the previous period), better expectations about the future (due to the price stability) and the increase in wages. This credit ascending participation on the bank's assets increases even more banking profitability[17].

The first round of Brazilian's *New Deal* was taken when the patrimonial finacialized system had finally stabled, at the beginning of the 21st Century. Real economic growth could now be channeled to structuring areas of economic activities, away from the growth pattern of the 1990s. In dynamic terms, capital accumulation moved from the defensive areas of the international realignment to the offensive areas of international competition and, at the same time, moved internal sectors that had been forgotten since the last days of national developmentalism. The biggest economic groups, profoundly based on patrimonialist financial wealth, had the opportunity to try a little less softly on the advantages of having a dynamic and crescent internal market. International competition, moreover, allowed Brazil to accumulate foreign exchanges reserves that represented a first turning point from a traditionally borrower country to a lender country, something that had an enormous cultural impact on Brazilian society.

When the USA's financial crisis went global, it surprised Brazil. At 2008, the economic scenario could have indicated that patrimonial financialized wealth had its days counted. That wasn't true and some preliminary ideas on why Brazilian's *New Deal* could so far survive money manager capitalism crisis will be discussed on the next item.

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[16] The term "Brazilian's New Deal" is taken in its imaginary sense and follows the sociological propositions of André Singer, presented in (SINGER; 2009) and also in (SINGER; 2011).
[17] (FREITAS; 2006)

3. The financial world crisis of 2008 and new ideas for regulation in patrimonial societies

When USA's subprime mortgage crash triggered the 2008's world financial crisis, economic expectations in Brazil tended to realize that the crisis would abruptly stop the recent cycle of financialized patrimonial capitalism growth. National private banks in Brazil, the managers of financial patrimony, rapidly responded to international credit crunch by a brutal internal credit retraction, signalizing that patrimonial wealth should be once more protected by turning itself more on public debt and less on credit market.

As circumventions activities evolved during the USA's financialization, that was not a particular reality of Brazilian banking system – since the high interest rate blocked the banking necessity of financial innovation to increase yields. A credit crunch in Brazil done by private banks was not seen as a big economic problem as it was in USA, but a consequence of patrimonialism choice to protect itself from potential losses caused by uncertain expectations. Nevertheless, Brazilian society had resources to fight this crisis without entering on the realignment of both real and financial global wealth stocks.

Brazilian policy makers had been helped by the earlier protection of the financial system. As pointed above, there was no need for the Brazilian banking system to create financial innovations to search for yields. The public bonds securities, differently from the United States case's, has always provided large gains to the Brazilian baking system and has always been a significant part of Brazilian banks assets. Just after the Real Plan the relative importance of public debt securities on the banking assets had even increased[18].The increase in the credit offer by banks from 2003 was due to the innovation of collateralized credit in wage gains, which is a very safe modality of credit. Brazilian private banking system managed to keep its soundness since the restructuration that followed the Real Plan.

The range of Brazilian policy makers' action to fight the crisis, though, could not put patrimonialist wealth in jeopardy. Hence the necessity of reducing interest rates was rapidly forced to step-back when the rate reached the bottom of quasi-monies hierarchy. When public debts interest rates reached the saving accounts profitability, financial patrimony managed to stop this evolution, or else Brazil could have entered on a serious losses on financial funds.

Ironically, the alternative to this monetary policy's limit was for Brazilian State a way to circumvent patrimonial wealth restrictions, using two policy instruments. Firstly, Brazilian government increased all public banks' credit for both long terms investment project and short term consumption. Secondly, it surprised society with a strong fiscal policy by raising real social

[18] (FREITAS; 2006)

expenditures, lowering primary surplus target and making a temporary tax reduction on industrial commodities. All hopes were faced to the domestic demand created by the late New Deal; and it corresponded to those expectations. By the beginning of 2009, international crisis was not anymore a trouble to Brazilian real economy, but its secondary consequences still continues.

When the reputation of Brazilian real economy seemed cleared of any taint of suspicion by the financial crisis, an incredible amount of international portfolio capital came in seeking for the same profitability guaranteed for patrimonialist wealth. That's the final possible observation on this article. Accordingly to gross capital inflows to Brazil, when the real valorization risked one of the fundamental bases of patrimonial financial wealth – its international competitiveness – it opened the door to financial reform. This necessity of reform is grounded on the possibility of another uncertainty wave of the financial crisis can arrive in Brazil. This reform could finally regulate interest rates to the bottom down of quasi-monies hierarchy and breaking the barrier of saving accounts interest rates' standard, though the endogenous forces of Brazilian patrimonial capitalism probably will take it to its renewal and its reinvention, searching ways to adapt to the new macroeconomic structures and acquiring higher profitability than it had in the previous period.

Final considerations:

This paper aimed to point out that the Brazilian patrimonial based financial system could ironically prevent the country's economy to enter in a profound recession. As it has been argued, the roots of the global financial crisis of 2007, was a consequence of financially innovative practices started by the American banking system to recovery their profitability and survive on financial competition. Those practices spread around the financial system and evolved through time. They made financial institutions to initiate in even more risky activities which drove the American financial system to the present crisis.

The opposite path was taken by the Brazilian financial system. Those innovative practices could not spread in Brazilian soil. Not because our regulatory mark is better or worse than the American's, but because in patrimonial capitalist societies the profitability of the property owners cannot be threaten. The Brazilian State, through Monetary Authority, since the new developmentalism' crisis, guaranteed the lucrativeness of banking system, determining the profitability of their assets by setting interest rate at high levels. This created a protection over the Brazilian financial system that prevented it to deepen in the financial crisis. At the same time in

History that American financial system was becoming fragile the Brazilian one was becoming stronger. But the reasons those parallel processes were happening have to do with the different financial history designed in each different social structures.

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