Brazil: how Covid-related relief policies inaugurated a new cycle of household indebtedness

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Abstract

This work supports the hypothesis that the coronavirus pandemic has accelerated structural changes in the complementarity between social and economic policy, leading to the emergence of new forms of state intervention in the sphere of social reproduction. One of them, household debt. Such one-off but high-impact measures, backed up by extraordinary anti-pandemic budgets, should be interpreted not only as an effective response on the scale required to face an acute crisis that has stalled the world economy. They consolidate a set of regulatory policies that have multiplied since the 2008 crisis, and whose characteristic is to reset the cycle of structural indebtedness, based on the dynamics of debt reproduction, an axis of accumulation in financialized capitalism. Brazil serves as example. This cycle of indebtedness is expressed in the triad suspension-renegotiation-expansion of debt that progressively redefines the content of what constitutes the new dimension of social protection that workers, popular sectors, and society claim from the State. What is peculiar is that this cycle is gaining traction due to the imperative need to ensure the expanded reproduction of fictitious capital, momentarily threatened by the risk of a systemic default.

Keywords: social policy; coronavirus pandemic; financialized capitalism; household debt

1. Introduction: Indebtedness, the social question of the 20th century

Among the profound changes that redefine patterns of social reproduction in the first decades of the 21st century, the recourse to indebtedness is, without a doubt, a crucial dimension. Still, even today, the degree

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of household indebtedness[4] to the financial sector rarely appears as a relevant social indicator, except in the scope of studies about financialization. Unemployment, labor precarization, income levels, working hours, and poverty are rarely measured against household indebtedness rates and the role of debt in the erosion of well-being.

It bears emphasizing that this lapse did not block advances in characterizing the global explosion of private household debt as a human rights violation. Indeed, in 2020, the United Nations General Assembly published a report addressing the problem of debt with unprecedented concern. Stressing that "private debt can be both a cause and a consequence of human rights violations" (United Nations 2020:2), the report identifies various forms of family and individual debt that result in an over-indebtedness, understood as debt for which payments (and costs associated with them) would entail the privation of resources necessary for the borrower to sustainably make use of the entirety of his or her inherent human rights.

This helps explain how indebtedness has become an essential dimension of the social question of the 21st century. Its origin is subsequent to the financial deregulation of the late 1980s, which was accompanied by countless reforms to labor laws and social protection systems beginning in the 1990s and, notably, during the 2000s. The consequences of these steps are well known: the growing precarization of work, the trend of near stagnation of wages, the reduction of public social provision (with restricted scopes of rights, reduced benefit values, and tightened eligibility criteria and conditionalities), and the restructuring of the sphere of social reproduction via gradual increases both in commodification and in the costs of goods and services needed to fulfil basic needs.

A trait of financialized capitalism, household debt (Fine & Saad-Filho 2016; Palley 2013) around the world grows significantly throughout the 2000s, a period in which austerity marks macroeconomic policies and has an even more negative impact on social policy and labor market dynamics. As can be seen in Brazil (Lavinas 2017), household debt increases during periods when employment and even income are rising, as well as in more recessive scenarios. This suggests that debt has become a structural element of labor force reproduction that is almost indifferent to the macroeconomic context.

It is through loans from the financial sector that social reproduction is guaranteed. In several countries, this linkage was facilitated by the growth of financial inclusion policies (Mader 2015; Lavinas 2018) that permit access to various types of financial products including consumer credit and other credit lines, and

[4] According to the Central Bank of Brazil, "indebtedness is the relationship between the current value of household debts in the national financial system and the households' accumulated income over the last 12 months."

which are tailored to a growing gamut of needs that are uncovered by public provision. As the UN report on household debt emphasizes (2020), rising costs of health, housing, food, and education, together with cuts or reductions in benefits and social policies, create a pressure for liquidity that can only be obtained in the credit market. "Taking out loans has become a key mechanism for social reproduction" (Bohoslavsky 2021:6).

Access to credit and, therefore, to debt, entails the promise of social mobility, particularly through access to property, be it housing or financial assets. This produces changes that are not only objective, but also lie in people's subjectivities. Lemoine and Ravelli (2017) point out that "the fallback to credit serves as a lever for mobility, and thus permits what could be called a [social] class repositioning through debt" (p. 7).

Multilateral organizations have compiled data showing that in advanced economies as well as in emerging economies and developing countries, household debt constantly rises. Organization for Economic Cooperation and Development (OECD) data[5] from 36 countries show that in recent years, the debt to disposable household income ratio[6] varies between over 50% (Brazil) and just over 250% (Denmark). In parallel, the OECD reports that outside China, where the level of household savings[7] has grown in the 2000s and corresponds to more than 35% of disposable income in 2019, in other countries, with few exceptions,[8] it is situated at lower than 10% over the course of the last two decades.

Household debt appears in quite heterogeneous patterns from country to country. In the advanced economies, mortgages tend to be the predominant form of indebtedness (more than 50%), while in developing countries, consumer credit prevails (over 2/3) (IMF 2017). In the former countries, easier access to international financial markets also feeds private individual and household debt. In the latter, the process of financial inclusion appears to offer means for short-term survival, which are renewed in an unending cycle, at the price of having interest embedded in the cost of social reproduction.

In the first decade of the 21st century, the World Bank advocated for the creation of inclusive financial systems (World Bank 2008) in order to equalize opportunities and reduce inequalities in the long term.

[5] https://data.oecd.org/hha/household-debt.htm#indicator-chart (accessed on 4/15/2020)
[6] The OECD defines household debt as the totality of liabilities (including with nonprofit institutions that attend to households) that demand payments of interest or principal to the creditor by the households at an already-fixed future date. The debt is calculated as the sum of the following liabilities: loans (mainly mortgages and consumer credit) and other outstanding balances to pay. The indicator is calculated as a percent of household net disposable income.
[7] https://data.oecd.org/hha/household-savings.htm#indicator-chart (accessed on 4/15/2020). The OECD defines household net savings as the balance that results when final consumption expenses are subtracted from net disposable income.
[8] Australia, Germany, Mexico, the Netherlands, Sweden, and Switzerland in the 2018-2019 period

However, by 2017, the International Monetary Fund (IMF) warned that the continuous and substantial rise in household debt could threaten financial stability, generating a bank crisis as well as compromising future private consumption and, thus, economic growth. It also pointed out that households' growing vulnerabilities from being over-leveraged in loans would put them at risk in the case of an external shock. This is partly because low-income families, whose insertion into financial circuits shot up after the 2008 crisis, have registered a strong increase in their levels of indebtedness without experiencing an accompanying rise in their net assets. They tend to take out loans to finance their current consumption rather than to expand their household assets. But whatever their debt holdings, debt household matters to financial fragility (Leclaire 2021), be it for financial markets or for the overall well-being of people. Furthermore, the costs of social reproduction weigh even heavier, as those costs now include remunerating interest-bearing capital.

This article sustains the hypothesis that the coronavirus pandemic has accelerated structural changes in the complementary relationship between social policy and economic policy, leading to new forms of State intervention in the sphere of social reproduction. These measures, which are point-specific but carry great impact, tied to extraordinary budgets, should be interpreted not only as an effective response at the scale needed to confront a crisis in which harsh confinement and physical distancing rules paralyzed the global economy and blocked the labor market's regular functioning.

The measures consolidate an ensemble of regulatory policies that have multiplied since the 2008 crisis. These policies' major aim is to reinforce the cycle of structural indebtedness—grounded in the dynamic of debt reproduction—that is one of the pillars of accumulation in financialized capitalism.

This cycle of indebtedness is expressed in the trio suspension-renegotiation-expansion of debt that gradually redefines what constitutes the new dimension of social protection that workers, low-income groups, and society in general call on the State to provide. What is peculiar is that this cycle gains traction, on the one hand, with the advance of social struggles that in countless countries call for the cancellation of household debt to halt reiterated processes of financial expropriation (Lapavitsas 2013) to which they are submitted, and, on the other, through the absolute necessity of guaranteeing the expanded reproduction of fictitious capital, momentarily threatened by the risk of systemic default.

To show how large national economic rescue packages, so celebrated in the first year of the coronavirus pandemic, have reconfigured the institutional framework of social protection policies, this article will take Brazil as an example, analyzing the set of emergency measures that came to reestablish and stabilize the cycle of household indebtedness. We examine what occurred in the Brazilian credit market,

distinctive for simultaneously experiencing increased household debt and a decrease in defaults. We offer interpretive keys for understanding this unprecedented moment. The conclusion reflects analytically about the new nexuses that financial capital establishes with the sphere of social reproduction and labor. And it suggests pathways for further investigation in order to understand the role of social protection systems in this century that is so turbulent and threatened by unusual global risks stemming from the climate crisis and the imminence of new, highly disruptive pandemics.

2. Covid-19: new connections between social policy and debt

The external shock occurred in 2020, though this time it did not originate in the financial sector. The Covid-19 pandemic provoked an unprecedented economic, social, and health crisis and imposed a drastic change in economic policy. The fiscal and monetary orthodoxy that had dammed up public spending, inhibiting social policy's efficacy, was loosened. Not only was the public deficit freed of the tethers that would have kept it from financing the fight against the new coronavirus, but also governments adopted rescue programs on an uncharted scale and provided income transfers to households, job and income maintenance packages, special credit lines to businesses to keep up their payrolls, financial transfers to subnational governments, and emergency funds for health and food security. Central banks have been mobilized to guarantee the liquidity needed for the rescue and for heightened stimulus to economic activity, bringing interest rates to zero or near it and providing giant credit flows, while a storm came crashing down in financial markets, where shares suffered sharp depreciation.

If there is something in common among all of these initiatives that reposition the State in the eye of the hurricane, it is that they are boosted, in the field of social provision, by "*ad hoc*" measures that have been quite generous but that lied on the margin of existing welfare systems debilitated by years of chronic underfinancing (Lavinas 2021). Preliminary studies suggest that the federal stimulus packages to the tune of billions and trillions, adopted in countless countries, contributed this time to significantly reducing household indebtedness levels and default rates.

This is to the contrary of what happened in 2008, when the bailout prioritized saving the financial system. The extension of payment terms and expansion of benefit values and unemployment insurance coverage, as well as the provision of unconditional monetary transfers to poor and low-income households, irrigated societies at a level much higher than the traditional safety nets. Another common measure during the pandemic was the temporary suspension of debt payments (moratoriums) in order to avoid a spike in defaults, which would worsen an already worrying scenario.

In the United States, for example, Cherry et al. (2021) observed that between March and October 2020, in the midst of the first fiscal stimulus package, legal measures for debt forbearance with the financial sector involved loans to the order of US$ 2 trillion in mortgages and student credit. Around US$ 70 billion in payments to the financial sector were deferred between the second quarter of 2020 and the first quarter of 2021. At the same time, as part of income guarantee programs introduced by the Coronavirus Aid, Relief, and Economic Security Act - CARES Act,[9] payments made directly to households and supplements to unemployment benefits[10] (in addition to changes in rules on student credit and medical debt) (Lavinas 2021) allowed default rates to fall to levels lower than those prior to the eruption of the pandemic, as many people used fiscal transfers to reduce their liabilities. Therefore, to the contrary of what happened in the 2008 subprime crisis, when the default rate on real estate loans jumped from 3% to 8%, this time a drop from 3% to 1.8% is observed (Cherry et al. 2021).

In the American case, a different pattern occurred among people who benefited from debt forbearance—predominantly the population with lower incomes and lower credit scores, with overrepresentation of minorities—than among people who, thanks to fiscal transfers—such as unemployment payments and other income supplements[11]—and the savings made during lockdown from reduced household consumption were able to reduce their debt and degree of default. The debt relief programs mostly favored Americans with above-median per capita income.

In several European countries, the same legislative pattern could be seen. These include Spain[12] and Italy,[13] which established different emergency measures to contain the crisis, including the suspension and renegotiation of household and corporate debts on a national scale. In the examples cited above, the State intervened in the regulatory framework of debt suspension and renegotiation, widening the scope of public policies.

In Brazil, the Emergency Assistance program,[14] which lasted for eight months between April and December 2020, was also enacted to compensate for income losses among the neediest population and

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[9] The CARES Act of March 25, 2020 was a bipartisan bill encompassing a wide array of provisions, from loans to labor-related assistance, direct payments to families, changes in student loan rules, and health expenditures. (https://home.treasury.gov/policy-issues/cares/assistance-for-american-workers-and-families, accessed on 7/29/2021)

[10] The unemployment rate in the second quarter of 2020 reached 15% (Cherry et al. 2021:3).

[11] 60% of direct monetary support paid by the State went to indebted Americans with above-average individual income.

[12] Royal Decree-Law 8/2020, https://www.boe.es/buscar/pdf/2020/BOE-A-2020-3824-consolidado.pdf (accessed on 7/29/2021)

[13] Decree-Law n. 18/2020, https://www.gazzettaufficiale.it/eli/id/2020/03/17/20G00034/sg (accessed on 7/29/2021)

[14] Law 13,982 from April 2, 2020 establishes exceptional social protection measures and incentives for economic activity to be adopted during the public health emergency period corresponding to the coronavirus pandemic. And it creates the Emergency Basic Income Program. A "war budget" was adopted at the value of R$ 604 billion (US$ 110 billion), with R$ 293 billion (US$ 58.5 billion or 48.5%) destined for direct monetary payments. About this, see Bahia et al. 2021.

informal sector workers. It guaranteed that the jobless were largely and substantially supported for the first time.[15] The program reached approximately 67 million people and, given the unprecedented scale and value of the benefit,[16] it appears to have also mitigated the financial stress of indebted households. This program corresponded to 4.1% of Brazil's 2020 GDP. The country had never spent as much on welfare programs[17].

As in the United States, there were positive effects on household debt reduction. According to Serasa Experian, for the first time since 2018, there was a drop in the amount of people in default. In December 2020, 61.4 million adults were delinquent (31.2% of the adult population[18]), down from 65.9 million at the beginning of the pandemic (April 2020). That is, four and a half million adults resolved their financial situations, the result of a 12.2% decrease in the amount of overdue debt, mainly to the financial sector.[19] However, this trend of falling delinquency did not continue in 2021, as the Emergency Assistance program was suspended for five months, and, when it was temporarily resumed, the government cut its benefits to a quarter the original value, strongly reducing its coverage.[20] As a consequence, the number of those in default has risen again, reaching 62,9 million or 39,5% of the adult population in April 2021, while the amount of the average per capita debt has soared as well (approximately R$ 3,900.00 or USD 710).[21]

Given the gravity of the health and economic crises, with unemployment over 14%, these shifts would not have been possible without an unconditional income transfer program alongside interest rates that were exceptionally low for Brazilian standards, as well as large-scale debt renegotiation programs launched by private financial institutions. Data from the Central Bank of Brazil (2021) confirm that, mirroring the United States, in Brazil new credit lines as well as household debt extension programs (for

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[15] In Brazil, unemployment insurance offers quite restricted coverage due to its eligibility criteria, which call for a minimum of two years of contributions from formal sector workers and exclude informal sector workers.

[16] For five months, the value of the monetary benefit ranged from R$ 600 (around US$ 120) to R$ 1,200 (US$ 240) in the case of women heads of household (11 million were included). All adults aged 18 and over with per capita household incomes less than half the minimum wage were eligible. Over the following three months, the benefit value was reduced by half in both cases. For the sake of comparison, in 2020, the nominal minimum wage was R$ 1,100 (US$ 220) and the average monthly benefit from the anti-poverty program Bolsa Familia was R$ 187 (US$ 38), paid to 14 million families. Bolsa Familia does not offer an individual benefit, but rather a family one.

[17] The paramount Bolsa Familia Program's annual spending has never surpassed 0.6% of Brazilian GDP.

[18] Brazilian Institute of Geography and Statistics (IBGE), Sidra, 2019, population aged 16 and over.

[19] https://www.serasaexperian.com.br/sala-de-imprensa/noticias/inadimplencia-no-brasil-cai-pela-primeira-vez-em-quatro-anos-e-encerra-2020-com-614-milhoes-de-pessoas-revela-serasa-experian/ (accessed on 7/29/2021)

[20] The second phase of the Emergency Assistance Program was implemented for six months, from May to October 2021. The value of the benefit fell to R$ 150 (from R$ 600 previously), or around US$ 27 per month. The maximum value fell from R$ 1,200 to R$ 375 (US$ 75). Only 58% of the recipients of the first wave of the Emergency Assistance Program were covered.

[21] https://g1.globo.com/economia/noticia/2021/05/27/16-milhao-se-tornaram-inadimplentes-em-2021-diz-serasa-experian.ghtml

individual taxpayers) without interest rate renegotiations were enacted. Between mid-March and December 31, 2020, the amount in play was almost R$ 60 billion (US$ 12 billion).[22] In addition, Congress approved a law that temporarily suspended student debt payments for FIES, a federal program for financing private higher education.[23] According to the most recent available data, from December 2020, there were one million contracts in default (35% of the total).

3. Over-indebtedness: how to measure it

Mounting household debt and the risks that arise from it, both to families' immediate reproduction and to the accumulation regime, have prompted analyses focused on the definition, measurement, and determining drives of what has come to be known as over-indebtedness. In truth, there is nothing more imprecise than seeking to establish standards for the burden that a debt imposes on individuals and households, given that taking out a loan might be due to the expectation of higher future earnings or simply be a means to acquire assets for which future appreciation can mean greater socioeconomic security. Thus, going into debt is not a problem in and of itself, although it can become one.

Furthermore, debts can be contracted due to the inability to pay regular bills and invoices that are not directly linked to the financial sector, bringing with them delays that could put livelihoods at risk and introduce or aggravate downward social mobility and loss of status.

The literature about over-indebtedness frequently cites the definition adopted by Germany, which describes it as a situation in which household income, "in spite of a reduction in standard of living, is insufficient to cope with all payment obligations over a relatively long period of time" (Fondeville et al. 2010:3). In the United Kingdom, over-indebtedness is conceived of as a series of overdue payments that gain a structural dimension or is on the verge of becoming structural (Oxera 2004). This entails considering all household liabilities and not only those that come from one type of debt (for example, payments on a loan). "Over-indebtedness reflects the inability to pay for current spending and, consequently, should be seen as a continuous rather than a temporary or one-time state of affairs" (Fondeville et al. 2010:4).

This temporal dimension is emphasized by Disney et al. (2008), who write that over-indebted households are those for which planning for costs associated with taking out credit is inconsistent with potential future income flow, even taking into account the current value of their assets. However, the authors point

[22] A value that represents 40.6% of all the deferrals and renegotiations.
[23] A 2020 law suspended payments due to FIES (Student Financing Fund) until December 31 of that year because of the Covid-19 pandemic.

out that there are also much looser definitions, such as those of Betti et al. (2007), which are subjective in nature and identify over-indebted households as those who say they struggle to make payments either on mortgages and consumer credit. This definition is a result of the application of surveys and reflects individual and household perceptions about the degree of financial stress experienced at a certain moment in time.

In Brazil, the National Confederation of Commerce (CNC) uses that methodology to estimate the share of indebted households, inquiring how they evaluate their capacity to make payments given the size of their liabilities for which payments are owed. Since 2010, the Survey of Consumer Indebtedness and Default (PEIC) applies a monthly household questionnaire containing "yes or no" questions and scales in order to identify the share of households that declare themselves indebted, the types of loans they have taken out, the magnitude of household income committed to debt, and the percent of people in default, if any exist. This offers, rather than a precise and ex-ante definition of over-indebtedness, families' responses along a gradient which contextualize the weight of their debts and the degree of their indebtedness.

The scale used to draw up the profile of the indebted and over-indebted tends to establish levels of household income committed to debt payments. On the part of financial markets, which closely monitor potential borrowers' creditworthiness and levels of solvency, the metric, though not rigid and linear, establishes some standards. Contracting a debt that requires up to 35% of disposable household income is seen as relatively safe, as it allows the debtor to experience some negative income variation without major losses. In the United States, until the beginning of 2020, financial institutions that granted loans applied the 43% rule[24] as a standard limit on the debt to disposable income ratio. People for whom payments would surpass that level become automatically ineligible for loans.

In Brazil, with the unfolding of the financial inclusion process associated with the large increase in credit made available to families over the 2000s, consumer defense organizations grew interested in the risks and consequences of mass indebtedness (Lavinas et al. 2019), calling for new regulations that would protect those who took out loans and establish parameters for revising and renegotiating debts. After almost ten years of being stalled in Congress, in June 2021 a new consumer defense law was approved that seeks to "perfect the discipline in offering credit to consumers and provide for the prevention and treatment of over-indebtedness" (Senado Federal 2021:2) as well as for consumer financial education. It

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[24] https://www.incharge.org/financial-literacy/how-to-calculate-your-debt-to-income-ratio/ (accessed on 7/29/2021)

is clearly responding to a trend that did not subside during the pandemic: household debt remains on the rise.

The recently-approved law states that over-indebtedness is the "clear impossibility for the consumer, a natural, good-faith person, to pay the totality of their consumer debts, due and enforceable, without compromising their existential minimum" (Senado Federal 2021:4). However, it does not clarify what "existential minimum" means. It lists a set of guidelines[25] that should (or should not) be included on any and all offers of consumer credit and legislates on the mechanisms of debt renegotiation in the case of over-indebtedness. The legislation, however, does not apply to debts contracted through real estate loans or to rural credit. Furthermore, after being enacted by the president, the law establishes a maximum five-year term for debt payments. It also eliminates a cap on the share of household income that can be committed to payments on outstanding debts, which appears to run contrary to the principle of preserving an "existential minimum."

The Central Bank of Brazil was equally concerned, and thus introduced the concept of at-risk indebtedness (2020) based on the concurrent comparison of four indicators.[26] The Bank classifies it as a situation in which "the citizen has a volume of debt that is above their ability to pay, and for which the persistence and low quality of credit harms the management of their financial resources, and, ultimately, their quality of life" (p. 7). The bank estimates there were 85.3 million Brazilians (one out of every two adults) indebted to the financial system at the end of 2019.

Amid this context of high and growing indebtedness, across the world, several movements aimed at total or partial debt relief or debt cancellation emerge. The first type aims to renegotiate debts through either extending payment terms or through changing features of the debt contract. It usually is a result of individual appeals to specialized private entities, with a focus on the intermediation between debtors and creditor institutions, or of government measures that aim to massively restructure liabilities for a large part of the population.

The pushes to cancel debt, for their part, are strategies of collective struggles that grow stronger as social vulnerability increases for people who took out loans with the expectation of moving up the ladder of social mobility. The prospect of cancellation policies, however, faces resistance from creditors who are

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[25] Nature and modality of credit, incidental costs, consequences of default.

[26] They are i) defaults on payments of credit installments, exceeding 90 days; ii) simultaneous exposure to three modalities of credit: overdraft facilities, non-consigned personal credit, and revolving credit; iii) commitment of more than 50% of income to paying debts and their services; iv) a level of disposable monthly income that is less than the current poverty line after debt payments.

not disposed to annul individual debts. The interest payments and fees on already-approved credit are, almost always, the main source of revenue that influence their financial results, making cancellation much more drastic from the viewpoint of these institutions (Kagan & Brock 2021). In addition, this type of precedent could be seen as an incentive to strengthen movements in favor of debt abolition, which, in creditors' views, makes the entire system of consumer credit more fragile.

4. Obstacles to debt cancellation

Why does it appear almost impossible to make debt cancellation a reality? The concept of a debt involves two actors: a creditor transfers an amount of resources to a debtor, who commits to returning them at a future date, in addition to interest on the amount owed. With this, debt is a component of the creditor's assets and the debtor's liabilities. Necessarily, the cancellation of the debt entails gains for the debtor, as it reduces their liabilities, and losses for the creditor, as it reduces their assets. It is important to emphasize that under these conditions, it is easy to identify those who suffer from the consequences of cancellation, as well as its repercussions (relative to the magnitude of the value to be repaid, depending on the specific conditions of the debt).

This is, in general terms, the typical behavior of commercial banks, which create debt contracts with other entities. In the past, those contracts remained on those banks' balance sheets until the total value was paid off. Under those conditions, the remuneration of the creditor occurs through the payment of the debt service, consisting of the debt's principal value plus interest. However, financial innovations, especially securitization and derivatives, led to changes in this scenario, with unfavorable implications for debt cancellation proposals.

Generally, securitization is the process that makes previously non-negotiable assets negotiable, essentially creating secondary markets for flows of future payments of any kind (IMF 2015). With this, in carrying out a credit operation, the creditor has the option to retain this asset in their portfolio, earning interest through debtors' payments, or to transform this debt contract into a bond (a security) to be negotiated on the financial market. In this case, the remuneration shifts to being composed by fees and commissions charged for the placement and sale of this security and by the transfers of the debtor's payments to the new holder of the security. It is what Lapavitsas (2009) calls the banking model of "originate to distribute."

This possibility has serious implications. First, by securitizing the debt and selling the asset, the creditor recoups its resources more quickly, allowing an increase in the speed of loan concessions and in the

amount of resources lent. The securitization therefore widens liquidity, by transforming all kinds of different loans, which were characterized by being illiquid, into securities to be traded.

Secondly, securitization allows for the transfer of risk to other actors. That is, the relationship of indebtedness is created by the entity that originally made the loan, but it is perpetuated between the borrower and whichever agent holds the security corresponding to the debt, be it a person, investment bank, pension fund, company, or otherwise. Thus, it becomes less evident which agents would suffer the direct impacts of debt cancellation. The result is a social dispersion of risks and the relaxation of criteria used for loans to be made, given that the risk of default is transferred.

Finally, in addition to the flow of payments associated with paying off the debt, securities also involve the possibility of capital gains, introducing a speculative element into the debt title. With this, financial profits grow.

Derivatives, for their part, are financial assets for which the existence and value come from a benchmark, which could be an indicator, a good, or a financial asset (IMF 1998). In spite of this relationship between the derivative and the benchmark, operations involving derivatives do not require that one of the parties be the owner of the asset in question, nor that one of them be involved in the operation (Bryan & Rafferty 2006). This means that as soon as an operation occurs that converts a debt into a security, many other securities can be created, involving other entities in that operation. With this, there is a process of leveraging, as the original security, which serves as a benchmark for the derivatives, becomes a reference for other contracts involving agents and resources at amounts much higher than the original operation (Bryan 2006). Consequently, debt cancellation has cascading effects, because it would lead to the cancellation of the derivatives based on that debt, amplifying and expanding the consequences analyzed at the beginning of this section.

Indeed, this set of events could bring catastrophic consequences upon the economy in the case that debt contracts lose value, as occurred in the 2008 financial crisis. On that occasion, the proliferation of mortgage defaults made the array of securities that involved those contracts and the derivatives based on them depreciate in value, causing severe drops in the assets of many different economic entities, notably financial institutions, and leading to the damming up of liquidity, to the contraction of credit, production, and income, and to overall recession. Thus, we can conclude that the effect on the combination of the economy's financial assets, which, due to their characteristics, would have severe repercussions on the real economy, would be sufficient to threaten the viability of debt cancellation (Lapavitsas 2009).

This, however, is just part of the response. It must be emphasized that with the benefit of ten years' hindsight after the 2008 crisis, we can observe that it did not act as a brake on the momentum of the financial markets, which recuperated intensely. This is to the contrary of the real economy, which suffered from erratic growth rates (Kose & Ohnsorge 2020). The possibility of debt cancellation, even when it is orchestrated so as to mitigate losses for the financial system (as were many of the measures following the 2008 crisis), leads to two impacts on the process of financial accumulation. Firstly, it presupposes State intervention of great magnitude. Once carried out, it modifies all of the institutional scaffolding on which the process of financial accumulation stands, with the power to alter it with negative consequences for the financial system's interests, as it puts society's interests (more specifically, debtors' interests) first. Hence, a dynamic consequence of debt cancellation is a change in the rules that drive the process of financial accumulation.

Additionally, as previously discussed, the alternative (that is, ways to preserve and inflate the value of the assets) is useful to the financial system once debt renegotiation is permitted, extending payment terms and raising the total value to be paid, and both increasing and drawing out the dependence of borrowers. This process also includes the essential support of the State through income guarantee programs, which allow for the continuity of payment flows associated with already-contracted debts (Lavinas 2020).

This financial "relief" (both through the State's monetary transfers to debtors and through delaying debts, freezing interest rates, and extending payment terms, which allows for a reduction in the value of installments) still allows for an improvement in the conditions of credit-taking, as it increases household revenue and has the State itself behind it as the underwriter of these income flows. With this, debt renegotiation as an alternative to cancellation allows the financial system more security, bigger earnings, and the possibility to continue the process of financial accumulation through the creation of new debts that will be securitized, and on which new derivatives will be based, deepening the financial sector's dominance and guaranteeing its role as a provider of basic necessities, bolstered by the State's collusion.

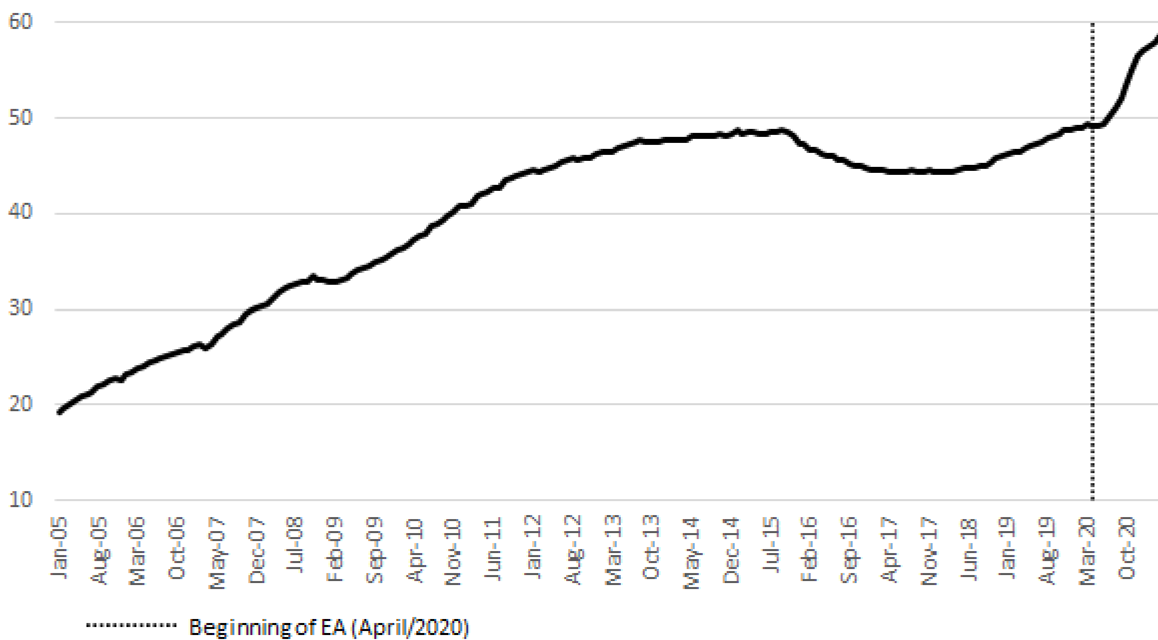
Finally, the moral disciplining that debt entails and the punishments that are built in if debtors do not honor their commitments cannot be omitted. The moral value that was previously produced through hard work is now substituted or complemented by the moral dynamic of debt, which is based in new forms of social control and domination (Lazzarato 2012). Individuals—hardworking or not, and regardless of their social status—shift to being judged by their relation to the financial sector, entering and exiting delinquency lists and having their credit scores monitored, which makes their access to the credit market more difficult or more expensive.

Therefore, abolishing debts would mean profoundly altering the asymmetric power relations between creditors and debtors in favor of the latter, even though these power relations are normally represented as "a technical and equal exchange of money" between two entities. Soederberg (2013) writes that "debt relations, seen as neutral [or classless] and natural [or inevitable]," when they are permanently reconfigured, "conceal the underlying relations of power, that is, inequality in all its forms" (p. 537).

5. Brazil: how Emergency Assistance functions for financial accumulation

As aforementioned, Brazil's biggest measure for economically supporting working people during the pandemic was the creation of an extraordinary income transfer program called Emergency Assistance (EA). Even with the enormous magnitude of resources that this program commanded, it was still unable to interrupt the ongoing rise in households' indebtedness. Figure 1 shows that the debt-to-income ratio of Brazilian households had fallen after the 2015-2016 recession and had begun to slowly rise again beginning in 2018. However, starting in April 2020 when the EA payments began, the ratio grew exponentially to reach a level that had not been seen in 15 years, that of 58.5%.

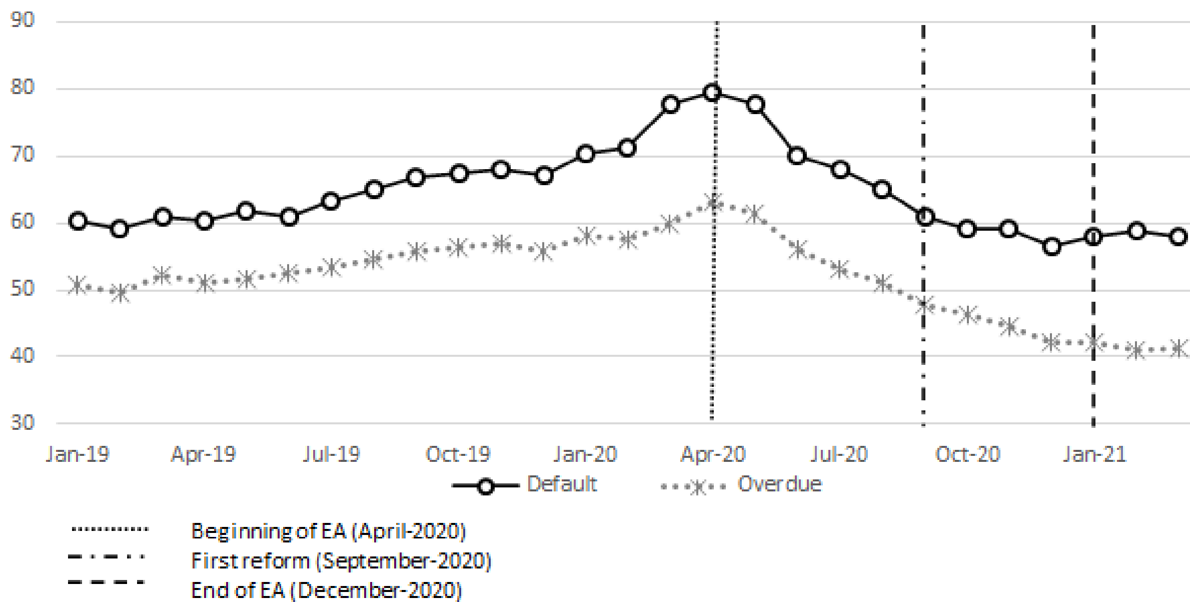
Figure 1 – Household indebtedness (% of income accumulated over the past 12 months)



Source: Central Bank of Brazil, Generator System of Temporal Series, Series 1982. Data from January 2005 to April 2021. Indebtedness: Relation between the current value of household debts in the National Financial System and household income accumulated over the last 12 months.

According to the Central Bank of Brazil, the trend of the extension of payment terms did not change. However, a fundamental shift occurred in the composition of outstanding household credit: despite the debt-to-income ratio uptick, there was a drop in overdue payments and in default rates. Consistent with Figure 2, both of these shifts occur in April 2020, concurrent with the beginning of EA transfers. More significantly, the total amounts of debt that are delayed or in default fall, in just a few months, to levels lower than those prior to the pandemic. Additionally, we can see that when EA is extended for the first time, with fewer people covered and the benefit amount reduced, the fall in overdue payments and default rates begins to slow, a process that becomes more pronounced by program's end in December 2020.

Figure 2 – Total outstanding credit payments overdue or in default (in June 2021 R$ billions)



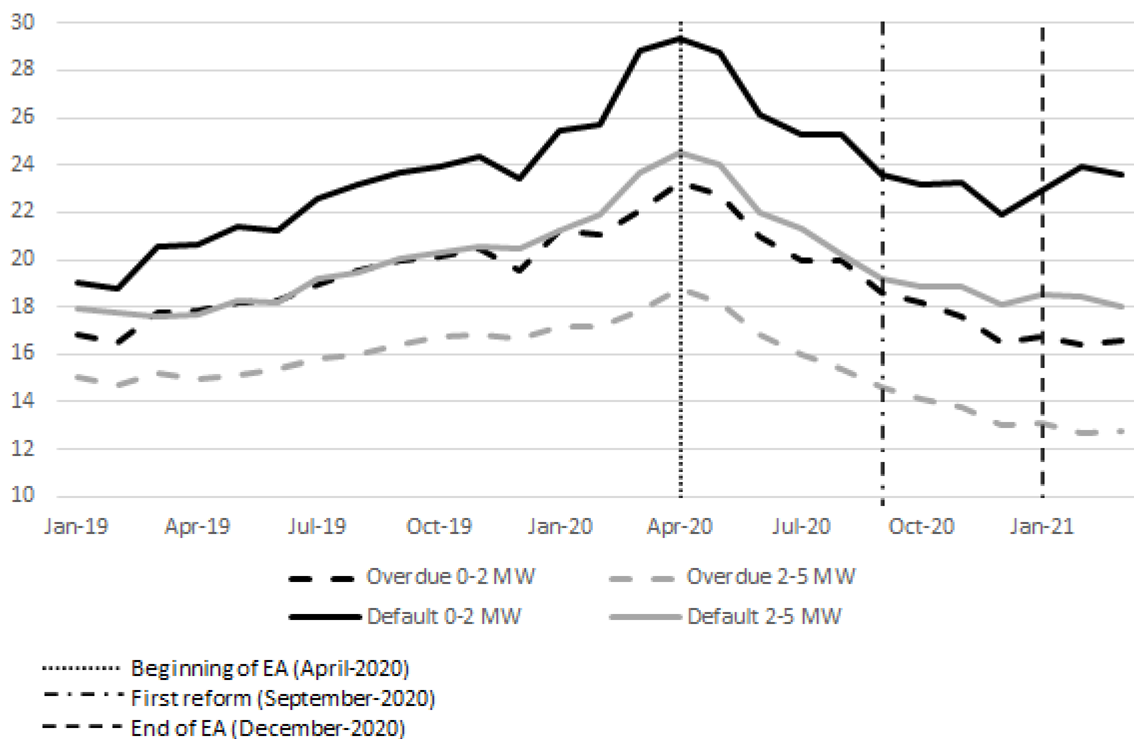
Source: Graph created by the authors. Data from the Central Bank of Brazil's System of Credit Information from January 2019 to March 2021, deflated to June 2021 prices according to the Extended National Consumer Price Index (IPCA).

Figure 3 shows that the drop in overdue payments and default rates was not restricted to the top income bracket, but was in fact principally due to borrowers with individual incomes of up to twice the minimum wage and of two to five times the minimum wage, who correspond to, respectively, 32.7% and 27.5% of the reduction in overdue payments and 32.1% and 27.9% of the fall in delinquency between April and December 2020. For borrowers earning up to twice the minimum wage, the total value of credit payments that were overdue or in default dropped by 29.3% and 25.2%, respectively, during that period. For those

with incomes between two and five times the minimum wage, these levels fell by 30.5% and 26.1%, respectively.

Analyzing the British case, Montgomerie (2019) writes that "it is people with relatively small debts who struggle and are most likely to experience harm from debt" (p. 31). As the data show, in Brazil as well, lower-income groups are the most dependent and at-risk because of indebtedness. This similarity suggests that the degree of financial expropriation tends to be inversely proportional to income.

Figure 3 – Total amount of credit for which payments are overdue or in default, per income level (in June 2021 R$ billions)



Source: Graph created by the authors. Data from the Central Bank of Brazil's System of Credit Information from January 2019 to March 2021, deflated to June 2021 prices according to the Extended National Consumer Price Index (IPCA).

The synchronization between the EA in its separate phases—providing enormous liquidity to households—and the renewed ability to take out credit is therefore notable. Moreover, the fact that low-income families were key participants in this process reinforces the idea of a robust relationship between the two phenomena.

Indeed, Table 1 reveals Covid-19's drastic effects on the labor market. Not only did the unemployment rate rise from May to November 2020, but also the labor share of per capita household income fell from 72.5% in 2019 to, on average, 64.3% by the end of 2020. Most of the drop was compensated by EA transfers, which corresponded to a total of 9.3% of household income on average.

Table 1 – Socioeconomic indicators: general population

	Monthly per capita household income (R$) (PCHI)	Labor share of PCHI	AE share of PCHI	Unemployment rate	Gini index
2019	1405.80	72.5	--	11.7	0.543
May/20	1226.82	63.6	9.4	10.7	0.492
Jun/20	1268.47	62.2	10.5	12.4	0.484
Jul/20	1304.90	62.8	10.7	13.1	0.476
Aug/20	1333.81	63.5	10.5	13.6	0.474
Sept/20	1343.44	64	10.2	14	0.474
Oct/20	1321.42	66.2	7.7	14.1	0.490
Nov/20	1297.99	67.6	6.1	14.2	0.497

Source: Chart created by the authors with data from 2019's annual Continuous National Household Sample Survey (PNAD Contínua) and from the Covid-19 National Household Sample Survey (conducted from May to November 2020). PCHI: Per capita household income.

Meanwhile, the data in Table 2 show that the effects were more intense for the poor.[27] Their unemployment rate rose to almost 45% (an average of 40.1% between May and November), while their labor share of income plummeted from 67.9% in 2019 to 35%. There were several months in which EA accounted for more than 50% of per capita household income, averaging 48% during the period in focus.

[27] Those with per capita household income less than US$ 5.50 PPP per day, the World Bank's poverty line for upper middle-income countries (the case of Brazil).

It can be concluded that it was only possible to maintain positive levels of household income, especially for the poorest, due to the extraordinary amount of government income transfers.

Table 2 – Socioeconomic indicators: poor population (earning up to US$ 5.50 PPP per day)

	Monthly per capita household income (R$) (PCHI)	Poverty line (R$)[28]	Labor share of PCHI	AE share of PCHI	Unemployment rate	p0	p1
2019	219.83	396.00	67.9	-	31.0	22	9.8
May/20	244.37	403.41	35.2	45.7	28.6	18.8	7.4
Jun/20	253.95	404.44	31.8	51.4	35.0	16.8	6.2
Jul/20	260.63	405.90	31.5	52.6	40.0	14.8	5.3
Aug/20	262.23	406.89	31.7	52.4	43.7	13.8	4.9
Sept/20	267.14	409.46	32.1	53.4	44.9	14.6	5.1
Oct/20	251.98	413.03	39.6	42.4	44.0	18.5	7.2
Nov/20	252.04	416.67	42.9	37.6	44.5	20.7	8.2

Source: Chart created by the authors with data from 2019's annual Continuous National Household Sample Survey (PNAD Contínua) and from the Covid-19 National Household Sample Survey (conducted from May to November 2020). PCHI: Per capita household income.

The magnitude of EA's impact on low-income people can also be seen in its effects on poverty and inequality levels. Regarding the former, between May and August we can observe an uninterrupted fall in the poverty headcount ratio and in the average income gap, meaning that those who remained poor were relatively closer to the cutoff line. Similarly, the Gini index fell until September, showing EA's success in compensating for the income drop among Brazil's poorest. However, neither of these results

[28] The poverty line in Brazilian reais was obtained using the purchasing power parity conversion factor for private consumption of R$ 2.40 to US$ 1.00 PPC 2019, available at https://data.worldbank.org/indicator/PA.NUS.PRVT.PP?locations=BR (accessed on 7/27/2021). Values for other months have been updated with the IPCA.

were able to resist the changes in the program’s design and, by November, the three indicators had worsened.

Another relevant point is that, according to a special Covid-19 edition of the National Household Sample Survey, between July and September 2020 over half of poor households who sought bank loans were recipients of the Emergency Assistance program.[29] This reinforces the observation at the beginning of this section that even with the enormous amount of resources channeled to low- and middle-income families, for a significant share of them it was not possible to break from the need to fall back on indebtedness.

To the contrary, by guaranteeing a certain income flow, EA had the same effect on indebtedness as do flames that consume a phoenix: the possibility of beginning a new cycle. Households cut down on their outstanding payments that were overdue and in default while at the same time increasing their overall credit load, along with the average payment terms for their credit portfolios. As such, they aggravated their dependence on financial markets: new loans were made, renewing the ties that bind the two agents, and they were set to be paid off over longer timelines, making this dependence even more stable and enduring.

During the pandemic, and in a complementary manner, credit was also supplied to businesses, with specific programs for the private sector. Once the year 2020 and its fiscal exception ended, there was a return to measures that had already shown their inadequacy for the context of public calamity.

For instance, the health sector continued to be underfinanced, even with a strong rise in costs provoked by the rapid acceleration of Covid-19 cases and record number of deaths. The Bolsa Família stipend, which serves the poorest, was not adjusted, making poverty rates rise along with high unemployment rates and falling household income. One example of the inadequacy of measures that were adopted was the return of hunger among Brazil’s social ills. Data from the “Brazilian Network of Research in Food and Nutritional Sovereignty and Security” show that, in 2020, 43.4 million Brazilians (20.5% of the population) were food insecure and that 19 million (9%) faced hunger.

Hence, in year two of the pandemic, the scenario that is mounting is even more worrying. As of July 2021, the labor market is not giving convincing signs of recovery, with unemployment rates at their highest level since the start of the pandemic. Finally, we have to highlight how inflation is impacting Brazilians. Food inflation as measured by the Extended National Consumer Price Index (IPCA) reaches

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[29] In November, 66% of households that sought loans received EA benefits.

14.1% in 2020, hurting low-income families above all. This trend continues in 2021. For its part, the general consumer price index in June registers 3.8% over the course of the year so far. Transportation costs stand out, experiencing inflation of 8.2% during the same period.[30] Without an adequate relief policy to compensate for this, and with the path to the labor market still blocked by the continuation of the pandemic, families are left only with the recourse to indebtedness, seeking in the financial system a complement of income that they cannot find elsewhere.

It must be noted that households' strategies in the fight for their survival involuntarily and paradoxically strengthen banks' profitability. A study from the Central Bank of Brazil (2020a) shows that in the recent context of low growth and the declining trend in the Selic interest rate to unusually low levels, Brazilian banks were able to maintain extremely high profitability rates[31] thanks to the expansion of credit directed toward households, which compensated for the decline in credit to businesses. At the end of 2020, households held 54% of the overall credit. Furthermore, it is worth noticing that 70% of overall household credit is consumer credit and only 30% is mortgage-related, leading to a potential accumulation of wealth (assets). As interest rates on consumer and housing credit are more expensive than those charged to companies, and as they are pre-fixed operations that are late to reflect the drop in interest rates in the wider economy, it is households—above all, the more vulnerable ones, as we show here—that feed rentier accumulation.

The rapid deterioration of people's livelihoods, especially among the poorest, led the Bolsonaro government to suggest it would change the design of the Brazilian anti-poverty program. Amid the debate about the reconfiguration of the Bolsa Família program, which would substitute EA, a suggestion arose to allow up to 40% of the benefit to be committed to payments on consigned loans, as occurs with retirement payments and other public pensions. The monthly interest rate on consigned loans would be 1.2% per month, equivalent to 15.4% per year, in a scenario in which a 5.8% inflation rate is predicted in 2021, according to the Central Bank (June 2021). Not even the most impoverished households escape the voracity of the logic of financial expropriation, captained by State action through the design of its social policies.

In spite of the recently-approved "Law of Over-indebtedness[32]," it can be affirmed that in Brazil, the issue of indebtedness is not a central axis of social struggles. Civil society calls for a guaranteed basic

[30] https://sidra.ibge.gov.br/pesquisa/snipc/ipca/tabelas (accessed on 7/19/2021)

[31] Proxy calculated based on revenues obtained with financial intermediation, that is: interest received minus interest paid.

[32] After almost ten years of being stalled in Congress, in June 2021 a new consumer defense law was approved that seeks to "perfect the discipline in offering credit to consumers and provide for the prevention and treatment of over-indebtedness"

income that, at the end of the day, proves to function as collateral in favor of a capitalism driven by growing indebtedness and the expansion of the financial sector toward all spheres of life (Lavinas 2018).

6. By way of conclusion

The Covid-19 pandemic brought with it a series of structural ruptures and abrupt changes in people's lives, with profound repercussions for families' well-being and the dynamic of the global economy. It also modified the design of commonly-used social policies to address a crisis of unprecedented proportions that immediately threatened the stability of the global financial system.

A first change that can be observed has to do with the bailout strategy for families. Not only did cash transfer programs prevail, but also their volume grew exponentially. Occupying the center of counter-cyclical strategies, they were massively responsible for the large increase in public spending during the pandemic, to the contrary of what happened in 2008. This pipeline of liquidity for families, even while it partially compensated for losses in income, avoiding the collapse of demand, encouraged the restructuring of the household indebtedness cycle by reverting the trend of rising defaults.

This is hardly a small consequence. Firstly, it helps the financial system maintain an appreciated value of its assets. Secondly, it deepens the relationship of dependence that households and individuals have with financial markets. This allows the cycle of accumulation to proceed and expand sustainably, both through a decrease in delinquencies and through an increase in credit supply. From an aggregated point of view, a financial crisis with effects that spill over to the real economy, as occurred in 2008, was avoided. Additionally, prioritizing support for households in the form of cash (support that was later channeled to the financial sector) gave legitimacy to governments that opted to shrink the scope of public provision to monetary transfers, ultimately magnifying the domination of financial capital over the sphere of social reproduction.

(Senado Federal 2021:2) as well as for consumer financial education. It is clearly responding to a trend that did not subside during the pandemic: household debt remains on the rise. The recently-approved law states that over-indebtedness is the "clear impossibility for the consumer, a natural, good-faith person, to pay the totality of their consumer debts, due and enforceable, without compromising their existential minimum" (Senado Federal 2021:4). However, it does not clarify what "existential minimum" means. It lists a set of guidelines that should (or should not) be included on any and all offers of consumer credit and legislates on the mechanisms of debt renegotiation in the case of over-indebtedness. The legislation, however, does not apply to debts contracted through real estate loans or to rural credit. Furthermore, after being enacted by the president, the law establishes a maximum five-year term for debt payments. It also eliminates a cap on the share of household income that can be committed to payments on outstanding debts, which appears to run contrary to the principle of preserving an "existential minimum."

Such restructuring, meanwhile, reaches even further. According to the hypothesis raised in this article, a reconfiguration of social policy can be observed, one that begins to incorporate the management of debt and the risks inherent to it into its institutional framework. The trio of debt suspension-renegotiation-expansion was an important element of most public policies that prevailed during the pandemic, as this article demonstrated.

In Brazil, however, the State focused its intervention solely on the guarantee of liquidity via generous income programs, though they were short-lived. If the idea was to sustain families' well-being, EA never should have been interrupted for months before being reinstated at a value three times lower, reducing the number of beneficiaries to some dozens of millions. With unemployment high and on the rise, household income in decline, and a sluggish economy, real methods of financing subsistence began to depend on widening the capacity for individual indebtedness and not on the efficacy of public policy. The Brazilian legislature, a key actor in designing and approving EA with unprecedented coverage and benefit value, has proved to deliberately ignore the foundations and the scope of a social State.

The Brazilian State did not reformulate its institutional edifice to simultaneously suspend—for a set period—payments of financial debts, nor did it set conditions for renegotiating individual debts. Those steps would have stemmed the bleeding of household resources toward financial institutions amid a dramatic scenario marked by evictions, severe food insecurity, growing health costs, and a rise in extreme poverty. It also would have strengthened the bargaining power of the 61 million indebted Brazilians by renegotiating their liabilities with banks. Instead, the public sector left the terms of debt renegotiation and the expansion of credit offerings entirely in the hands of the private-financial sector.[33] The latter decided, without constraint, to keep interest rates unaltered (despite the falling Selic rate) and determined its own deadlines and fees. As a result, it ensured a level of elevated profitability by plundering the neediest families.

It is urgent to incorporate indebtedness into the analysis of people's living conditions. At the minimum, this allows for a necessary reassessment of statistics often used to describe well-being; at the maximum, it completely modifies conclusions. For example, growing access to private higher education gains a new dimension when we consider that enrollment occurred at the costs of pledging away the future of students and their families; likewise, variations in income cannot reflect individuals' purchasing power if almost-permanent debt service payments are not subtracted.

[33] https://portal.febraban.org.br/noticia/3461/pt-br/ (accessed on 7/23/2021)

Though it is difficult to pinpoint the path of social policy in post-pandemic times, one could suppose that it may return to its levels and profile prior to the crisis, with a prevalence of monetary transfers to the detriment of supplying collective public services. It may also be characterized by low-value benefits, deficient coverage, and the financial sector's rising protagonism in preventing risks that are hard to predict. As such, it would maintain the vicious cycle that requires obtaining means of payment for people's basic needs to be met. The news is that, because of the pandemic, mechanisms to recompose households' capacities for indebtedness were enshrined and henceforth inserted into the scope of social policy.

With this, rather than decommodifying well-being, social policy counterintuitively serves to control the risks that high rates of default can pose to the expansion of financial markets, making indebtedness a permanent trend. Therefore, it is not enough to institute a regulatory framework to prevent over-indebtedness. It is necessary to break, at the origin, with the logic that feeds financial debt as a pillar of social reproduction.

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