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Subordinated Financial Integration and Financialisation in Emerging Capitalist Economies:

The Brazilian Experience

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Abstract

This paper analyses the recent changes in financial practices and relations in emerging capitalist economies (ECEs) using the example of Brazil. It argues that in ECEs these financial transformations, akin to the financialisation phenomena observed in Core Capitalist Economies (CCEs), are fundamentally shaped by their subordinated integration into a financialised and structured world economy. To analyse this subordinated financialisation the paper draws on the framework of international currency hierarchies. It shows by means of two specific processes how the existence of a hierarchic international monetary system has changed the financial behaviour of domestic economic agents and with it the structure of the financial system. The first process highlights the phenomenon of reserve accumulation and the changing behaviour of domestic banks. The second points to ECEs' sustained external vulnerability and its impact on the operations of Brazilian non-financial corporations. The paper also shows that not only were these financial transformation shaped by ECEs' subordinated financial integration, but it was these

financialisation tendencies themselves which contributed to cementing existing hierarchies and further deepened existing asymmetries between ECEs and CCEs.

Keywords: financialisation; financial integration; emerging capitalist economies; Brazil;

1. Introduction

This paper analyses the emergence of new financial practices, behaviours and relations in Emerging Capitalist Economies (ECEs) using the example of Brazil. It argues that in ECEs these recent financial transformations, which reveal tendencies akin to the financialisation phenomena observed in Core Capitalist Economies (CCEs), are fundamentally shaped by their subordinated integration into a financialised and structured international monetary and financial system. Moreover, it is these same financialisation tendencies which reinforce ECEs' subordinated financial integration and asymmetries with CCEs.

The paper makes four contributions to the literature on financialisation.

First, while there is by now an extensive literature on financialisation in CCEs, there is still little systematic analysis of the varying manifestations and potentially distinctive nature of financialisation tendencies in ECEs. A small but growing literature documents similar changes in the financial practices and relations of economic agents in ECEs to those observed in CCEs (Demir, 2008, Demir, 2009, Ergüneş, 2012, Ertürk, 2003, Gabor, 2013, Painceira, 2008, Powell, 2013, Rethel, 2010, Bonizzi, 2013, Correa et al., 2012, Doucette and Seo, 2011, Karacimen, 2014, Levy-Orlik, 2012, FESSUD, 2013-2015). Financialisation in Brazil has been analysed, among others, by Coutinho and Belluzzo (1998), Miranda et al. (2009), Painceira (2011), Bruno et al. (2011), Araujo et al. (2012), and Bin (2016). Few of these contributions though focus explicitly

on the question of how financialisation in ECEs might differ from that in CCEs. Lapavitsas (2009a, 2014), Painceira (2011), and Powell (2013) have pointed to the potentially subordinated nature of financialisation in ECEs. Becker et al. (2010), and most recently Rodrigues et al. (2016), have highlighted the specific nature of financialisation in the semi-periphery. We contribute to this emerging literature by focusing on the distinct process through which recent financial transformations in ECEs have come about.

We believe that financialisation offers a useful analytical tool in providing a general benchmark of financial transformations whose manifestations, specificities and contradictions can be analysed in specific institutional, macroeconomic, spatial and social settings. However, we agree with Christophers (2015) that there is a need for greater analytical and empirical precision about the concept of financialisation being used. We follow Lapavitsas' (2014) broad interpretation, which defines financialisation as the structural changes in the financial relations, practices and needs of key economic agents: banks, households, and non-financial corporations (NFCs). This process we argue differs in ECEs through the higher importance of the international economy and the subordinated way ECEs integrate into it.

Second, by emphasising the driving role of the international economy in shaping ECEs' recent financial transformations, the paper responds to calls for an integration of the analyses of financialisation with that of financial globalisation and cross-border capital flows (Christophers, 2012, French et al., 2011, Montgomerie, 2008, Guttmann, 2008). Christophers (2012) shows the potentially fundamental changes an international perspective makes to the analysis of financialisation. He also points to the importance of taking into account the positions of countries in the international flows of value. Our analysis follows these leads.[1] Moreover, we highlight the

[1] Although our analysis differs from that of Christophers. Rather than analysing the global interconnection of supply and demand and international flows of value, we set out how national economic and financial structures are

two-way relationship between these two processes. Whereas international integration transforms the domestic financial system in ECEs, it is these same transformations which facilitate and further deepen financial integration.

Third, to analyse the link between ECEs' subordinated financial integration and financialisation we draw on the analytical framework of international monetary hierarchies. We present a multidisciplinary discussion of this literature and show how different disciplines, in particular International Political Economy and Heterodox Economics, can contribute to our understanding of asymmetric monetary and financial processes. Basing our analysis on international monetary relations, we provide an explicit monetary foundation for the analysis of financialisation – an effort that has been missing from large parts of the literature on financialisation so far (Christophers, 2015). Finally, the paper presents more detail on the thesis that financialisation cements and exacerbates uneven development (e.g. Pike and Pollard, 2010, Sokol, 2016, Bond, 1998, Coutinho and Belluzzo, 1996). Whereas the role of international integration in exacerbating spatial differences has traditionally been analysed in the context of the real economy, namely, processes of trade and foreign direct investment, we extend this literature to the new reality of financialised international markets.

To illustrate our argument we present two specific processes through which Brazil's rising international financial integration and its subordinated nature have shaped recent changes in the financial practices and relations of economic agents. The first channel is the phenomenon of reserve accumulation and the way it has altered the behaviour of banks. The second is Brazil's continued vulnerability to large and sudden capital and exchange rate movements (largely

conditioned by their asymmetric integration into financialised capitalism. Our focus is primarily on the financial system itself (the circulation sphere) rather than also the creation of value.

independent of domestic economic conditions), which has had significant repercussions on the interaction of Brazilian companies with financial markets.

Following this introduction, section 2 briefly sets out the literatures on financialisation and the hierarchic international monetary system. Section 3 discusses Brazil's recent financial integration and details how this integration and its subordinated nature have conditioned the financial behaviour of economic agents in Brazil. Section 4 concludes.

2. Financialisation and the hierarchic Nature of the International Monetary System

There is by now an extensive literature on financialisation in CCEs. The phenomena investigated include the increased holdings of financial assets and market funding by large NFCs (Orhangazi, 2008, Stockhammer, 2004), the importance of shareholder value (Lazonick and O'Sullivan, 2000), the rising involvement of households in predatory debt relations (Aalbers, 2008, Montgomerie, 2009, Dymski, 2010), banks' changing income pattern from deposits and lending to fees and commissions and rise in market funding (Erturk and Solari, 2007, dos Santos, 2009, Lapavitsas, 2009b), and the financialisation of everyday life (Langley, 2008). Moreover, authors have pointed to the variegated nature of these new financial practices and relations (Engelen et al., 2010, Lapavitsas and Powell, 2013).

The analysis of CCE financialisation has traditionally taken place within the canvas of the nation state. This applies to both the characteristic elements of financialisation and the factors which have

given rise to them.[2] As to the former, there is surprisingly little analysis of the international aspect of financialisation, which is most frequently associated with financial globalization, which in turn is equated to a rise in international cross-border flows (Stockhammer, 2010).[3] As to the latter, the sources of financialisation have been largely located in national economic developments. These include the stagnation of late capitalism, the falling rate of profit and the consequent contraction of demand, requiring a series of financial activities for the continuance of the system (Magdoff and Sweezy, 1972, Magdoff and Sweezy, 1987, Arrighi, 1994, Brenner, 2004); or deregulatory government actions which have unleashed the forces of finance and led to an unprecedented increase in financial markets and financial actors (Boyer, 2000, Aglietta and Breton, 2001, Duménil and Lévy, 2004, Stockhammer, 2004, Crotty, 2005, Orhangazi, 2008).

However, as shown by Christophers (2012), an accurate understanding of financialisation can be gained only through addressing the international nature of capitalist finance. He writes: "It is surely the case, therefore, that any identification of fundamental structural shifts in capitalism, such as "financialisation", must be framed at the international scale – or, at the very least, must critically interrogate the full array of international capital flows in which individual "national economies" such as the US are embedded" (p. 279).

Christophers' analysis echoes earlier calls by Montgomerie (2008), Guttmann (2008), and French et al. (2011), who have noted the absence of an explicit consideration of the role of the international financial system and the global financial networks for financialisation phenomena.[4] As French,

[2] Some authors have pointed to the role of rising exchange rate volatility to spur economic agents' increased articulation into financial markets (e.g. Helleiner, 1994, Braga, 1998, Belluzzo, 1998). However, these are not embedded into a more systematic analysis of how international financial integration shapes domestic financialisation processes.

[3] This then, however, raises questions about the novelty of the process (e.g. Hirst et al., 2009). Moreover, treating financial globalization as a merely quantitative phenomenon neglects the crucial qualitative changes in financial markets highlighted by the financialisation literature.

[4] The only exception we are aware of is D'Arista (2005). She, however, does not write about ECEs.

Leyshon et al. (2011) point out: "…prioritizing the nation state as container of economic activity fails to adequately take into account the central part played by the emergence in the 1980s of a new international financial system founded upon disintermediated and securitized financial capitalism run mainly through New York and London... (p.11)". Montgomerie (2008) makes very clear that once we consider the global financial networks within and through which financialisation takes place, relations of power and inequality, that is the conditions under which inclusion in these networks takes place, gain centre stage. She writes: "....the US and the UK are powerful global financial centres which occupy a unique place within the global economy. What happens in Anglo-American financial markets has profound ramifications for the rest of the world, a point not often considered in the financialisation literature. .....For instance, different political and institutional complexes allow global finance to proliferate through unequal relations between new emerging markets and well-established global financial centres" (p. 248).

Compared to the substantial body of work on the financialisation in CCEs, the analysis of such a trend in ECEs is still relatively limited. An emerging literature points to similar financial transformation to those observed in CCEs. For example, Rethel (2010), Powell (2013), Akkemik and Özen (2014), and Correa et al. (2012) show the increased involvement of ECE NFCs with financial markets. Kalinowski and Cho (2009) and Seo et al. (2012) highlight the importance of shareholder value in Korea. Gabor (2010) and Karacimen (2015) point to the rising integration of ECE households into credit markets through consumption and/or housing loans. A few authors have noted the changing behaviour of ECE banks, which have increasingly substituted (household) deposits for market funding (Painceira, 2011, dos Santos, 2009, BIS 2015).

For Brazil, a growing literature shows the changing financial behaviour of large Brazilian NFCs, which have increased their holdings of financial assets (including those of cash), financial income

and expenditures, and have substituted bank lending for market funding, mostly offshore on international financial centres and in foreign currency (Almeida et al., 2016, Araujo et al., 2012, BCB (Central Bank of Brazil), 2015b, Cintra and da Silva Filho, 2013, Bruno et al., 2011, Miranda et al., 2009). Another characteristic of financialisation in Brazil is the (speculative) operations by NFCs and banks on the liquid, local derivatives market (Farhi and Borghi, 2009, Prates and Farhi, 2009, Oliveira de and Novaes, 2007). Finally, Brazilian authors have pointed to the rise in household lending in the form of both consumption lending and mortgages to the middle class (Lavinas, 2015, Sbicca et al., 2012, BCB (Central Bank of Brazil), 2015a). However, these papers largely inquire into specific financialisation phenomena, rather than focusing on the drivers and determinants of these trends.[5] Some authors note the important role of ECEs' insertion into the global economy, but there is no explicit and systematic consideration of how this insertion interplays with domestic financialisation phenomena. Moreover, very few authors inquire into whether and how financialisation in ECEs might differ from that in CCEs. Exceptions are Lapavitsas (2009a, 2014), Becker et al. (2010), Painceira (2011), and Powell (2013) who point to the peculiar and potentially subordinated nature of financialisation in ECEs. For example, Becker et al. (2010) highlight ECEs' financialised accumulation models based on the reliance on (short-term) financial capital, high interest rates, and overvalued exchange rates. The authors also show the contradictions of this model which is characterised by widening current account deficits, external debt, a slow-down of the productive sector, and ultimately financial crises. Most recently, Rodrigues et al. (2016) have shown the specific nature of financialisation in the European semi-periphery at the example of Portugal.

[5] One exception are Akkemik and Özen (2014) who investigate explicitly the determinants of financialisation in Turkey and show the important role of the highly uncertain macroeconomic environment. However, they do not link this result to ECEs' asymmetric position in the global capitalist system.

ECEs' asymmetric and subordinated international integration, which constrains national strategies of development and self-determination, has traditionally been analysed in the context of trade relations and foreign direct investment (at the core of which stood the ability to develop autonomous processes of technological innovation) by theoretical traditions such as dependency theory and (Latin American) structuralists (e.g. Baran and Sweezy, 1966, Frank, 1967, dos Santos, 1998, Marini, 1973, Furtado, 1959, Prebisch, 1949).[6] However, these 'real' economic relations have been complemented, if not outpaced, by the growth in international financial markets and ECEs' integration into them. Just as their integration through product markets, these surging financial relations have been characterised by dependency, subordination and hierarchies. As highlighted by Latin American structuralists, "peripherals' vulnerabilities and constraints are historical, in that they necessarily change and evolve over tie in synergy with change and evolution in the centres" (Fischer 2015, p. 704).

Several authors, many of them from Latin America (including Brazil), have pointed to the constraints globalized, financialised[7], and hierarchic international financial markets impose on capital accumulation in ECEs (e.g. Bond, 1998, Biancareli, 2008, Tavares and Fiori, 1998, Tavares, 2002, Belluzzo, 1998, Cintra and Farhi, 2003). [8] Most frequently these constraints are seen to operate through their impact on key macroeconomic prices, such as the exchange rate and/or interest rates which become subject to structural upward/overvaluation pressures and high

[6] This is an extensive literature which cannot be treated satisfactorily in this article. For excellent overviews and critical engagements see, for example, Chilcote (1978), Palma (1978), Vernengo (2006), Amaral (2012), and Fischer (2015).

[7] Although this literature does not always use the term financialisation, many phenomena it describes are akin and often precede those set out in the financialisation literature. Braga (1998), drawing on the work by Chesnais, and Coutinho and Belluzzo (1998) explicitly use the term financialisation (financeirização).

[8] According to Vernengo (2006) Tavares was the first one to realize that rather than technological dependency, financial dependency, reflected in the financial power and hegemonic position of the US Dollar and, as its counterpart, ECEs' inability to borrow in their own currency and recurrent debt crises, was the real constraint on ECEs' autonomous development. Tavares (2002) refers explicitly to a new dependency. For a series of articles in the tradition of Tavares' seminal work see Tavares and Fiori (1998). For a review of her work see also Andrade and Silva (2010).

volatility (Coutinho and Belluzzo, 1996, Bresser-Pereira, 2015, Tavares, 2002, Cintra and Castro, 2001). Some of these authors also point to the asymmetric nature of the international monetary system which grants the country of the top currency (currently the US Dollar) an immense privilege and financial power (Carneiro, 2010, Tavares, 1985, Tavares, 1998, Belluzzo, 1998, Fiori, 2004)[9]. ECEs, on the other hand, are characterised by monetary subordination which means they are subjected to heightened external vulnerability, the inability to borrow in domestic currency, a dominance of short-term portfolio flows, and structural balance of payments crises (Biancareli, 2008, Bresser-Pereira, 2015, Prates, 2002, Carneiro, 2006, Belluzzo and Carneiro, 2004, Tavares, 2002).

This paper contributes and extends this literature by delineating the crucial implications this monetary asymmetry has had for the financial behaviour and relations of Brazilian economic actors, and consequently uneven development, in the context of increasingly financialised international financial markets. [10] The notion that different sovereigns' currencies have a varying status in the international monetary system is a core concept in International Political Economy (IPE) (e.g. Cohen, 1998, Helleiner and Kirshner, 2009a, McNamara, 2008). For example, Susan Strange (1971) distinguishes between top, master, negotiated and neutral currencies. Whereas the top currency is the uncontested leader of the international monetary system due to its economic attractiveness, master and negotiated currencies maintain an internationally prominent role either through direct coercion (e.g., through colonial relations) or financial and political inducements.

[9] For example, Tavares (1998) argues that the Volcker shock in the early 80s restored US hegemony through maintaining the attractiveness of the US Dollar and plunging large parts of the rest of the world into recession. Financial power was, among others, exercised through the extremely liquid US government debt market, the expansion of American banks and multinationals, and a strategic financial and military vision which became dominant across the globe.

[10] A related literature which pays attention to the interplay between international power relations and financial transformations is that on US imperialism (Panitch and Konings, 2009, e.g. Harvey, 2003, Panitch and Gindin, 2012). However, this literature is not primarily concerned with the impact on ECEs, but rather with the way recent financial transformations have been shaped by and reinforced American imperial power. Rude (2009) is an exception though he does not analyse ECEs' recent financial transformations.

Neutral currencies are economically attractive but do not have the means to become top currencies (Strange, 1971, Helleiner, 2008, Otero-Iglesias and Steinberg, 2013).[11]

The IPE literature shows the 'exorbitant economic privilege' that accompanies a currency's position on the top of the hierarchy. The country with the top currency can afford external disequlibria which "…anywhere else, elicit a withering "disciplinary" response from international financial markets" (Kirshner, 2008: 424). Top currency status comes with an an unrivalled macroeconomic policy space, which grants it inherent value stability (Cohen, 2006, McNamara, 2008).

Interestingly, though, while there is an extensive discussion on the advantages (and costs) of being the top currency, very little is said about the implications of being on the lower level of the hierarchy in this literature. Although some of the advantages of the top currency might represent analogous disadvantages for currencies at the lower end of the hierarchy, this condition does not necessarily need to be the case. Issuers of subordinated currencies might face their own constraints (or indeed advantages) which cannot be necessarily inferred from the pecular conditions of the top currency.[12] Moreover, there is relatively little dicussion on the implications that a currencies' position in the international monetary hierarchy has for the structure of the economy itself. Whereas the IPE literature offers rich insights into how the structural characteristics of an economy influence currency status, there is little analysis on the reverse question. For our purpose this is of partiular interest with regards to financial market structure. Deep and liquid financial markets are

[11] The determinants of a currency's international monetary position vary in the IPE literature. Whereas market based approaches highlight the attractiveness of a currency through its value stability (primarily due to sound macroeconomic fundamentals) and liquidity and transactional networks (Helleiner, 2008, Helleiner and Kirshner, 2009b), instrumental and geopolitical approaches stress the economic and political decisions of foreign governments (Minh, 2012). Institutional approaches (e.g. Eichengreen, 2010) place the spotlight on the willingness and ability of a currency's issuer to safeguard its market based attractiveness.

[12] There is some discussion of ECEs' "original sin", that is their inability to borrow in their own currency, in the IPE literature (Eichengreen et al., 2003). This phenomenon is not directly linked to the literature on monetary hierarchies though.

crucial to support a currency's top position (Kenen, 2009, IMF (International Monetary Fund), 2011). At the same time, however, it is arguably this top position which shapes global financial relations and with it international monetary asymmetries.[13]

Some more discussion on ECEs' position in the international currency hierarchy and the implications of this position for macroeconomic policy, capital accumulation and financial structure can be found in the Post Keynesian literature (Herr, 1992, Herr and Hübner, 2005, Prates and Andrade, 2013, De Conti et al., 2014, Kaltenbrunner, 2015, Dow, 1999, Fritz, 2002, Fritz et al., 2014, Prates and Cintra, 2007). Referring explicitly to Keynes' analysis of money in the closed economy, these authors believe that currencies' differential position in the international monetary system is determined by economic actors' assessment of their international liquidity premium relative to other currencies. As in the market-based approach of IPE, Post Keynesians assert that the international liquidity premium is determined by currencies' ability to act as international stores of value and units of account.[14]

These differences in currencies' international liquidity premia, in turn, have crucial implications for monetary policy autonomy, external vulnerability and financial structure, in particular for ECEs. As in Keynes' closed economy, "money rules the roost". This implies that monetary conditions in the country with the highest liquidity premium (in Keynes' time the Pound Sterling, nowadays the US Dollar) will influence monetary conditions across the globe. The impact will be felt strongest in those currencies with lower liquidity premia, that is, ECEs currencies. In a similar

[13] For example, Guttmann (2008) notes that having much of the world's financial capital denominated in U.S. Dollar helps the US to maintain the deepest and most liquid financial markets in the world.

[14] Post Keynesians' focus on fundamental uncertainty makes them more prone to concentrate on the store of value and unit of account functions of money, rather than that of medium of exchange. As in the IPE literature, the determinants of currencies' international liquidity premia vary. Whereas Fritz et al. (2014) highlight ECEs' ability to run sustainable current account surpluses, De Conti (2011) and Kaltenbrunner (2015) stress the important role of market-institutional factors. Kaltenbrunner (2015) also highlights the importance of currencies' position in international debtor-creditor relations.

vein, any change in international liquidity preference can lead to large capital and exchange rate movements that are largely independent of domestic economic conditions as investors seek protection in the currency with the highest liquidity premium. The lower liquidity premium of ECE currencies also requires them to offer higher interest rates and/or profitable exchange rate movements in order to maintain investor demand. Finally, in terms of financial structure, Post Keynesians have argued that rather than a result of their inflationary past (as in many neoclassical economic accounts), ECEs' inability to issue domestic currency debt is a direct result of their subordinated position in the international monetary hierarchy.

These peculiar features of ECEs' monetary dynamics, in turn, condition the nature of their capital accumulation and financial structure, which in turn perpetuate their monetary subordination. Whereas the high interest rates weigh on domestic investment demand and growth, the volatility of capital flows and the exchange rate undermine the ability of ECE currencies to perform international monetary functions. The prevalence of foreign currency debt has a similar affect, since any change in the exchange rate will increase ECEs' real debt burden. This result might not only lead to short-term solvency and liquidity concerns, but also require the future generation of foreign exchange and with it a devalued exchange rate, which further lowers these currencies' international liquidity premia (Keynes' transfer problem).

In Marxist political economy, (asymmetric) monetary relations are intimately and symbiotically linked to real capital accumulation and hence processes of uneven development. [15] In this approach, the concept of international currency hierarchy is understood through the category of world money (Lapavitsas, 2009a, Painceira, 2011, Powell, 2013, Lapavitsas, 2014, Marx, 1967, McNally, 2008, Vasudevan, 2009). World money is a necessary development in the evolution of

[15] This is also reflected in the fact that many scholars in the dependency theory tradition, have their roots in Marxist political economy.

money in the global capitalist market (Itoh and Lapavitsas, 1999, Marx, 1967). According to Marx (1976), it "serves as the universal means of payment, as the universal means of purchase, and as the absolute social materialisation of wealth as such" (p. 242). Countries hoard an internationally acceptable means of payment in order to be able to participate and compete in international markets. The more capitalist accumulation spreads across the world economy, the more countries need to have access to the world money's reserves (or international reserves as a proxy). Thus, in Marxist political economy world money is a necessary development for (and of) international capital accumulation and the hoarding of it a necessary condition to participate in it. This also means that access to, or indeed issuance of, world money confers important powers in global markets. Analogously those who do not have access to world money find their participation in the world economy severely constrained.

Moreover, in the Marxist tradition there is an organic link between productive and financial operations. Capital accumulation encompasses both the production and the circulation sphere, which stand in an inter-dependent and dialectic relationship. For Marx (1972) the credit system, which is part of the circulation sphere, can accelerate the circulation of commodities and thus the process of reproduction in general. This means that the credit system, and money that circulates in it, are instrumental in reinforcing and exacerbating processes of concentration and centralisation in capital accumulation. On the other hand, the credit system also contains the seeds for capitalist crises. As real capital accumulation expands, so does the credit system, but at its own logic and autonomously from the production sphere. Once the expansion of the production and circulation sphere become too unbalanced, that is the production of surplus-value and its realisation become too disjointed, crisis ensues.

provides the organising impetus for the institutional structure that the world market lacks.[16] This means, as discussed above, in Marxist political economy differential access to world money fundamentally shapes the nature of capital accumulation on the global scale.[17] For the same reason, world money crystallises tensions present in the world market, and becomes the focus of global crises. In times of crisis the contradiction between the monetary system and the credit system is revealed as the demand for money (as money, not as capital) increases. In Marx's words "in times of squeeze, when credit contracts or ceases entirely, money suddenly stands as the only means of payment and true existence of value in absolute opposition to all other commodities" Marx (1972, p. 516).

Today's configuration of international monetary relations is complicated by the fact that not gold (as in Marx's time) but the currency of a nation state (the US Dollar) assumes quasi-world money status.[18] In contrast to the gold regime, in which gold was the world money and global capitalist crises were characterized by sudden swings in gold hoards, in the present international monetary arrangement, we see a rise in the demand for dollar denominated assets, mainly for US public debt securities, in the moment of crisis . Indeed, most financial crises in ECEs manifest themselves as

[16] The world market, which is the universal sphere of circulation of capital and enables the relation between national markets, is structurally different from the domestic market. It has fewer homogenising mechanisms of law, institutional practice, custom and regulation than the domestic market and it incorporates relations of power and national exploitation (Lapavitsas, 2006). Consequently, the role of money in the world market has a pronounced weight, significance and meaning.

[17] In this regard, the process of capitalist development can be directly connected to this aspect of the credit system at the global scale. Based on Marx's new material (MEGA), Pradella (2013) argues that the capitalist competition at the global level and the trend for uneven development can be inferred directly from Marx's writings. In this sense, capitalist accumulation and the category of capital "reflect the tendency of the capital of the leading states towards universal dominance" which is the base for Marxist imperialism theory developed in the beginning of 20th century (particularly Lenin and Hilferding). This imperialism theory was, in turn, the major background for the development of Latin American dependency theory.

[18] The term quasi-world money (instead of world money) is used to describe the US Dollar because there is no formal agreement, as there was in the era of gold, for the US Dollar to be the global store of value. Furthermore, there is no clear mechanism of international adjustment as there was under the gold regime which has increased financial instability (McNally, 2008). According to Itoh (2006) one of the main challenges for political economy has been, in fact, to fully explain the role of the US dollar as world money.

problems of US dollar liquidity or solvency. This role of the US Dollar as quasi world money, however, creates a direct link between the issuer country's domestic sphere and the international financial sphere. The 2007-8 crisis, for example, became a global financial crisis due to the connection between financial operations undertaken within the US financial system and the global financial system. This also implies that in contrast from movements in the gold era, when there was no clear group of beneficiaries in the international monetary system, the current arrangement has one country as the issuer of world money, which profits from those uneven monetary relations and cements its position on the top of the international monetary hierarchy. ECEs, on the other hand, which cannot issue world money and frequently face problems accessing it, assume a subordinated role in international financial relations

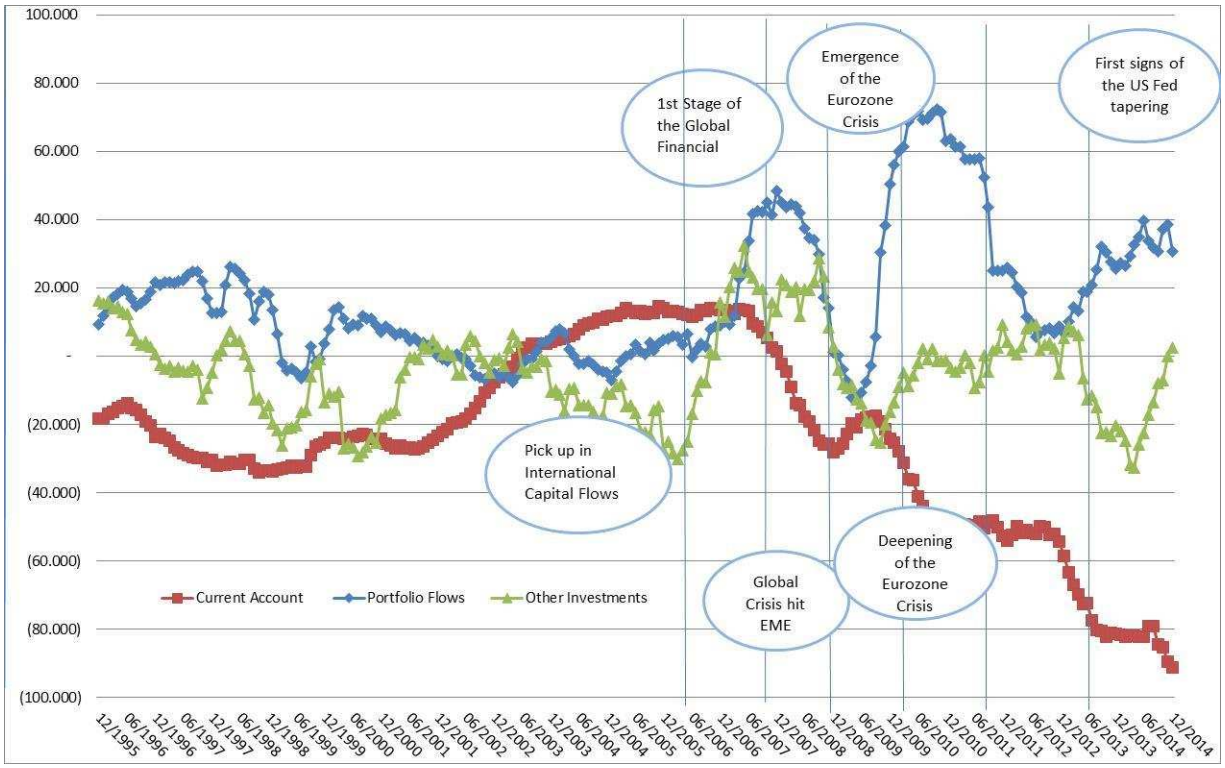
In sum, this section showed the important role different disciplines attribute to the existence of international monetary asymmetries for external adjustment, autonomy, economic structure and the distribution of the costs of financial crises. As of yet, no paper has systematically linked these international monetary asymmetries to the recent financial transformation observed in ECEs. This is what this paper turns to next.

3. From Subordinated Financial Integration to Domestic Financialisation

Capital flows to ECEs have surged over the last decade, far surpassing previous waves. According to the Institute of International Finance, total capital inflows to ECEs increased from US$200 billion in 2000 to US$1.1 trillion in 2014 (IIF, 2015). In terms of stocks, Akyüz (2015) records that for the period of 2000-13 gross international assets and liabilities of ECEs grew by about 15 and 12.5 per cent per annum respectively; their gross balance sheets expanded by more than fivefold.

Figure 1 shows the unprecedented increase in short-term capital flows to Brazil.

Figure 1: Net Short-Term Capital Flows and Current Account Balance (US$ millions)



Source: (BCB 2016a)

Cumulative 12-months short-term capital flows surged from an outflow of US$8 billion at the beginning of 2000 to more than US$60 billion and US$50 billion at the end of 2007 and 2010 respectively.[19] Brazil's total stock of outstanding short-term external liabilities reached US$679 billion, or 46.1% of GDP in June 2008 just before the failure of Lehman Brothers. This condition compares to a stock of only 28% of GDP before the Brazilian crisis in 1999. Brazil's stock of short-term external liabilities stood at US$883 billion or 39.7% of GDP in March 2011, before a further worsening of the Eurozone crisis.

[19] This process was related to Brazil's continued capital account liberalization which started in the 1990s and consolidated further in the 2000s (see e.g. Goldfajn and Minella, 2005).

Moreover, flows have been characterized by very high volatility largely resulting from changes in international market conditions.[20] Short-term capital flows picked up at the beginning of 2003 as liquidity returned to international financial markets, surged in the first stage of the international financial crisis when international investors "diversified" into high yielding and liquid ECEs assets, and contracted dramatically as the failure of Lehman Brothers led to a global liquidity and funding crunch. Similar patterns have repeated themselves during the Eurozone crisis, as initial uncertainty led to return chasing and diversification into ECEs, followed by an abrupt contraction as conditions worsened. These dynamics were exacerbated by extraordinary loose monetary conditions in the CCEs, which pushed international investors to seek higher returns in alternative asset classes. The effects of external factors are particularly visible in the last capital flow cycle, as the first "tapering" announcements by the FED in May/June 2013 led to a renewed withdrawal of funds from ECEs (Eichengreen and Gupta, 2013, Prachi et al., 2014).[21]

In addition to their increase in size, capital flows to ECEs have seen important qualitative changes over recent years. On the investor side, traditional ECE investors (such as banks and dedicated funds) have been complemented with a wide range of others actors, including institutional investors (pension, mutual and insurance funds) and new types of mutual fund investors such as exchange-traded funds and macro hedge funds (Yuk, 2012, Jones, 2012, Aron et al., 2010). Given the enormous size of these financial investors, even a small reallocation of their portfolio shares can have a substantial impact on capital flows to ECEs. Moreover, these different actors have

[20] The procyclical nature of capital flows, which are driven by 'push' rather than 'pull' factors, has been discussed extensively in the literature, including by mainstream economists (e.g. Stiglitz, 2004, Agénor, 1998, Cerutti et al., 2015)

[21] In Brazil, this last cycle of capital flows has been much more pronounced in banking than in portfolio flows. This has been due to two reasons. First, portfolio investors have increasingly hedged their exchange rate risk on the domestic market rather than withdrawing funds. Second, banking flows have been exacerbated by the positions of domestic banks, which have increased their international operations over recent years.

diverse investment strategies and funding patterns, substantially increasing the complexity of foreign investment. On the asset side, these investors have become exposed to a complex set of domestic currency assets, including domestic currency sovereign bonds, equities, derivatives and the currency itself as in the notorious carry-trade phenomenon (Akyüz, 2015). For example, foreign investors' participation in the Brazilian stock market increased from below 25% at the end of 2003 to more than 50% at the end of 2014. [22]

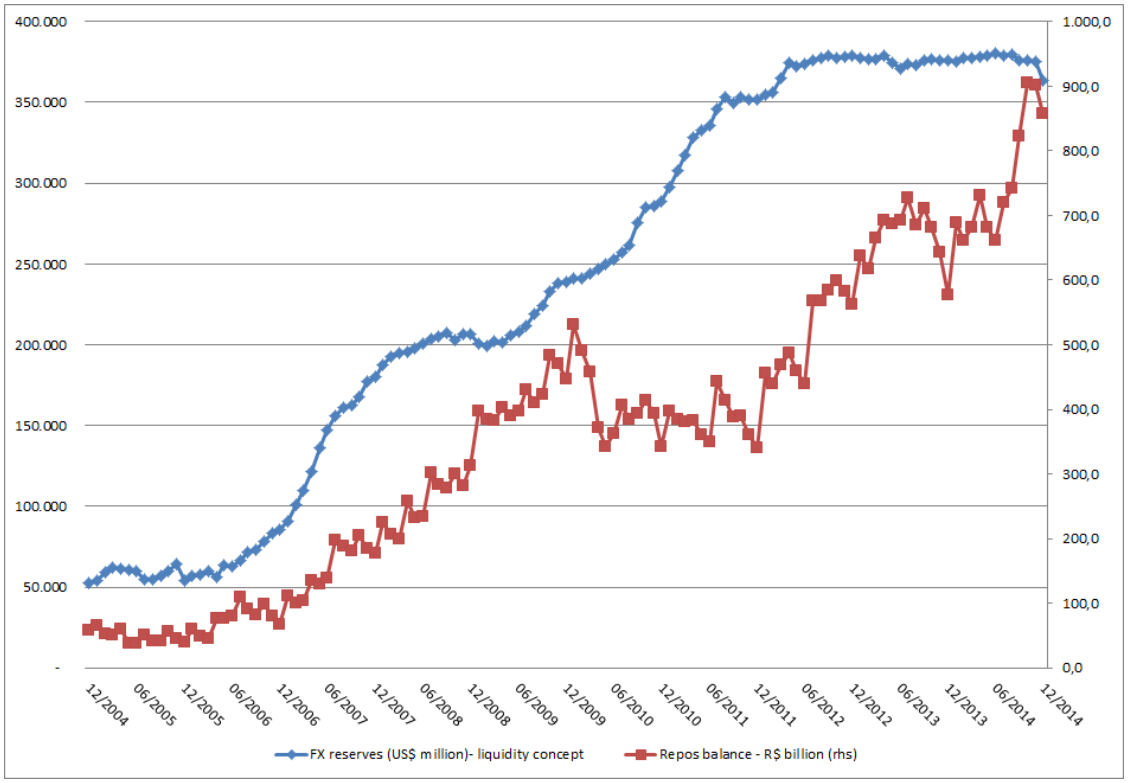
Thus, over the last decade, foreign capital has permeated entirely new areas of Brazil's economic (and indeed social) life and by doing so fundamentally changed the country's economic and financial structure. To illustrate this transformative power of foreign capital, and Brazil's subordinated position with regards to it, the next two sections analyse its relation to the recent changes in the financial practices of two key economic agents: banks and non-financial corporations.

3.1. Reserve accumulation and the financialisation of banks and households

One of the most substantial changes in international financial relations since the millennium is the vast accumulation of foreign exchange reserves by ECEs. ECEs' total stock of reserves increased from US$0.5 trillion in 2000 to US$8.1 trillion in 2014. Figure 2 shows the surge in foreign exchange reserves in Brazil, which rose from US$50 billion in 2004 to US$364 billion in 2014.

Figure 2: Foreign Reserves and Monetary Sterilization Operations (repos)

[22] This changing nature and increased complexity of international capital flows raises the question whether we are observing a distinct 'international' financialisation process which goes beyond a mere increase in cross-border capital flows.



Source: BCB (2016a) and BCB (2016c)

This vast accumulation of reserves (mostly in US Dollar) is a direct outcome of both ECEs' surging financial integration and its subordinated nature. Independent of their current account positions, ECEs have been net recipients of capital inflows until 2013 leading to an excess of foreign exchange.[23] Rather than letting this excess be absorbed in the domestic economy, ECE central banks have accumulated a 'war-chest' of foreign exchange reserves. First, the unprecedented and massive wave of capital inflows relative to the size of domestic financial markets created unsustainable pressures on domestic liquidity, asset prices and the exchange rate. Reserve accumulation (and consequent sterilization operations) sought to contain these. Second, as

[23] Reserve accumulation can originate from the current account or the capital account or both. In contrast to what would be advocated by neoclassical economic theory, recent capital flows to ECEs have gone far beyond these countries' needs to finance current account deficits. To the contrary, the strongest recipients were those with current account surpluses, leading to excess reserves in many ECEs. This has changed since 2013 when the combination of monetary tightening in CCEs, lower commodity prices and the slowdown in China has led to capital outflows.

discussed in section 2, being at the lower rungs of the international monetary hierarchy means that ECEs have to be prepared to face large and sudden flights into currencies with higher liquidity premia (or into world money), frequently unrelated to economic conditions. Reserve accumulation is a necessary precaution to satisfy this demand and avoid an excessive impact on the domestic economy (for an analysis of the demand for reserves from a Post Keynesian perspective see, for example, Carvalho (2009)).

This reserve accumulation, as one manifestation of ECEs' subordinated financialisation, however, has had crucial implications for the structure and behaviour of the Brazilian domestic banking system. In order to control the monetary expansion from its foreign exchange purchases (and hence the potential inflationary pressures), the Brazilian central bank (BCB) engaged in extensive monetary sterilisation operations. That is, it undertook a large amount of repurchase agreements (repos) offering public debt securities to the domestic banking system in order to drain the excess of bank reserves.[24] As can be seen in Figure 1, the outstanding stock of repos recorded by the BCB increased from R$58 billion in 2004 to R$858 billion in 2014. Moreover, its dynamics was closely related to international capital flow movements.

Compared to cash, repos, which are interest bearing assets, offer a higher profitability (most of the time very close to the basic Brazilian interest rate the Selic). At the same time, they are very liquid as banks can reconvert them into cash with the central bank at very low cost and pretty much any time. This promise of liquidity on the asset side of their balance sheets, which is particularly important in moments of crisis, bolstered banks confidence to increase their own liabilities. Thus,

[24] In these sterilisation operations the central bank offers the banking systempublic debt securities (with a commitment of future repurchase) against cash. Operating under the institutional framework of an Inflation Targeting Regime (ITR), the BCB is institutionally bound to engage in these sterilization operations to reduce the inflation pressures stemming from the expansion in the money supply from its FX purchases. Thus, one could argue that an ITR institutionalizes the financialisation dynamics described in this paper.

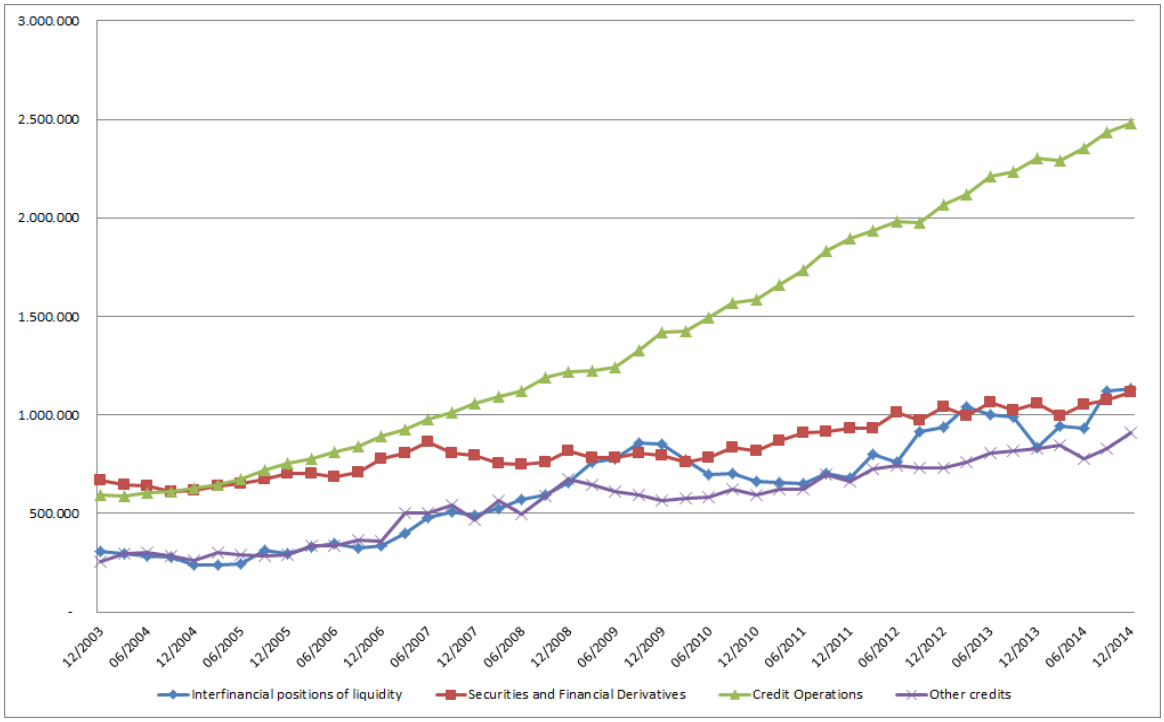
through their portfolio management techniques, Brazilian banks used these short-term assets from the central bank as a form of collateral to issue new liabilities. In order to match their repo asset positions, these issues were mainly in the form of short-term securities, predominantly certificate of deposits (Painceira, 2012). [25]

Figure 3 shows that the rising repo stock recorded by the BCB was mirrored by an increase in banks' inter-financial positions of liquidity. According to BCB (2016b) data, these inter-financial positions are essentially composed of central bank repos, which have made up more than 80% of inter-financial positions since 2006 (the other categories are positions on inter-financial deposits (DIs) and on foreign currency).[26]

Figure 3: Brazilian Banking System – Main Assets (R$ million) deflated by the IGP-M

[25] During this time repos have replaced Selic-indexed public bonds (LFTs) as the main short-term asset on banks' balance sheets. The share of LFTs in the Brazilian domestic public debt fell from more than 50% in the early to 2000s to only 7% by the end of 2014. Before reserve accumulation, LFTs were crucial for banks to mitigate their interest rate risk. Similarly to LFTs, repos have very low interest rate risk due to their very short maturities. However, they offer some additional benefits to their holders. First, holders of repos have direct access to central bank liquidity, which becomes particularly important in times of crises. Second, they can obtain capital gains through short selling the debt securities which act as collaterals in these repo transactions.

[26] Figure 3 shows bank data at the level 2 of disaggregation and represents the four major asset classes on Brazilian banks' balance sheets. Repo positions can be seen through the level 3 of the disaggregated bank data, which is the last level publicly available. For more details see BCB (2016b).



Source: BCB (2016b)

Notes: The banking data analysed include the whole banking system, except development banks. The IPG-M is Brazil's main general price index and includes variations in both consumer and wholesale prices.

These inter-financial positions also co-moved significantly with the cycle of international capital flows. After an initial increase until the global financial crisis of 2008 and contraction afterwards, repo holdings by banks rose further as developments in the Eurozone crisis and the expectations of US tapering led to a renewed surge in capital flows. As a share of total bank assets, banks' inter-financial positions rose from 11% in 2005 to a peak of 20% in 2009 in the wake of the global financial crisis.[27] The share had stabilised at 18% by the end of 2014 (BCB 2016b).

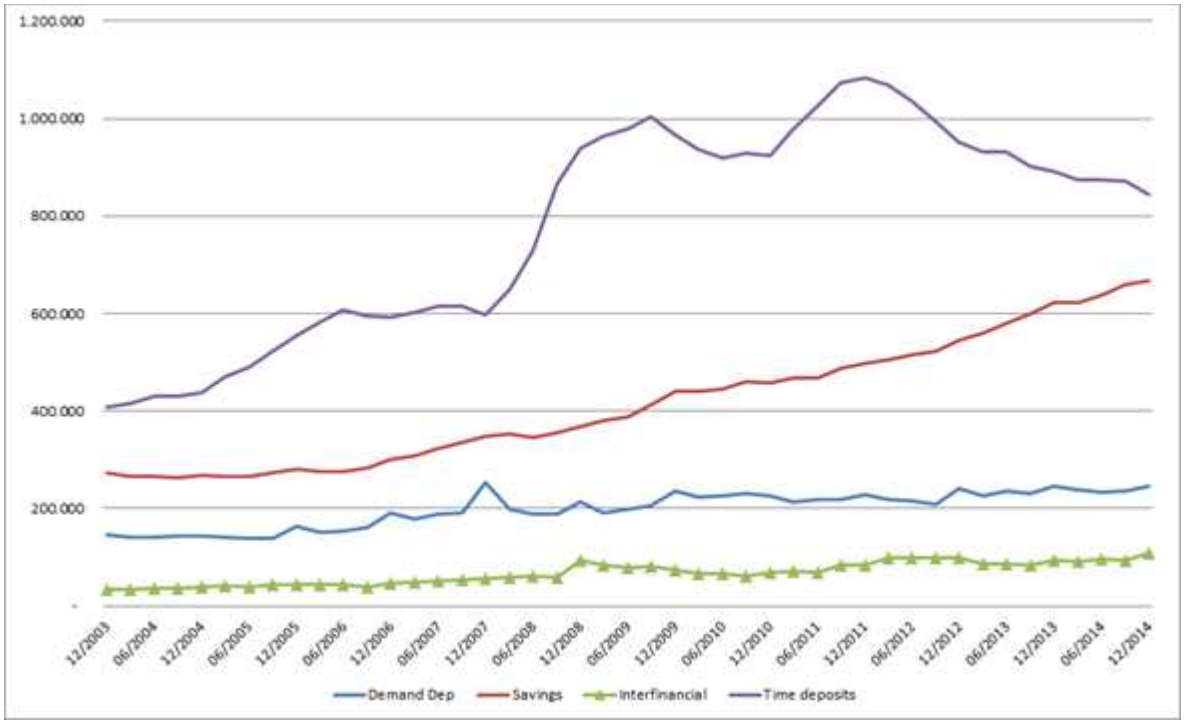
Overall credit operations (credit operations and other credits items) also saw a continuous increase. In principle, this increase should be beneficial for capital accumulation as companies are

[27] For more details on those interventions in a comparative perspective with South Korea, see Painceira (2010).

traditionally the main demanders of bank loans. However, as we will see below, the structure of bank credit in Brazil has changed substantially over recent years.

Figure 4 shows how banks used these very liquid (and interest bearing) assets to 'leverage' and increase their own funding.

Figure 4: Main Types of Banking Deposits (R$ million) deflated by the IPG-M



Source: (BCB 2016b)
Notes: Bank deposits are the main item of Brazilian banks' liabilities (around R$1.8 trillion at the end of 2014). The other categories are repo obligations (approx. R$1.4 trillion at the end of 2014), other obligations (essentially various types of obligations and obligations in the foreign currency portfolio (FX loans are not included; approx. R$1 trillion at end of 2014) and obligations with loans and transfers (essentially FX loans and governmental transfers; standing at just over R$660 billion at the end of 2014).

Time deposits, which are mainly composed of certificates of deposits, rose significantly relative to the other deposit categories. Certificates of deposits are securities issued by banks that can be considered banks' own liabilities. All deposits are banking liabilities in as much as banks have obligations to depositors. However, only liabilities issued by banks, such as certificates of deposit or financial debentures, are banks' own liabilities, because their issuance is primarily determined

by banks' portfolio decisions (while the other liabilities are to a large extent determined by the creditors or clients of the banks). Figure 4 also shows that these deposits rose concurrent to the rise in capital inflows and the central bank repos on banks' balance sheets. One can observe some decline in time deposits after 2011 due to the substantial drop in the Selic (which favoured savings deposits) and a rise in real estate bills (recursos de letras imobiliárias).[28]

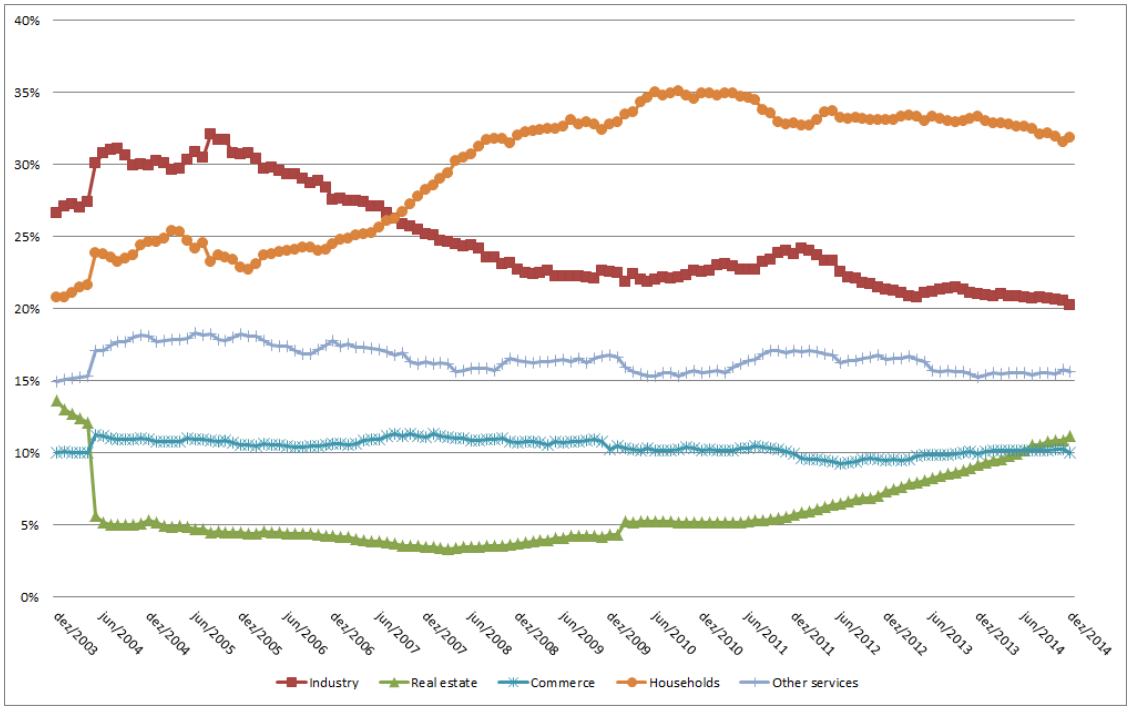
This additional borrowing, in turn, allowed banks to inflate also the asset side of their operations. Brazilian banks used the sterilisation bonds, issued by the central bank to deal with the adverse consequences of reserve accumulation, to expand their own balance sheets. Moreover, given the short-term nature of these sterilisation bonds and hence banks' borrowing, their new assets also remained relatively short-term.

Figure 5 illustrates how the banks' changing funding pattern influenced their credit allocations. It shows the dramatic switch in credit allocation from 'productive' lending to industry (traditionally more long-term), to more short-term consumption and housing funding. This switch would have been even more pronounced if one discarded the increase in industry funding provided by the Brazilian Development Bank (BNDES), which traditionally is one of the most important sources for industrial loans in Brazil, after 2009.[29]

Figure 5: Brazilian Financial System – Credit Allocation – Main Items (%)

[28] The latter category can be considered a type of time deposit though.

[29] Obviously, the change in banks' funding structure was not the only reason for the increase in consumption lending. Some policy measures, such as the payroll lending operations (creditos consignados), which lowered the interest rates for a relevant share of households, and Brazil's traditionally high interest rates, which constrain productive sector borrowing, have also influenced this shift from productive to consumer loans. Economic growth, the rising real minimum wage and the profitability of these loans also contributed to this trend. However, without the expansion of banks' balance sheets through the BCB's sterilization operations and the shortening of their funding structure, accommodating the rising demand for household credit would have been much more difficult for banks.



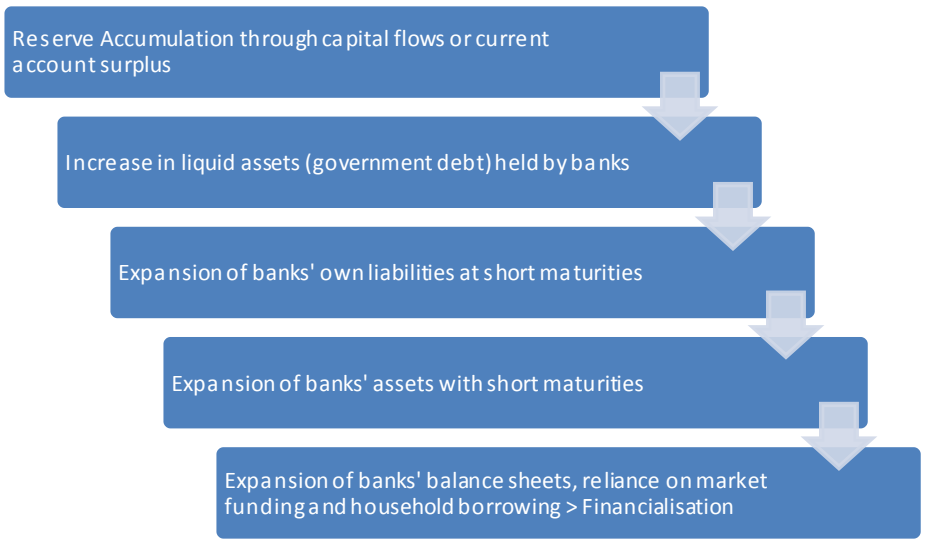
Source: (BCB 2016d)
Notes: In contrast to the banking data presented in Figures 3 and 4, these data also include the operations by development banks, including lending by BNDES.

As banks' liabilities became more short-term, due to their repo positions, they tried to match this changing maturity of their funding with their new asset positions. Household credit, which usually has a shorter maturity than manufacturing credit, allowed them to do so.

It is interesting to note, that in the sequence described above banks' behaviour is in line with what has been put forward by Post Keynesian banking theory. That is, it is banks' asset positions that drive their liabilities (rather than the other way round as in neoclassical theory). This is so because in the first instance, in their repo operations with the BCB, Brazilian banks lend money (banking reserves) to the central bank, backed by domestic public debt securities as collateral, which they can then use to issue their own (more short-term) liabilities. Banks' changing and expanding liability structure then shaped their asset allocations, but the initial impulse came from their lending operations to the central bank as part of its sterilization (repo) operations.

Above discussion set out how Brazil's subordinated financial integration, manifested in the large reserve accumulation, induced banks to stretch their balance sheets, rely on more market funding and substitute firm for household lending, all of which are transformations akin to the financialisation phenomena highlighted in the literature. Table 1 summarises the argument.

Table 1: From Reserve Accumulation to Bank and Household Financialisation



At the same time it was these same transformations that facilitated Brazil's rising financial integration. The short-term financial assets on domestic banks' balance sheets, which could be easily resold at little cost, granted the banks room for manoeuvre and thus reduced their risk to act as counterparties to foreign investors. This was particularly the case during market turmoil when repos allowed banks to easily access central bank liquidity through open market operations. This reduction in banks' balance sheet risk made them more able and willing to capture foreign resources thus stimulating further capital inflows.

Finally, there are two important mechanisms through which the processes described above could have contributed to exacerbating uneven development and cementing ECEs' subordinated international (monetary) position. First, reserve accumulation implies a constant resource transfer

from ECEs to CCEs. Whereas ECE central banks hold low-yielding, safe and liquid CCE sovereign bonds, foreign capital flows generate substantial returns which are repatriated abroad (Painceira, 2008, Carvalho, 2009).[30] At the same time, sterilization operations lead to an increase in public debt whose service negatively weighs on ECEs' fiscal capacity (Cardoso de Mello, 1998). Second, the substitution of productive loans by household loans adversely affects capital accumulation, negatively weighing on ECEs' growth potential.

3.2. External vulnerability and the financialisation of non-financial corporations (NFCs)

The second manifestation of ECEs' subordinated financial integration is their vulnerability to large and sudden capital and exchange rate movements frequently independent of domestic economic conditions. As indicated in section 2, this external vulnerability has traditionally been analysed in the context of ECEs' inability to borrow in their domestic currency, their "original sin", which made (international) investors wary about ECEs' repayment capacity.

For neoclassical theorists this "original sin" was the result of misguided economic policies which caused information asymmetries and moral hazard (Krugman, 1998, MacKinnon and Pill, 1998), and/or weak domestic institutions (Burger and Warnock, 2006). Therefore, the maintenance of sound economic fundamentals, the development of credible domestic institutions, and the retreat of the state from the market more generally should reduce ECEs' external vulnerability. At the same time, the switch from foreign to domestic currency debt, a high level of foreign exchange

[30] Indeed, as Yu (2013) shows for the case of China, ECEs are ultimately very limited in how they can use these international reserves given the need of central banks to match, as much as possible, the foreign reserve assets on their balance sheets with their domestic liabilities (debt securities, included) that they have to issue (or use) in order to purchase these reserves. This is exacerbated by the fact that in many cases these reserves are 'borrowed' reserves, that is accumulated largely from capital inflows which can be reversed anytime (Carvalho, 2009).

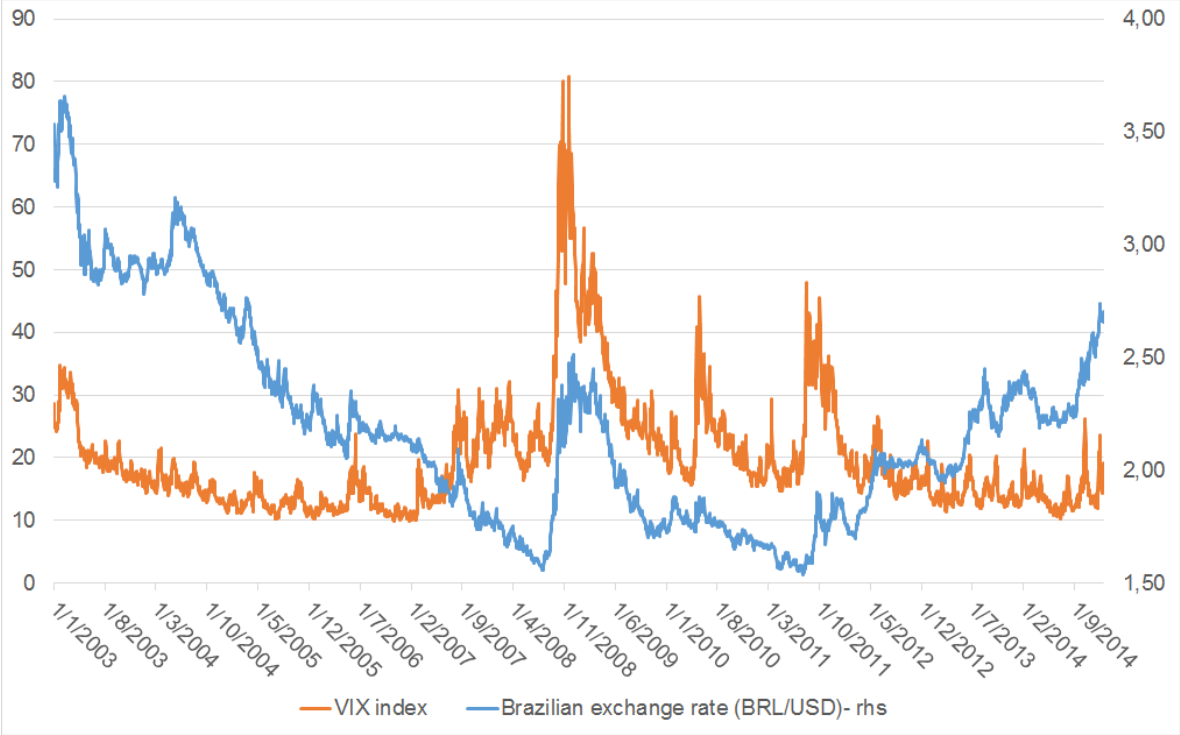
reserves, and the development of domestic financial markets were thought to help stabilize international capital flows (Caballero et al., 2004, Goldstein and Turner, 2004).

Figure 1 showed earlier that this has not been the case. In addition to their massive surge, capital flows have been characterized by high volatility, largely shaped by conditions on international financial markets. For the case of Brazil, Kaltenbrunner and Painceira (2015) show that this took place irrespective of Brazil's sound fundamentals, the massive accumulation of foreign exchange reserves and the switch from foreign currency to domestic currency debt.[31] Indeed, Brazil had become a net foreign currency creditor, nevertheless it remained subject to the violent swings of foreign capital.

The consequences were nearly as violent exchange rate movements. Figure 6 shows the Brazilian Real and the VIX, a measure of the implied volatility of S&P 500 index options and widely used indicator of international market conditions.

Figure 6: Brazilian Real and VIX

[31] Of course, these swings could have been even bigger without the accumulation of FX reserves and deeper domestic financial markets. However, if the aim was to reduce, or potentially even eliminate, the volatility of capital flows, these measures were arguably of limited success.



Source: Bloomberg

The Brazilian Real (BRL) appreciated from nearly R$3.6 at the beginning of 2003 to close to R$1.5 to the US Dollar in August 2008, but it then lost about 60% again until the beginning of December 2008 during the worst of the international financial crisis. The BRL had regained most of this loss by mid-2011 to depreciate by 16%, during the worsening of the Eurozone crisis in September 2011. This depreciation accelerated in the middle of 2013, with the first signs of US monetary policy normalization, and further in the end of 2014 due to a sharp drop in commodity prices and rising domestic political and economic uncertainty.

Just as reserve accumulation, Brazil's continued external vulnerability is the result of its rising and subordinated financial integration. On the one hand, the massive stock of foreign capital in the Brazilian economy meant that any change in international market conditions and reallocation of international portfolios had strong repercussions on the Brazilian economy. On the other hand, the

nature of these foreign investments continued to be shaped by Brazil's subordinated position in the international monetary and financial system. First, although increasingly denominated in domestic currency (in an apparent move away from the ECEs' original sin), these investments had remained short-term and concentrated in high yielding and volatile asset classes. For example, although lengthening, the average maturity of Brazil's domestic public debt was at approximately 4.3 years in 2014, one of the lowest among ECEs. The average maturity in Russia, South Africa, and Mexico was 6.3, 14.2 and 8 years respectively (BIS, 2015). Taking into account the BCB's monetary sterilisation operations (repos) the average maturity drops even lower to 2.7 years. [32] Stock market and derivatives investments are inherently more short-term as their main revenue comes from trading and securing the consequent capital gain. This short-term nature is the result of ECE currencies' subordinated position in the international monetary hierarchy as international investors are not prepared to commit longer-term funds. Short maturities allow quick and easy resale in the case of a changing international risk environment, 'compensating' for ECE currencies lower international standing.

Second, the majority of investments into ECEs remain funded in CCE currencies, most prominently the US Dollar, the world money. Due to its position on the top of the international currency hierarchy, the US Dollar is the world's most important funding currency (Shin, 2016,

[32] This maturity difference indicates that there are some specificities in Brazil which have reinforced the very short-term nature of its assets. The first specificity is Brazil's hyperinflationary history which saw the development of an institutional arrangement which linked most financial assets to government bonds remunerated at the Selic rate. This meant that these government bonds faced no interest-rate risk, which has 'crowded out' the development of other asset classes (in particular fixed income securities) with a longer maturity (normally the longer the maturity of an asset the higher its interest rate risk). While the maturity of domestic public debt has increased since, this institutional structure has remained in place (although not subject of this paper it is important to note that this institutional structure has also created severe complications for Brazilian monetary policy (see e.g. Lopreato (2008), Oliveira and Carvalho (2010)). Second, the existence of an active repo market, 95% of which is traded overnight (BCB 2016c), has had a similar effect as the liquidity and attractiveness of this market has weighed on the development of longer maturity assets. Finally, Brazil's high interest rates, in particular on the short end of the yield curve, have maintained the attractiveness of short-term assets.

McCauley and Zukunft, 2008). Its high international liquidity premium allows US agents to offer low interest rates and secures the stability of its value during periods of rising uncertainty. At the same time, the US's deep and liquid financial markets offer a wide range of instruments to investors. The US Dollar's role as the world's main funding currency, however, means that any deterioration in international liquidity conditions, and, as a result, in funding constraints, will lead to rising demand for the greenback. Investment currencies such as the Brazilian Real, on the other hand, are subject to latent depreciation pressures as any deterioration in international market conditions will result in selling pressures (for empirical evidence see, for example, Kohler, 2010).

This vulnerability to large and often unpredictable capital and exchange rate movements, however, fundamentally shapes economic agents' relations with financial markets (Coutinho and Belluzzo, 1996, Fiori, 1998). As indicated in section 2, over recent years (large) Brazilian NFCs have become very active on financial markets, both on the asset and the liability side of their balance sheets. To protect themselves against adverse exchange rate movements, exporting NFCs have increased their holdings of short-term financial assets and cash and operated on the local derivatives market to hedge their expected export revenues or shortfalls. Enticed by potential gains on the exchange rate, these operations have turned speculative in some cases, leading to substantial losses and near bankruptcies during the international financial crisis (Farhi and Borghi, 2009, Cintra and Farhi, 2009). On the liability side, Brazilian NFCs have ratcheted up their foreign currency borrowing on offshore markets. The Bank for International Settlements (BIS) shows that these external liabilities were partly related to carry trade operations. Brazilian NFCs borrowed offshore in US$

in order to invest in domestic currency assets, taking advantage of both high interest rates and favourable exchange rate movements (Bruno and Shin, 2015).[33]

Again, not only did Brazil's subordinated financial integration shape the behaviour of domestic economic agents, but it was the operations by these agents which underpinned further capital inflows. The derivatives operations of NFCs acted as counterparties to the operations of financial actors allowing them to further expand their positions. In the case of 'speculative' FX positions domestic banks most frequently acted as counterparties. In this case, banks would incur losses on the exchange rate, but would make significant gains on the interest rate margin by borrowing foreign currency offshore and lending it on to domestic companies. Domestic banks could square these positions again with foreign investors, speculating on the exchange rate. In the case of 'hedging' positions, it was either banks or indeed foreign investors who took the counterparty, taking advantage of favourable exchange rate movements.

Finally, the financial operations of NFCs provide the clearest examples of how financialisation potentially cements and exacerbates uneven development. Demir (2008) shows for Argentina, Mexico and Turkey that financial investments have crowded out real investments, thereby reducing capital accumulation. In a similar vein, NFCs' losses during financial market turmoil have negatively impacted growth. Even if certain fractions of domestic productive capital can take advantage of increased financial penetration, others might not be able to do so. In that sense, financialisation might lead to a bifurcation in the NFCs world, with large, savvy firms being able to take advantage of new financial opportunities, whereas smaller and medium sized enterprises

[33] Another reason that Brazilian NFCs tap international capital markets is closely related to monetary subordination itself. Due to the high interest rates and short-term nature of Brazilian domestic-currency assets, NFCs resort to borrowing on international financial markets predominantly in foreign currency.

lack the expertise and financial resources to effectively 'play' the game (Powell, 2013). This implication echoes older arguments that financial disintermediation (that is, the move from bank to capital-market financing) will exacerbate the unevenness of credit and lead to heightened dynamics of inclusion and exclusion (Rethel, 2010, French and Leyshon, 2004, Boyer, 2007).

Besides these implications for the 'real' economy, financialisation also arguably cements existing international currency hierarchies and the ECEs' subordinated position within them (Tavares, 1998, Braga, 1998). Whereas the US Dollar's role as the world's most important funding currency grants it substantial value stability, the opposite is the case for financialised investment currencies facing latent depreciation pressures and the likely large and sudden loss of value during periods of market turmoil. These latent depreciation pressures make (international) investors reluctant to commit longer term funds to these currencies or indeed to use them as a funding currency, cementing their subordinated position in the international monetary hierarchy.

4. Conclusions

This paper has argued that recent changes in the financial practices and relations of Brazilian economic actors have been fundamentally shaped by their integration into the world economy and the subordinated nature that this integration has taken. To illustrate its argument, the paper presented two processes. The first process was that of reserve accumulation and the financialisation of banks and households, and the second process was that of the ECEs' continued external vulnerability, which has served to intensify the financialisation of NFCs. The analytical framework underlying this analysis has been the concept of international currency hierarchies,

which is central to International Political Economy and Post Keynesian and Marxist political economy.

In carrying out such an analysis, the paper has attempted to make several contributions to the literature on financialisation. First, it has presented insights into the distinct nature and processes of financialisation outside the Anglo-Saxon core. It emphasised in particular the differential processes and mechanisms through which financialisation in ECEs has developed. Second, the paper has extended analyses of the connection between financialisation and cross-border capital flows. In contrast to existing work, it has focused on the recipients of capital and the implications of international financialisation for domestic financial and economic structures. Third, by emphasising the close connection between international monetary constellations and financialisation, it has firmly embedded the analysis within a critical analysis of money, a contribution that has been conspicuously missing from the majority of the financialisation literature. Finally, and perhaps most importantly, it has shown that not only is financialisation fundamentally shaped by ECEs' subordinated position within the international financial economy, but financialisation itself cements this position and exacerbates uneven development. This works both through the 'real' implications that financialisation has and by the self-reinforcing processes within financial markets themselves. This last point also shows the potentially important policy implications of our analysis. In line with what has been argued by critical (Latin American and Brazilian) scholars for many years (e.g. Fritz and Prates, 2013, Palma and Ocampo, 2008, Gallagher et al., 2012, de Carvalho and Sicsú, 2004, Ferrari Filho, 2008, Farhi and Cintra, 2009), in this view the prudent, comprehensive and potentially permanent management of capital account openness becomes a precondition for sustainable development processes and potential catching up.

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