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Credit and Ideology: The Policy of Payroll Deducted Credit during the Workers' Party Years*

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Despite its recent growth, the academic literature on credit displays theoretical controversies and empirical differences regarding the predominant effects of consumer credit policies. At the same time, such policies have been given central importance in the historical accounts of a government that adopted them on a large scale in Brazil: the Lula government. Drawing upon theoretical debates and descriptive content, this article aims to contribute to the existing literature by examining the trajectory of Brazilian credit policies from the perspective of its main proponents. In addition, to the analysis of relevant documents, this study is based on interviews with three groups responsible for defending the payroll deducted credit policy, the most important credit policy adopted in terms of adherence and stability in the country: 01. bureaucrats from the Ministry of Finance; 02. unionists and lawmakers linked to labor unions; and 03. financial entrepreneurs, especially those organized in Febraban. We demonstrate that, for each of these groups, the payroll deducted policy carried a specific goal and context, being framed within different arrangements of public policies. Furthermore, the involvement of each group shaped the design assumed by the policy, while the overlapping of different stakeholders optimized its chances of implementation in the legislative arena.

Keywords: Credit policies; Lulism; payroll deducted credit; microfinance; unionism.

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In view of its alternatives, credit is usually understood in critical analyses as a conservative policy instrument, either because its resource has low potential to burden the state, or because it does not promote progressive income redistribution.¹ In a highly influential interpretation, Streeck (2018, 2013) argues that the flexible labor market and low wages that characterized the 1990s in the United States were supplied - thanks to regulatory policies - by financial products that allowed families to sustain their consumption levels, a phenomenon that Crouch (2009) characterized as 'private Keynesianism'. In addition to being an alternative to wage increases, authors have suggested that the expansion of access to credit would be an option for expanding public services themselves (BICKERS and STEIN, 2000), thus fitting its resource into a paradigm of public action in which it would be considered fair and efficient to delegate to the individual the responsibility for his or her allocational choices².

In what could be seen as a paradox, credit policies grew in volume and relevance during Lula's first term (2003-2006) in Brazil. Credit and elements related to it, such as debt and consumption, were often at the center of controversy, and critics of the Workers' Party (PT) pointed out inconsistencies between their discourse and their practice — these critiques could be reclassified as 'expectations of action' and the 'actualization' of the left in power. To this end, authors relied on the international literature to show that the Workers' Party government worked towards what Hudson (1996) called the 'poverty industry' and what Mader (2016) and Schwittay (2014) termed 'financialization of poverty'³.

¹Authors such as Lapavitsas (2013) argue that credit has the potential to generate a regressive redistribution of income when loans made between financial capitalists and workers generate interest for the former.

²Starting in the 1990s, a literature emerged that used various neologisms to describe changes observed in public provision regimes, with emphasis on processes of privatization and commodification. These expressions include 'contractor state' (EARDLEY, 1997), 'Schumpeterian work state' (HOLDEN, 2003; JESSOP, 1993), 'hollow state' (ALDRED, 2012; MILWARD and PROVAN, 2003), and 'enabling state' (GILBERT, 2012, 2002; GILBERT and GILBERT, 1989).

³For example, see Lavinias (2017), Lavinias and Gentil (2018), Saad Filho and Morais (2018) and Paulani (2003), as well as Keynesian authors, such as Paula (2005). According to these authors, the economic program of the Workers' Party governments primarily favored financial entrepreneurship, rather than challenging the capitalist-bourgeois order. They also criticized the program as lacking any emancipatory or autonomous content for individuals, and characterized it as politically vague and economically eclectic.

The causal logic linking the ideological character of the governing party and the type of public policy it implemented can certainly be anchored in solid theoretical foundations. However, it may result in a false dilemma to consider that the instruments of policy themselves possess intrinsic ideological values and contents. Similarly, it may be misleading to suggest that credit policies necessarily result from conservative, fiscalist, or privatist motives. Nevertheless, ignoring the connection between a public policy and the groups interested in its implementation impoverishes the analytical framework while depoliticizing the 'governing' dimension of 'being in government'.

This article aims to redirect the discussion on credit policies in Brazil from a political sociology perspective, focusing on the identification of key actors, objectives, and conflicts involved in these policies. There is a recursive understanding in the specialized literature that credit policies are a type of policy in which there are many winners and no losers. This reading, which competes with that of the critics of financialization, is aligned with the argument often made by international institutions and development agencies: that accessing credit is an efficient way of overcoming the challenges of poverty and inequality. For these actors, the 'financial inclusion' and the 'democratization of finance' benefit the unemployed, the informal workers (including those in the countryside), and the formal workers with low incomes. In addition, women and single-parent family heads, pensioners, and students (WORLD BANK, 2005) also benefit. According to this reading, these groups make up the 'vulnerable' in a given society, even if they have different levels of socioeconomic status.

However, the alleged 'win-win' aspect of the credit policy, which would imply the convergence of various interests, obscures not only the marked differences in the objectives of the social actors involved, but also the fact that different policy designs offer different reward structures. In fact, international organizations and development agencies have encouraged - especially in the Global South (BOLTANSKI and CHIAPELLO, 2018) - the adoption of a specific model of credit policy: one that would enable the operation of private Microfinance Institutions (MFIs) which would be self-sufficient in their management and resources, and that would not count on either state competition or state interference to provide credit to vulnerable groups (CGAP, 2004). This model, as we will see

below, is quite distinct from the policy implemented in Brazil during the Lula governments.

In this analytical effort, we consider that phenomena usually described as 'social policy commodification' or even the 'financialization of everyday life', whose axiological opposites would be 'financial inclusion' and 'financial democratization', have disparate trajectories that should be explored in order to be better understood. Thus, a first argument raised in this article is that ideologically divergent actors can agree on the implementation of the same public policy, although with different motivations and different objectives⁴.

Due to its vacillations in substantive content, its manipulation by different political methodologies and theories, and even as a result of repulsive attitudes towards its totalitarian manifestations, Freeden (2006) describes the concept of 'ideology' as the 'problematic child of political analysis'. Indeed, studies on ideology have come a long way since Marx, for whom ideology - a concept with a negative axiological connotation - served to manipulate reality, usually under the command of the ruling classes: ideology, therefore, as the inverted and softened image of a world subject to the dehumanization of social relationships under capitalism⁵. But if the concept emerges depreciatively in Marx and Engels (2007) as distortion, it emerges in the work of important authors such as Clifford Geertz (1981) and Erik Erikson (1994) as an integrator of identities — a value-based shift that highlights some of the difficulties in using the concept⁶.

⁴This article does not aim to exhaust the theoretical debate on political ideologies, which is much broader and more complex than what is explained in the following paragraphs. Moreover, by adopting only Michael Freeden's theoretical perspective (2003), I acknowledge that limitations to my findings and analysis of the theme of credit 'as ideology' are inevitable.

⁵Ideology is described by Marx (apud, RICOEUR, 1997) as a 'disguise of reality', 'false consciousness', and 'distortion', in opposition to 'truth' and to what is 'real'. Later, the concept of ideology is present in the work of Mannheim (apud, RICOEUR, 1997) as the 'non-congruence' between ideas and realities, and in the work of Althusser (apud, RICOEUR, 1997) as a concept in opposition to 'science'. For Habermas (apud, RICOEUR, 1997), science itself is an ideology. In all of these cases, there would be a field devoid of ideology — the field of the 'real' — which can be accessed through reason and criticism. Not only Marxist theory views the substantive content of the concept of ideology in a negative light. In Weber's theory, which is another important foundation of the social sciences, ideology serves as a means of justifying and legitimizing established power (RICOEUR, 1997).

⁶The strong influence of Marxist ideology theory is grounded in the relationship it establishes between ideology and class, or — as Elster (1989) put it — between what is common to the situation of some individuals and the sharing of it by many, indicating power or even domination.

Specifically, one of the challenges posed by Geertz (1981) to Marxist analyses was to understand how a given interest would be transmitted, thus becoming an idea⁷. This type of questioning proposes that we think about different ideologies more than as simple instruments of political struggle, but as its very manifestation: in order to exist - at least in a democracy - a certain political group must be able to communicate its public plans and generate the necessary conviction for its ideals to be shared by the necessary majority. The implication for the theoretical debate is that, although ideologies are associated with social classes - or present a 'social causation' - in order to triumph in the public sphere they must necessarily be in dialogue with each other, so that the substantive content of one can affect the substantive content of another (FREEDEN, 2003, 1998)⁸.

In this quadrant, no ideology should be understood as a monolithic block; different parties and political movements can and - in reality - 'should' pragmatically appropriate political ideas that have diverse ideological origins and with which they have minimum affinities, even if reinterpreting them. Thus, thinking about ideologies 'as ideas aimed at intervention in the public arena' implies thinking about them as flexible arrangements of discourses and, consequently, public policy plans (FREEDEN, 2003). A policy at times associated with conservatism and at times with liberalism could thus be implemented in Brazil by a left-wing party.

A second argument raised in this article is that, in the institutional political field, the overlap of different contexts favorable to the same policy coming from

⁷The so-called 'linguistic turn' challenges Marxist understandings of ideology by proposing that language is not a transparent means of transmitting a message, and that there is always a place for the unintentional and unconscious in human thought (FREEDEN, 2006). Thus, the idea of the inevitability of a 'surplus of meanings' (RICOEUR, 1997) in discourses and written texts emerges. In this case, the study of political thought would be better understood as an effort to decode the multiple meanings of an utterance rather than an effort to 'unmask' what is not true. According to Freeden (2006), a second challenge would come with the advances of analytic philosophy and the recognition of the impossibility of a consensual determination of the values and norms that govern any activity. Accepting indeterminacy would allow us to accept constant changes in perspectives.

⁸Michael Freeden (2006) proposes what could be called a 'spatial' analysis of ideologies, which would be in opposition to an alternative approach that would analyze the evolution of various ideologies over time as if they were not connected. In his 'spatial' version, ideologies are represented as configurations of concepts that compete for meaning. This leads to a structure of decisions within each ideology, determining what its central concepts are, as well as their current meanings. The dispute between ideologies arises from the contestation of the meanings of these core concepts, a battle that takes place within the public sphere and which influences public discourse.

different social groups optimizes its chances of implementation, thus constituting an important advantage for the policymaker. Again, agreement on the implementation of the policy is possible even without agreement on its basic values or its purpose (LINDBLOM, 1959).

Finally, as working hypotheses, I propose that 01. the plastic character of credit policy is politically attractive in and of itself, which explains its recent multiplication in the international context. However, I argue that 02. the institutional actors and social groups involved in proposing a given public policy – credit policy is no exception – shape its design and, to some extent, make it unique. Finally, I suggest that 03. the preferred deliberative locus is a function of the incumbent's ideology. As a result, a left-wing government has stamped its marks and motives on the policy we will analyze, whose trajectory does not correspond to the commonly described one anchored in the US case, nor to the model defended by international organizations.

To follow up on my working hypotheses, we will then determine the actors and strategies involved in proposing a specific credit policy, implemented during Lula's first government, which stood out for its adherence and stability: the payroll deducted credit policy. In addition to the documentary analysis, twenty interviews were conducted between 2021 and 2022 with actors related to credit policies implemented during the Workers' Party governments, totaling over forty hours of conversation (see Annex 01)⁹. The interviewees were divided into three groups: 01. bureaucrats stationed at the Ministry of Finance; 02. leaders of the Unified Workers' Central (CUT), members of the Inter-Union Department of Statistics and Socioeconomic Studies (DIEESE), and parliamentarians linked to unionism; and 03. financial business people, especially individuals who were organizing at the

⁹Due to the difficulties imposed by the Covid-19 pandemic, we used Google Meet to conduct interviews. No significant difference was perceived between virtual format interviews and those conducted in person.

Brazilian Federation of Banks (Febraban) at the time of the proposal of the payroll deducted credit policy^{10 11}.

In the following section, we conclude that the payroll deducted credit bill presented to the National Congress was the result of the shock and subsequent fusion of proposals from three social and institutional actors. Then, we explore databases from the Central Bank, with the objective of highlighting the occurrence of actual changes in consumer credit availability after the measures adopted by the Lula government in Brazil.

The formation of the credit agenda in the Brazil of the Workers' Party

The role of credit in the economy is linked to its capacity to facilitate consumption and investment decisions that were previously unfeasible. In this scenario, financing for companies would provide entrepreneurs with alternative investment opportunities that have longer terms and larger scales, leading to an increase in their production capacity and potentially creating spillover effects. Conversely, financing for consumption would stimulate demand for goods and services and could also result in cascading effects at the aggregate level through a chain of cause and effect relationships. Based on these mechanisms, the specialized literature has established a correlation between financial development and improved macroeconomic performance (BENABOU, 1996; LEVINE, LOAYZA, and BECK, 2000), with credit emerging as a tool for stimulating the economy.

Through a similar line of reasoning, credit could enhance the well-being of individuals and families, either by increasing their capacity to consume, including both durable goods of higher added value and those that meet their basic needs, or by allowing investments that were previously impossible, such as housing (or better housing), complementary retirement (or financial security), and education. The menu is extensive, so as a generic instrument within the reach of the legislator, credit has great plasticity in terms of its applicability and the reasons for its establishment.

¹⁰The interview script followed a semi-structured format. The questions were organized into four main thematic areas: 01. the inspiration for credit policies, 02. the proposal of credit policies, 03. the processing of credit policies in the parliamentary arena, and 04. the debates on credit policies in non-parliamentary arenas.

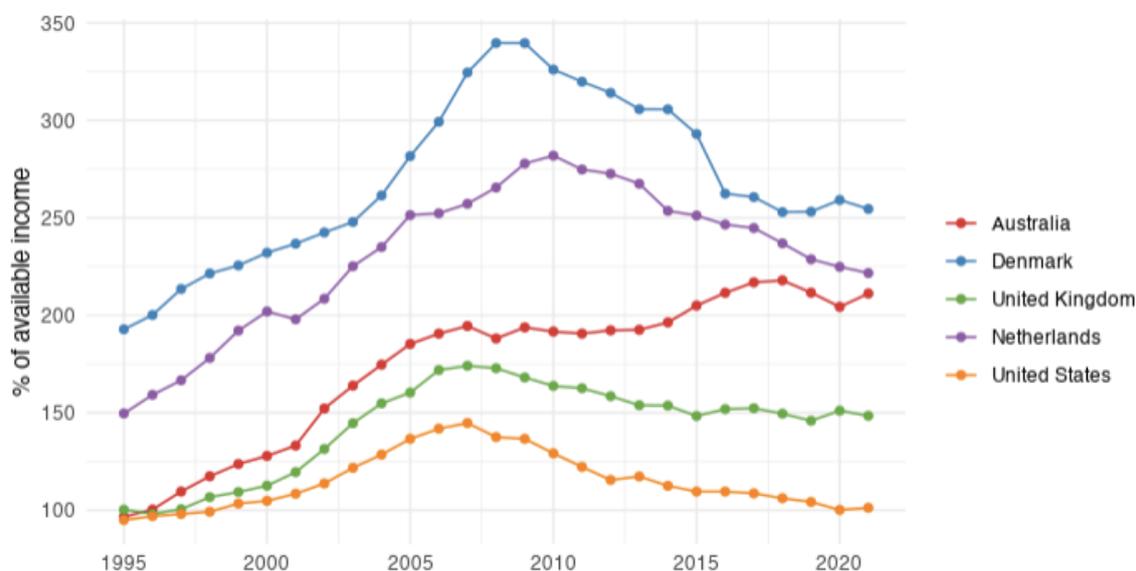
¹¹The interviewees agreed that the interviews could be recorded and that their names could be mentioned in this article.

However, credit also has unique characteristics that define its limitations. The first such characteristic is obvious, although it places a first obstacle to the previous understanding. To frame it in a formulation that belongs to Marx (2011), we do not deal with 'gift money', but with 'borrowed money'¹², anchored in a contract that foresees a counterpart: the payment of interest. The second characteristic is risk, which is the possibility of loss associated with debt default. This creates a ranking system for loans, with safer loans being less expensive and riskier loans being more costly, as determined by a profitability assessment by the banking system. For this reason, there are inherent asymmetries in the credit market, where consumer loans to 'high-risk' borrowers—such as impoverished individuals—may have rates several times higher than for 'safer' borrowers (INGHAM, 2004), resulting in entire populations being excluded from the financial circuit.

However, the relationships between borrowers and lenders underwent significant changes beginning in the 1970s. In the United States—where the expansion of personal credit was most thoroughly debated — the loan shark and pawnshop market, which traditionally operated on the fringes of the formal economy (KARGER, 2005), began to compete with the banking market in serving the needs of the so-called 'underbanked'. This expansion of the formal credit market aimed at the most vulnerable took place under the auspices of international organizations, which anticipated that access to the financial system would be the simplest and quickest solution to the problem of poverty (Cf. CGAP, 2004)¹³. At the same time, the other face of credit—debt—became accepted as a part of household life, which attests to debt's upward evolution in almost all the countries that make up the OECD, as illustrated in Graph 01 (for selected cases).

¹²In 'The Eighteenth Brumaire of Louis Bonaparte', regarding the idea of increasing the salary of non-commissioned officers and creating a loan bank for workers, Marx (2011) wrote: "Receiving gifted money and borrowing money: this was the perspective with which he expected to deceive the masses. Gifting and lending: this summed up the financial science of the lumpenproletariat, both noble and ordinary" (MARX, 2011, p. 82).

¹³The Consultative Group to Assist the Poor (CGAP) is a consortium of international development organizations – including the United Nations and the World Bank – bilateral and multilateral agencies, and public and private institutions, including banks. The group is working towards the implementation of a credit policy that operates based on the self-sufficiency of privately-run Microfinance Institutions (MFIs). This policy promotes the viability of the MFIs in their management and resources and operates without competition or state interference in its method of providing credit to the poor.

Graph 01. Household indebtedness – 1995 to 2021 - Selected countries

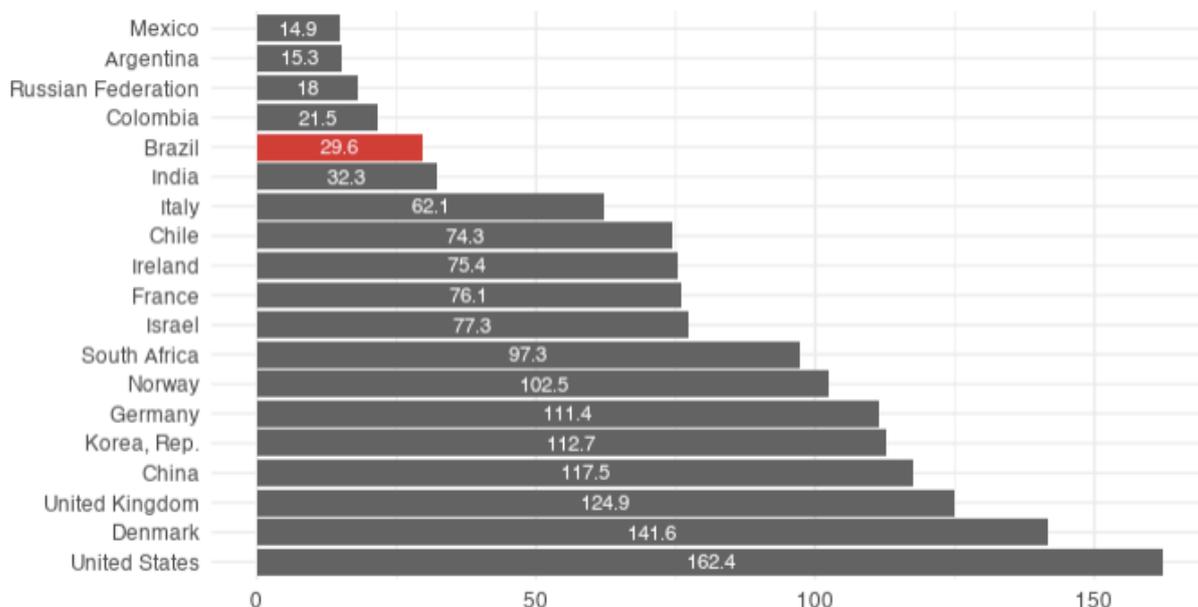
Source: Created by the author, based on OECD Data (2023)¹⁴.

In December 2002, the total balance of loans as a percentage of Brazil's GDP - which is considered a measure of the depth of the banking credit market - was only 29,60 %, according to World Bank data¹⁵, a percentage below what is observed in other developing and Latin American countries, such as Chile (Graph 02). There was thus room for expansion of operations, from which it follows that any defense of an incentive policy could legitimately rely on exposure to this global pattern of operation evolution. It was in this context that, in September 2002, a group of seventeen economists published a document in which they analyzed the causes of economic stagnation, aiming to influence the electoral debate through proposals for reforms to 'resume growth with greater social justice'¹⁶. The heart of the diagnosis contained in the document was neoliberal in essence: the low economic growth was due to an inadequate set of state actions, justified under the concept of developmentalism, which should be undone.

¹⁴Available at <<https://data.oecd.org/>>.

¹⁵The credit data from the Central Bank of Brazil and the World Bank are quite distinct due to methodological differences in their calculation (Cf. SANT'ANNA, BORÇA JUNIOR, and ARAUJO, 2009).

¹⁶Available at <<http://www.columbia.edu/~js3317/JASfiles/AgendaPerdida.pdf>>.

Graph 02. Domestic credit to the private sector (% of GDP) - 2002

Source: Created by the author based on World Bank (2023)¹⁷.

In the document, titled ‘The Lost Agenda’, the low volume of credit offered as a fraction of national income was highlighted as one of the main explanatory factors for the adverse scenario where the economy had stopped growing and inequality had not decreased. The document pointed to high interest rates and the cost of the banking spread as the most immediate causes for this scenario, and proposed a new policy to address these issues. In the context of state intervention in economic regulation, one strategy suggested to promote and lower the cost of credit was to reduce the ‘risk premium’ borne by the financial system. This ‘risk premium’ is understood by financial actors as the additional value embedded in the interest rate due to informational asymmetries between banks and their customers¹⁸.

At the time, in some types of personal loans, delinquencies represented up to 10% of the total amount of credit granted, with the notable exception of loans for

¹⁷Available at <<https://databank.worldbank.org/home>>.

¹⁸According to one of the studies presented, the determinants of the high cost of spread were of microeconomic nature and were related to the decomposition of this rate into: 01. amount of taxes incurred on financial intermediation, 02. default and additional costs resulting from the receipt of eventual guarantees, and 03. administrative expenses and the bank's own net margin. The proposed alternatives targeted defaults in particular.

vehicle purchases, as noted by the economists in their document. The low interest rates practiced in this type of loan were explained by the fact that these loans were naturally collateralized; in this case, the collateral was the purchased good itself. The proposals were guided by the reasoning that the inclusion of credible and quickly enforceable guarantees in credit agreements would reduce the risk premium borne by banks. This, in turn, would leverage investment and economic growth for the benefit of the country.

This document was presented to the economic advisors of all the presidential candidates in 2002¹⁹. After the election, one of the coordinators of the proposal, economist Marcos Lisboa, was appointed as Secretary of Economic Policy. In an interview for this article, the former Secretary details two approaches related to credit policy: a so-called 'developmentalist' approach, in which the government would directly seek to promote the development of companies and specific social groups, which he would oppose; and another approach that he called 'evidence-based', which would aim to understand why the credit market is not efficient in Brazil compared to other countries. According to Lisboa's perspective (2011), the answer to the question lies in the variation of norms for the recovery of collateral in case of non-payment. In his understanding, these differences have a significant impact on credit: "The government simply giving credit or subsidizing credit does not solve the problem, because if the problem is a high default rate, or difficulty in recovering the guarantee, even if the government gives a subsidy, the problem will continue to exist". Thus, in the former Secretary's words, payroll deducted credit would be a kind of "automatic debit in account", which would avoid the chance of the borrower choosing not to pay the debt.

In April 2003, the Ministry of Finance released an official document similar to 'The Lost Agenda' in its diagnoses and choice of priority areas for the Ministry's action. In particular, two measures aimed at reforming the credit market were introduced in 2003 and 2005. These included changes to make collateral return by

¹⁹José Alexandre Scheinkman, who led the initiative, was invited to join the economic team of candidate Ciro Gomes. However, Gomes vehemently opposed the proposals Scheinkman presented, labeling them as 'neoliberal'. The economic spokesperson for candidate Lula, Guido Mantega stated that he was opposed to most of the proposals, but sympathetic to a new bankruptcy law which was part of the structural reforms implemented in 2005 (CALDAS, 2002).

financial institutions easier through the implementation of a new Law of Fiduciary Alienation, as well as the creation of a Bankruptcy Law to enhance legal security and improve credit recovery in bankruptcy proceedings. Another important aspect that was not addressed in 'The Lost Agenda' was the exclusion of the most vulnerable populations from the banking market due to high default rates and difficulty in recovering guarantees. This issue was considered a priority and efforts were made to stimulate credit access for populations not served by traditional financial institutions (MINISTÉRIO DA FAZENDA, 2003)²⁰.

The payroll deducted credit policy was not specifically included in the April document. In the government program of the Lula President Coalition, aiming at the 2002 campaign, there were also no references to the payroll deducted credit proposal. However, from the analysis of all the government programs of Lula since the 1989 campaign²¹, two proposals are invariably present: the creation of a mass consumer market - cited by Carvalho and Rugitsky (2015) as the engine of the economic growth that occurred in the 2000s - and the promotion of productive credit, especially when directed at micro and small businesses. Based on these two main proposals, policies such as payroll deducted credit would be part of a broader strategy for economic growth based on the consumption of families under the direction of the Brazilian state, an idea defended by Mercadante (2010) and described by Bielshowsky (2012) and Carneiro (2012) as 'social-developmentalism'. Furthermore, even though it did not formulate the problem in terms of public policy, my analysis of the 2002 government program shows that the Workers' Party campaign was aware of the difficulties faced by the most vulnerable populations in view of the scarcity of loan sources²².

²⁰It is important to note, however, that the credit supply was designed to be offered by NGOs and private financial institutions, rather than through the Government Federal measures effectively implemented through MPs 121 and 122. The state's role was limited to regulating the sector. The 'Government Program - Lula President Coalition' (PT, 2002) had plans for subsidies and public involvement in initiatives aimed at supporting the solidarity economy. In an interview conducted for this study, one of the Finance Ministry's secretaries stated that Minister Antônio Palocci was pleased to merge the ministry's original proposals with the party's 'social' measures.

²¹I analyzed Lula's four government platforms that preceded the implementation of the payroll deducted credit policy, which he presented during the 1989, 1994, 1998 and 2002 campaigns. My objective was to detect if and how consumer credit appeared in these platforms.

²²According to the program: "The financial demands of low-income, marginalized populations from the conventional financial system are still enormous. To meet these demands, microcredit programs, translated as 'People's Banks,' for example, are gaining strength" (PT, 2002, p. 130).

According to the interviews, the initiative to develop a credit policy that included a payroll deduction mechanism came from CUT, managed by the president of the Metalworkers Union of ABC, Luiz Marinho. Marinho would later, as Minister of Labor, be responsible for the negotiation of the policy to increase the real value of the minimum wage. The payroll deduction was seen by the unions as an instrument to solve a specific problem encountered by workers: the commitment of part of their monthly income to paying debts contracted from the informal credit market. Credit, therefore, was given a meaning that was quite distinct from that envisioned by the economists. According to Luiz Marinho (2021) himself, in an interview for this study:

At the time of the transition, when Lula was about to take office, I had already taken over the presidency [of CUT], and we were asking ourselves, here at the union, together with DIEESE, what contributions we could make to the government to solve a serious problem that was in the midst of our category, although certainly also in other categories, in other regions of the country. A dramatic situation, in which workers from Volks, Ford, Mercedes, Scania, etc., from small to medium-sized companies, became indebted to loan sharks (...) there were workers who were 100% committed to their paychecks with the banks and loan sharks, having nothing left to take home. And we prompted DIEESE to discuss this matter (MARINHO, 2021)²³.

Loan sharking is the practice of lending through the collection of exorbitant interest rates or by obtaining patrimonial profit. During the 1990s, loan sharking was an endemic problem faced by the government of Fernando Henrique Cardoso (PSDB) in the Ministry of Justice, through efforts to increase punishment for crimes under the Usury Law. According to estimates from the National Association of Finance Executives (Anefac), at the time, the loan sharking market was valued at around 10 billion reais a year and served approximately 2 million people, with an average interest rate of 27.90 % per month²⁴.

²³Furthermore: "In this laboratory of thought on what to do and how to work on that issue, with the arrival of the Lula government, we saw that the only possibility of reducing these interest rates was to offer the counter-argument to what the banks were saying. And what was the justification of the banks for interest rates being high? Non-payment. So, let's knock down the argument of non-payment and force a reduction in interest rates. The payroll-guaranteed loan was the knockdown of the argument of non-payment".

²⁴The economist Miguel José Ribeiro de Oliveira, CEO of Anefac, was also interviewed for this study and detailed the methodology for this investigation. Also, see the article from the Folha de S. Paulo newspaper, 'Underworld of loan sharking spins R\$ 10 billion a year' published in September, 2000.

In the parlance of the workers, the loan shark at the factory gate was called 'IMF' due to the high interest rates charged. In cases where salaries were still paid in cash, reports revealed that creditors would wait at company doors to collect their payments, creating an informal and insecure system of using salaries as collateral. Customers of loan sharks were often asked for blank checks or promissory notes as security for non-payment. In the absence of these, evidence shows that property purchase and sale deeds with repurchase clauses were used as collateral for loans²⁵, as well as personal belongings such as cars, cell phones, and other items. This created an informal pawn market for credit. Payroll deducted formal and regulated loans were seen by unions and the Ministry of Labor as a creative solution, albeit with familiar mechanisms, to replace costly debts with cheaper and safer alternatives. The proposal aimed to not only increase the relative value of salaries by replacing abusive debts with more affordable ones, but also to dignify the individual customer²⁶.

Before we proceed, it is worth noting two points. This 'informal' loan market is not counted for purposes of estimating the volume of credit offered in the country, a parameter important to the economic team in the formulation of its agenda. For the unions, the demand was not to increase the security of financial institutions for an expansion in the volume of loans, but to stimulate formal operations in favor of the food security of workers. Although concatenated, these two dimensions express different priorities, a relevant observation for understanding our object of research. Secondly, the CUT's approach to the problem of loan sharking also differed from the punitive focus that was emphasized by the FHC government. In the latter, the fact that the recourse to loan sharks was ultimately a function of the need for consumption was not considered.

The goal of the CUT was to include provisions for union-mediated agreements in the future payroll deducted credit law. The CUT had already had important experiences in bipartite and tripartite negotiations. A classic example is

²⁵In the event of default, the credit operator would acquire the property at a fraction of its market value. The difficulty in obtaining evidence of usury made it difficult to invalidate the contracts.

²⁶In the 1990s, union leaders found a way for unionized workers to avoid taking out loans from informal lenders or replacing expensive debts with 'solidarity' debts. They organized credit cooperatives among the workers in the factories, which were also regulated in 2003 for the same purpose.

the agreements signed in the Automotive Chamber in the early 1990s, politically achieved by the Workers' Party (PT). They included worker unions in negotiations with the automotive sector through a parliamentary amendment²⁷. This moment represented an important turning point for CUT unionism and a change in the strategic stance of the new Brazilian unionism, sponsored by the ABC Metalworkers Union. From then on, the CUT started to act not only as a critic, but also as a participant in public policy formulation, despite opposition from some CUT factions and unions that opposed government nods or negotiated agreements, as well as intellectuals who considered it an indication of 'corporatism' (OLIVEIRA, 1993) or 'neocorporatism' (RICCI, 2013).

When the Workers' Party assumed the Brazilian presidency, not only were the agendas of the workers, who formed the party's social base, given a prominent platform for proposition, but the negotiation technologies developed and improved by the union movement were also incorporated into the government structure²⁸. Early in 2003, the Council for Economic and Social Development (CDES) was established. Unlike the sectoral policy model of the chambers, it was designed to analyze comprehensive socio-economic development policies at the national level. The CDES was based on the unprecedented gathering of representatives from the Brazilian Federation of Banks (Febraban), industrial entrepreneurs, leaders of social movements, and unionists in a single public arena (FLEURY, 2006)²⁹.

The payroll deducted credit policy was one of the first items to go through the CDES's review, under the responsibility of the Brazilian businessman Antoninho Trevisan, also interviewed for this article. It was within the scope of this council that two devices defended by the CUT were removed from the proposal that would reach the National Congress: the possibility of having differentiated interest rates for

²⁷In 1993, thanks to an amendment proposed by Congressman Aloísio Mercadante (PT), the chambers were equipped with a tripartite structure, with the inclusion of workers' unions. From these negotiations resulted important agreements, both in the reduction of the prices of popular vehicles - through reducing the profit margins of car manufacturers and reducing taxes - and in a salary plan for automotive workers.

²⁸Similarly, when Luiz Marinho assumed the presidency of the CUT, a set of experiences in the Brazilian labor movement guided his action. This was a legacy of the union's involvement in politics, which involved agreements, tactical concessions, and collective bargaining.

²⁹According to Fleury (2006), the CDES consisted of the President of the Republic, 11 ministers, and 90 representatives of civil society. The latter included 41 businessmen, 13 unions, 11 social movements, 10 personalities, 03 class entities, 02 cultural representatives, 02 religious representatives, and 07 representatives from the North and Northeast.

unionized and non-unionized individuals - a demand of a corporatist nature to favor the union association, which was opposed by the Ministry of Finance and by the banks - and a system of auditing of interest rates, which was also criticized by bankers.

In parallel to the debate at the CDES, the CUT established negotiations with the banks for the agreement of the interest rates to be charged³⁰. These negotiations were independent of the work of the Ministry of Finance, which foresaw that the forces of competition and the legal and institutional environment established for the contracts would be sufficient for the reduction of rates and for the increase in the volume of supply. Marcos Lisboa stated in our interviews that the inclusion of unionists was a "compromise solution" for the government. In his words, the government had to 'cede' its intervention in the process.

However, in the understanding of the unionists, the applicants could act collectively to set prices even lower. Soon after the release of the Provisional Measure and, therefore, before the service itself (which, according to economists, would be the mechanism that would drive competition, reducing interest), the CUT had already released a brochure detailing the characteristics of payroll deducted credit to its members, along with a table with the rates charged by nineteen registered financial institutions. Initially, the payroll deducted loan modality was met with distrust from large banks and was limited to smaller financial institutions. However, as the portfolio grew, a significant portion of the operation was transferred to larger banks, which are now the main holders. Even the Banco do Brasil - a Brazilian public bank - only became strongly involved in 2006 (COSTA, 2013).

Although payroll deducted credit was provided for in the Brazilian legal code since 1946, and was offered to federal public employees since 1990, in September 2003 it was regulated and extended to all public employees, private sector employees, retirees, and pensioners of the INSS. Provisional Measure 130 determined that up to 30% of gross salaries, pensions, and other social and labor benefits, including severance pay, could be collateralized, virtually eliminating the

³⁰In interviews conducted for this article, actors connected to Febraban also provided details on how these negotiations with CUT would have taken place.

risk of default for the lending institutions. In this mode, the collection is almost automatic and the responsibility for transfers is that of the company, union, or government agency, which also makes it possible for loans to be made to individuals whose names appear in default records³¹.

As was the case with the sectoral chambers in the face of the orientation assumed by CUT towards the negotiations, the policy of payroll deduction loans also faced criticism from minority groups within the union who opposed what they saw as 'favoritism to banks' or 'agreements with capital'. Similarly, during the Provisional Measure's passage through the National Congress, a minority faction of Workers' Party congresspeople broke away from the party, raising the accusation that President Lula was promoting a kind of favoritism to the financial system. Congresswoman Luciana Genro (Workers' Party-RS) accused the Workers' Party of fulfilling the agenda of the International Monetary Fund, leading Brazilians into debt so that bank profits could be increased. Congressman Babá (Workers' Party-PA) argued that the payroll deduction of income was part of a 'zero-risk capitalism' project, while Congresswoman Dra. Clair (Workers' Party-PR) stated that the government was encouraging "the indebtedness of workers, with guarantees never granted to the financial system" (BRASIL, 2003a). The criticism made by the unions, therefore, found its parallel in the opposition of dissatisfied Workers' Party representatives. Similarly, this critique appeared in academic debates, expressed in more sophisticated terms, but still rooted in the same underlying norms³².

The participation of the unions in the agreements for wage withholding was also heavily politicized in the National Congress. Congress people from the Brazilian Social Democracy Party (PSDB) proposed a set of amendments that either sought to weaken their position in the agreements or eliminate them altogether. The argument was that there would be unequal treatment between the parties, because

³¹Mexico implemented credit policies that are quite similar to those in Brazil under a right-leaning ideological government, the National Action Party (PAN). However, although they stimulated the expansion of credit through the same modalities and for the same target populations, the policies in Brazil and Mexico differed significantly in their outlines. In Mexico, the responsibility for offering credit to low-income populations was delegated to private financial institutions, with the state content with recognizing their operations without specific regulations to prevent abuses. This approach was in line with the recommendations of international actors such as the CGAP. Only in 2012 would the Bank of Mexico establish a limit on salary deductions (40% of salaries), but there was never any attempt to limit interest rates or union participation in negotiations.

³²For example, Lena Lavinas (2017) raises the same thesis of capture of the Workers' Party (PT) by big banks.

while employers needed the unions' consent for the agreements to prosper, the unions would sign them without any consent from the employers. The neoliberals in the Ministry of Finance supported the proposal, according to the interviews conducted. In their interpretation, the government had to give in to the participation of the unions in the wage withholding agreements, and the objective of the unionists was either 'to charge a toll' at the expense of the best interest of the borrowers, or to reinforce their bargaining power in relation to workers, but never to reduce the interest rate.

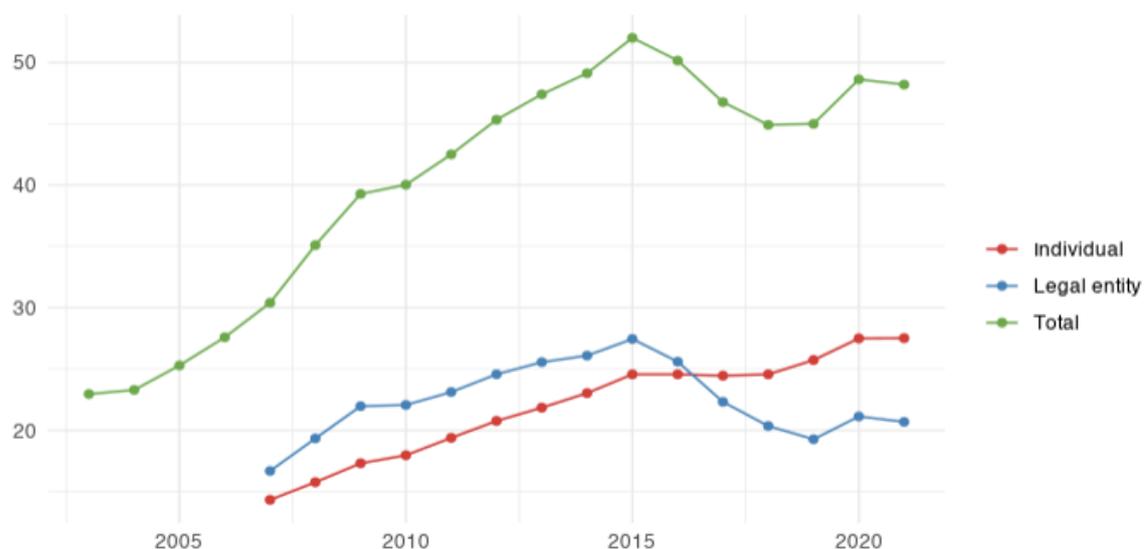
The payroll deducted credit policy and its effects

The neoliberal faction within the Ministry of Finance saw the payroll deducted credit policy as part of a package that included reforms to the Bankruptcy Law and the Fiduciary Alienation Law, which were both implemented in 2005. This arrangement aimed to reduce the 'risk premium' imposed on banks and financial institutions, increase the volume of credit offered in Brazil, and lower interest rates, with the ultimate goal of aligning the country with developed nations, particularly the Anglo-Saxon credit model. On the other hand, the unionists gathered at CUT understood the same policy as part of an arrangement to increase salaries. As a part of this arrangement, Provisional Measure 130 (BRASIL, 2003a) aimed to increase the number of Brazilians with access to credit and, above all, to cheap credit. This constituted a form of relative widening of workers' purchasing power. It is not possible to affirm that these objectives cancel each other out, as their effects can occur simultaneously, but the tactical priorities of the two groups differ. Based on this understanding, the objective of this section is to observe whether the results of the policy were compatible with the objectives of our two actors, contextualizing the object of research in time.

The Brazilian credit market underwent significant transformations beginning in the 2000s (MORA, 2015), with its operation balance in relation to national income having a rapid growth trajectory, with the exception of the interregnum after the 2015 crisis (Graph 03). The expansion of credit was part of the strategy of the Ministry of Finance. This expansion was seen in both the personal

and corporate sectors, with almost no interruptions in the personal sector³³. The growth of the credit market - from 09% of GDP in December 2002 to 28% in December 2020 - was due both to the increase in operations with free resources and targeted resources (Graph 03b)³⁴. Operations with free resources refer to contracts in which the interest rates are agreed upon between the borrower and the financial institution, which has the autonomy to allocate its resources³⁵. Consumer credit falls under this category.

Graph 03a. Evolution of the balance of credit operations (%GDP). Individuals and legal entities



Source: Created by the author based on Bacen and IBGE (2023)³⁶.

Breaking down the personal credit balance using free resources year by year (Graph 04), we can see that payroll deducted credit is the driving force behind the

³³During the crisis, companies had difficulties in fulfilling their obligations and, as a result, the risk of default reduced the amount of credit made available to them.

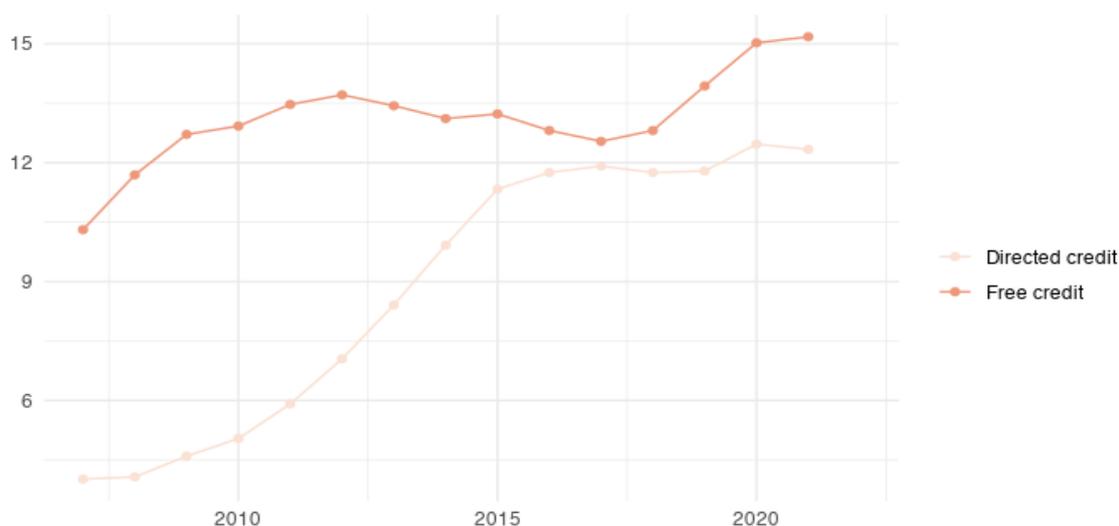
³⁴Credit operations with directed resources refer to those regulated by the National Monetary Council (CMN) or linked to budgetary resources; in the case of individuals, they largely correspond to rural credit and housing financing, which are outside the scope of this work.

³⁵See the glossary of the Central Bank of Brazil, available at <https://www.bcb.gov.br/content/estatisticas/docs_estatisticasmonetariascredito/glossariocredito.pdf>.

³⁶Available at <<https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>> and <https://www.ibge.gov.br/estatisticas/economicas/contas-nacionais/9300-contas-nacionais-trimestrais.html?=&t=series-historicas&utm_source=landing&utm_medium=explica&utm_campaign=pib#evolucao-pib>.

consistent growth in this segment. It has seen a faster expansion compared to car loan credit, which is a noteworthy parameter mentioned in 'The Lost Agenda', and credit card operations, which play a significant role in developed countries. The growth of payroll deducted credit among vulnerable social groups in Brazil was a major innovation in the credit market during this period.

Graph 03b. Evolution of the balance for individuals (% of GDP). Only individuals



Source: Created by the author based on Bacen and IBGE (2023)³⁷.

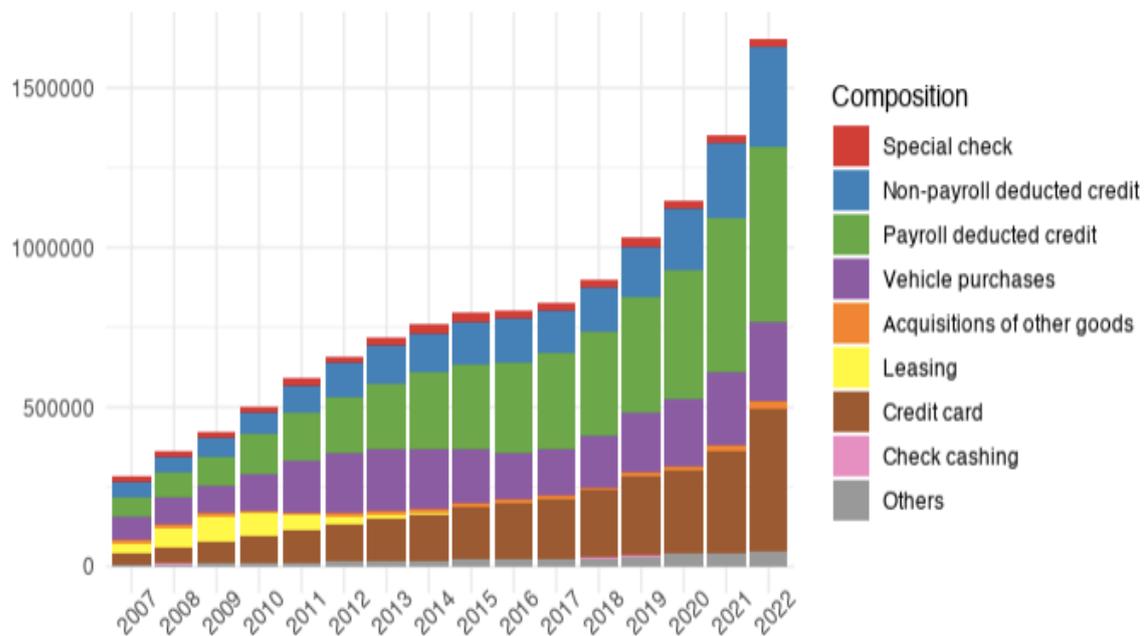
If we compare the first and last year of the series (2007 and 2022), we also see that the relative volume of payroll deducted credit within the personal credit segment has grown (Graph 05).

Finally, if we focus only on payroll deducted credit operations, we see again that even the economic slowdown of 2015 did not stop the modality's growth trajectory (Graph 06). Decomposing the balance of payroll deducted credit operations among its three groups of beneficiaries, it is also visible that it grew more among retirees and pensioners of the INSS and among public sector workers. The lower volume of payroll deducted credit operations among workers with an

³⁷Available at <<https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>> and <https://www.ibge.gov.br/estatisticas/economicas/contas-nacionais/9300-contas-nacionais-trimestrais.html?=&t=series-historicas&utm_source=landing&utm_medium=explica&utm_campaign=piib#evolucao-piib>.

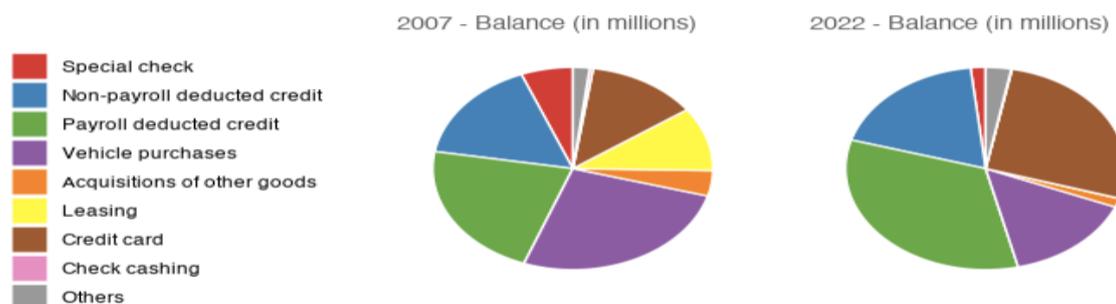
individual contract, however, has a market explanation: even within a modality with a low risk of default, banks have a preference for lending to individuals with predictable income, which does not apply to the private sector, where there is higher turnover (OLIVEIRA and WOLF, 2016).

Graph 04. Evolution of the balance of credit operations (Individuals) Balance (in millions)



Source: Created by the author based on Bacen (2023)³⁸.

Graph 05. Evolution of the balance of credit operations (Individuals)



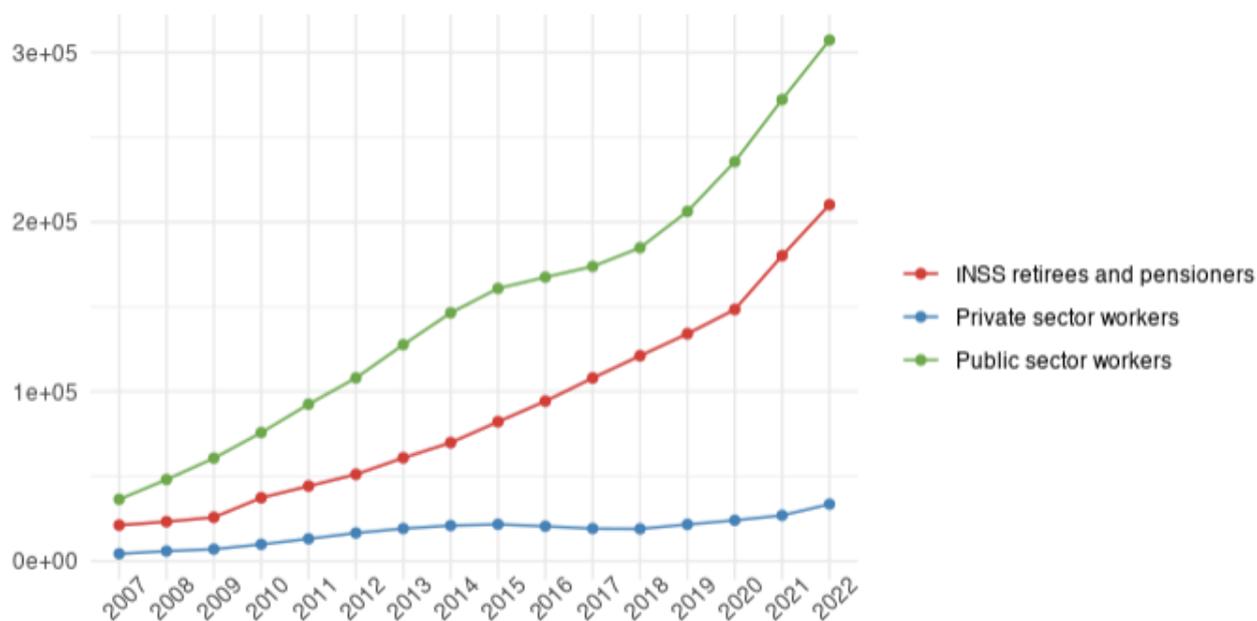
Source: Created by the author based on Bacen (2023)³⁹.

³⁸Available at < <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>>.

³⁹Available at < <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>>.

According to Provisional Measure 130, automatic deductions authorized by non-government employees could continue even in case of termination, with companies passing on up to 30% of employees' severance pay. The remaining balance was to be paid directly by the borrower, thus losing the guarantee from the financial institution. According to Neves (2012), the fact that payroll deducted credit is tied to the employment contract can lead the financial institution to consider the operation as one without collateral from the outset. In simpler terms, non-government employees are considered to have a 'weaker' collateral, which is not related to union involvement in the agreements or to banks' confidence in unionists — as was feared by the Brazilian Social Democracy Party (PSDB)'s congress people and by neoliberal economists. Rather, this categorization stems from the limitations of a policy that relies heavily on the participation of banks.

Graph 06. Evolution of the balance of payroll deducted credit operations - Balance (in millions)



Source: Created by the author based on Bacen (2023)⁴⁰.

⁴⁰Available at <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>.

To facilitate the expansion of credit for wage employees, in 2014 the National Treasury allowed banks to deduct the payment simultaneously with the salary payment, instead of only after it was credited to the worker's current account. In July 2016, under the Temer government, Law 13,313 authorized the use of 10% of the FGTS as additional collateral in payroll deducted credit operations. The law also expanded to 100% the deduction in case of termination without just cause, providing greater security to the banks but creating greater vulnerability for the terminated worker.

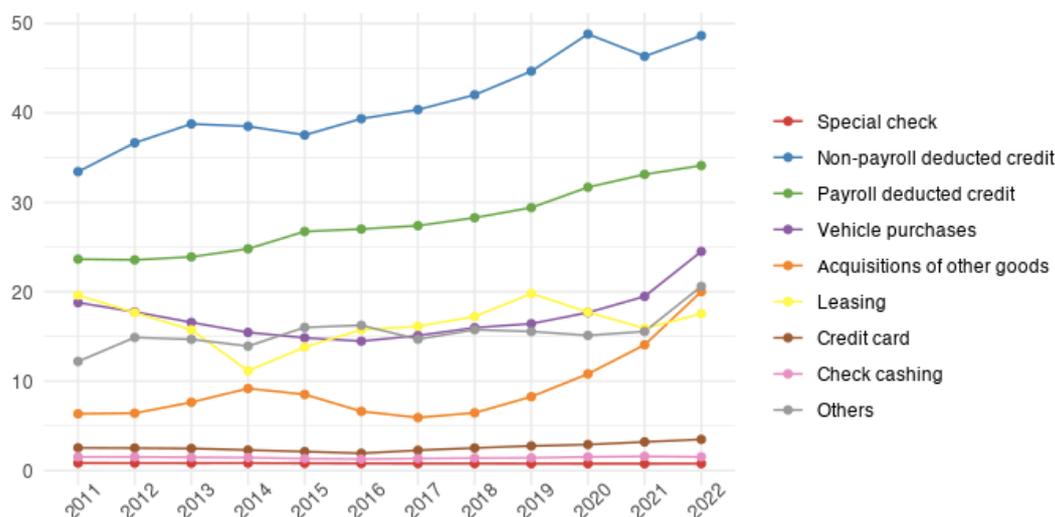
Based on the importance that payroll deducted credit had for the increase of credit operations in the country, it is possible to analyze the effects of the introduction of a new type of collateralized credit for the banks. Payroll deducted credit, along with check discounting and credit for vehicle purchases - all collateralized - have very low levels of default compared to other types of credit. The modality has significantly lower levels of default, for example, than non-payroll deducted credit and overdraft (Graph 07a). This result could suggest that policies that strengthen collateral do indeed have an impact on the ability of creditors to grant credit, reducing its operation cost (cf. COELHO, MELLO, and FUNCHAL, 2011), an argument present in the preparatory studies of the Ministry of Finance.

At the same time, when we break down the delinquency in payroll deducted credit operations among its borrowers, the level of debt non-payment is higher in the case of salaried workers due to the reasons already mentioned (Graph 07b). In the case of these workers, delinquency in payroll deducted credit was between 4.5% and 5.8% per month throughout the period, close to the credit for vehicle purchases, although still much lower than other modalities.

Focusing on the effects for borrowers, the possibility of payroll deduction for loans changed the profile of personal credit in Brazil, allowing both a reduction in the cost of the loan and an increase in the terms. In relation to non-payroll-deducted personal credit, for example, there is a reduction in the value of the installments to be paid by borrowers for the same goods or services, both due to the lower interest charged by financial institutions, and due to the longer allowed terms for debt repayment. Thus, comparatively, the monthly income of the credit borrower is reduced with the loan. When considering the rationale behind the CUT supporting Provisional Measure 130, it is important to

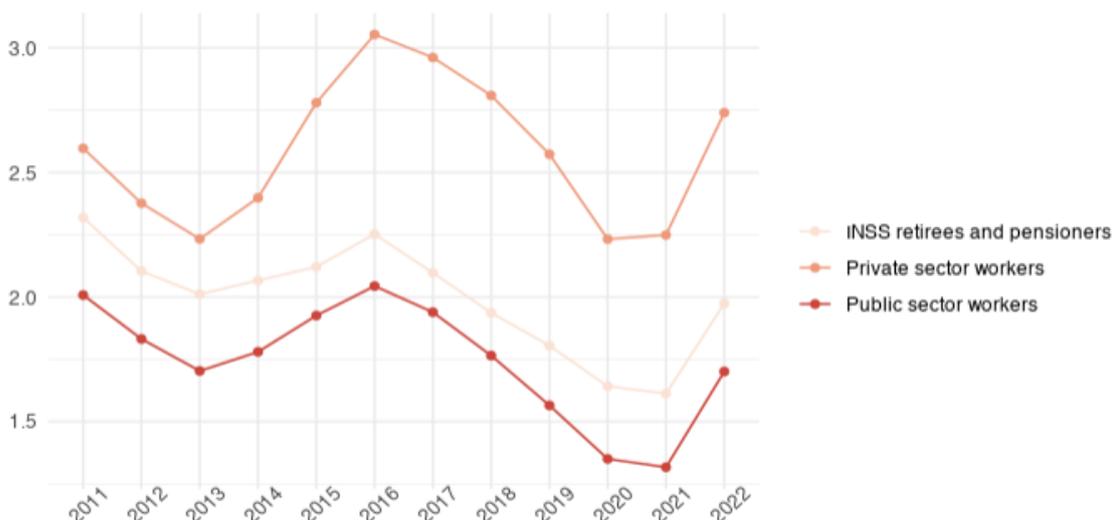
remember that the aim was to replace costly and risky debts with more secure and cost-effective debts. With the introduction of the loan modality in Brazil, the purpose of this support has once again been achieved.

Graph 07a. Delinquency with Free Resources (Individuals, % GDP). All operations



Source: Created by the author based on Bacen (2023)⁴¹.

Graph 07b. Delinquency with Free Resources. Payroll deducted credit (% of GDP)

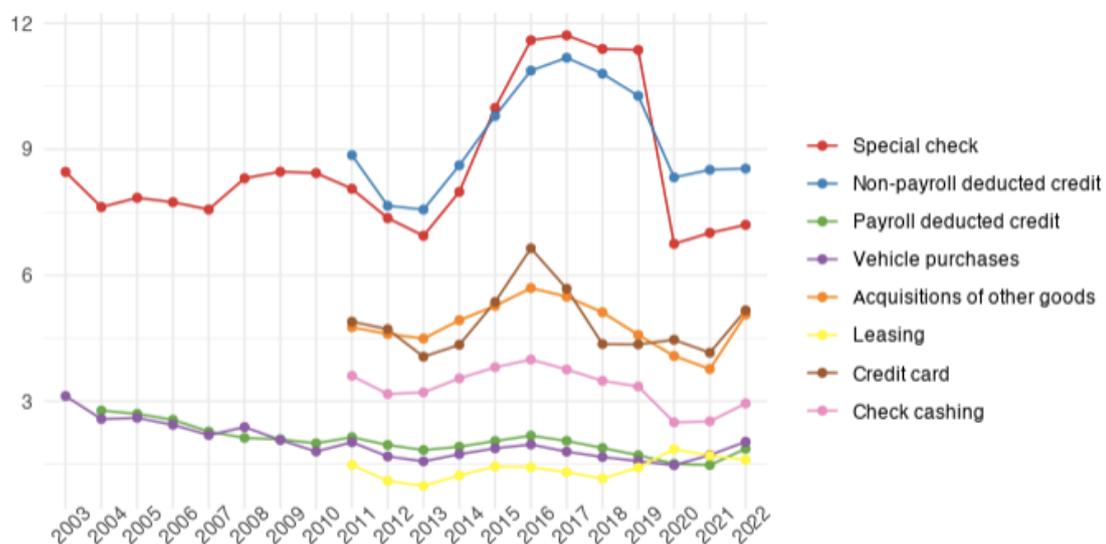


⁴¹Available at <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>.

Source: Created by the author based on Bacen (2023)⁴².

Regarding interest rates for personal loan operations with free resources (Graph 08a), the interest charged on the overdraft line is the highest in the Brazilian market, followed by the rates charged for non-payroll deducted loans, which is consistent with their high levels of delinquency. In terms of the payroll deducted loan and vehicle acquisition loan categories, not only do they display the lowest available interest rates, but also relatively stable interest rates. If we break down payroll deducted loan operations according to their beneficiaries (Graph 08b), retirees, pensioners, and public sector employees are once again favored, paying the lowest interest within the modality. In addition to the increase for the amount of credit granted, the reduction in bank costs also reduced the costs for the borrower. However, we cannot conclude that these reductions were proportional.

Graph 08a. Evolution of interest rates in operations with free resources (Individuals, % per month)



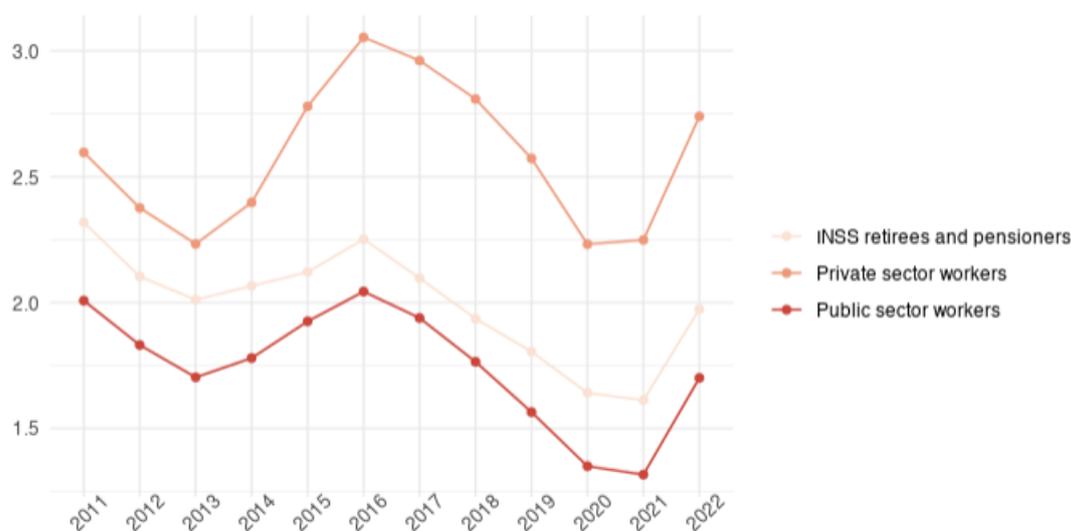
Source: Created by the author based on Bacen (2023)⁴³.

⁴²Available at <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>.

⁴³Available at <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>.

The additional presence of the union in agreements for payroll deductions certainly aided in the trajectory of reducing interest rates within the modality, both directly - through negotiations with banks in 2003 - and indirectly. Agreements for payroll deductions were made through agreements, mainly between CUT and banks. Beginning in 2006, when large banks began to offer payroll-deducted credit in greater volume, these banks sought to bypass union intermediation by making their proposals directly to workers. For these proposals to be successful, however, interest rates had to be lower than the rates agreed-upon and widely disclosed by unionists.

Graph 08b. Evolution of interest rates in operations with free resources (Payroll deducted credit) % per month



Source: Created by the author based on Bacen (2023)⁴⁴.

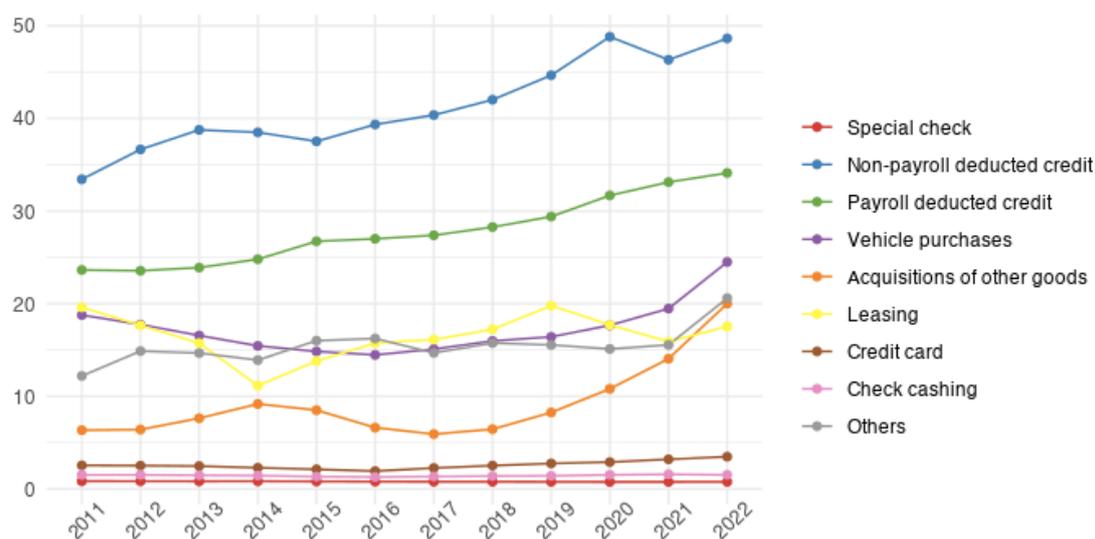
Finally, regarding the average pay-off periods for debt, the trend is similar (Graph 09a). Payroll deducted credit offers the second longest average pay-off period of the series, exceeding 80 months, which is longer than the pay-off period

⁴⁴Available at <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>.

for car loans. Payroll deducted credit only does not have the longest pay-off period among all personal loan categories because the pay-off period specifically granted to private sector workers is lower, although still high (Graph 09b).

In summary, we can safely state that the effects of introducing payroll deducted credit into the Brazilian credit market were the decrease in the risk borne by the banks to lend to targeted categories and, due to the significant number of individuals involved, an increase in the total amount of personal loans granted. At the same time, for payroll deducted credit borrowers, there was a decrease in interest rates and an extension of the pay-off periods for the incurred debt. Thus, the payroll deduction option plays a significant role in broadening the Brazilian credit market. It is more evident than the reform of the Pledge Law, for instance. At the same time, it serves the purpose of providing access to low-cost credit, if not for the entire population, then for a specific group of individuals who are eligible for the benefits of this policy.

Graph 09a. Evolution of average terms in operations with free resources (Individuals per month). All operations

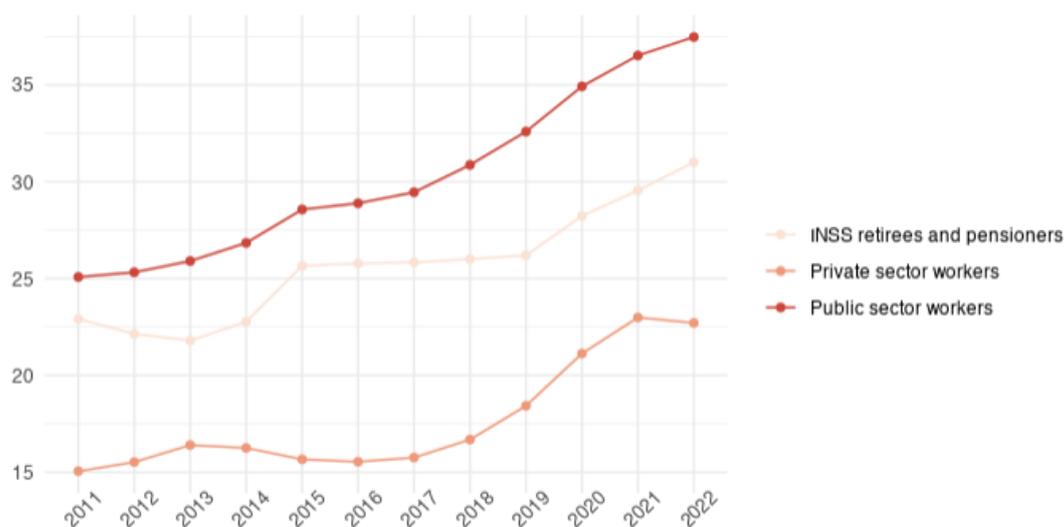


Source: Created by the author based on Bacen (2023)⁴⁵.

⁴⁵Available at <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>.

Additionally, upon analyzing the 2,800 financing grants made by the bank in the payroll deducted credit mode between October and December 2003, a study by Santander found that the main reason why its clients sought loans was precisely the payment of debts to loan sharks. A second reason was the payment of debts incurred on credit cards; in other words, the replacement of also expensive debts incurred in the formal market (ROLLI, 2003). In June 2005, Fecomércio conducted a survey with 419 retirees and pensioners and found that the payment of previous debts was also the main reason why individuals took out loans.

Graph 09b. Evolution of average terms in operations with free resources (Payroll deducted credit, per months)



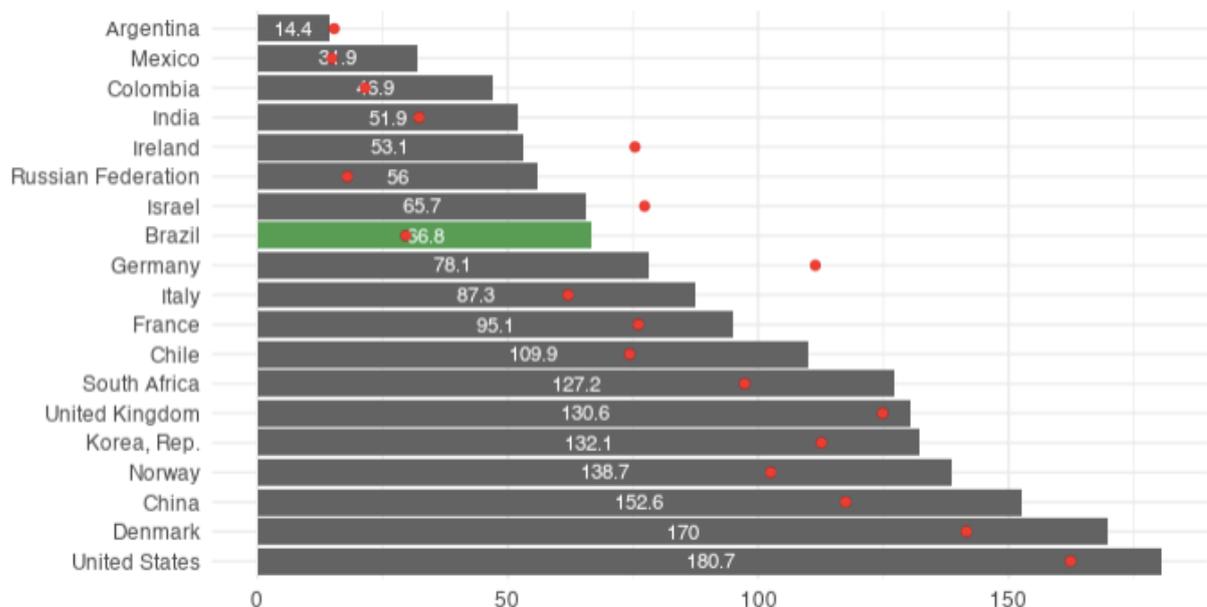
Source: Created by the author based on Bacen (2023)⁴⁶.

Regarding the data collected from the World Bank, which indicated the low volume of private credit offered in Brazil in 2002 (Graph 02), it is possible to observe not only the expansion of the Brazilian credit market in relation to national income, but also the fact that the country has followed the trend of most of the selected

⁴⁶Available at <https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>.

countries. The red points in Graph 10 represents the credit volume in 2002, illustrating that only few countries had a decreasing trajectory. The comparative analysis shows that, despite its growth, the volume of private credit offered in Brazil in proportion to national income in 2015 was still behind that offered by developed countries and even some emerging countries like China and South Africa, or Latin-American countries, like Chile. This was the peak year in the time series for Brazil. Even with its growth, the volume of private credit offered in Brazil as a proportion of national income in 2015 was lower compared to Chile in 2002. The evolution of private credit in Brazil was also slower than in Russia. Whether or not larger increases in the credit market would be desirable, the Ministry of Finance's goal of approaching the Anglo-Saxon standard was thus not fully achieved.

Graph 10. Domestic credit to the private sector (% of GDP) – 2015. Selected Countries



Source: Created by the author based on World Bank (2023)⁴⁷.

One of the reasons for this outcome is the limited volume of operations focused on housing financing in Brazil compared to other countries. This topic has been widely discussed in the context of its role in the US financial crisis, but remains little explored in Brazil (BORÇA JUNIOR and GUIMARÃES, 2015). Another reason relates to the maintenance of high bank spreads, which was

⁴⁷Available at <<https://databank.worldbank.org/home>>.

discussed in the document launched by the Ministry of Finance and by the economists of 'The Lost Agenda' in 2003. According to Oliveira and Carvalho (2007), the high spreads in Brazil are also a result of the banks incorporating the opportunity cost of foregoing investments in public securities into their net margin. Public securities offer high returns, liquidity, and security, but banks opt for credit operations instead. Thus, even though the interest rates charged on loans have declined somewhat, they remain at very high levels. This is not only due to defaults, but to a more comprehensive calculation of profitability made by the banks.

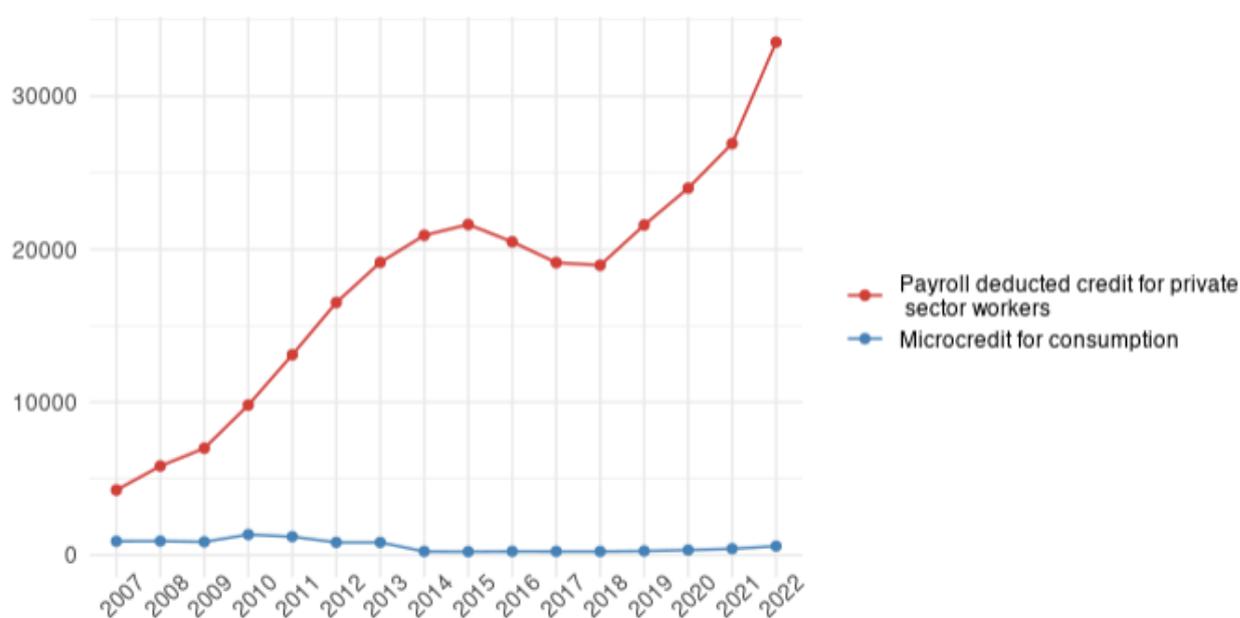
The offer of credit by banks is primarily a portfolio allocation decision, where the main deliberation is how to distribute the inherent risks of financial activity in order to ensure the highest possible profits. Allocating credit to the consumer segment is considered lower risk compared to the productive segment. However, expanding the market to individuals with lower socioeconomic status, who have a higher probability of default, required innovative credit instruments to make it an effective business opportunity. Nevertheless, there are limits beyond which further increases in the segment are no longer desirable for the offering institutions.

These considerations relate to the agendas of both the Ministry of Finance and the trade unionists. In the case of the latter, the expansion of employment and income levels, facilitated by the economic growth of the 2000s and by income redistribution policies (including the increase in the minimum wage), were vital to the expansion of credit. The objective of the trade unionists was not only to open the formal financial market to wage-earning workers, but to ensure that these workers had access to cheap credit, which would reduce the burden of paying interest on their income. As seen in Graphs 08a and 08b, payroll deducted credit is the cheapest option of consumer credit currently available in Brazil, although the actual volume offered to wage-earners is small. The alternative to payroll deducted credit for the lower socio-economic status group are microfinance loans. Although the interest rates on these loans are lower, the volume of available microfinance loans is even smaller.

The microfinance policy was also approved in 2003 through the twin Provisional Measures 121 and 122 (BRASIL, 2003b and 2003c), which

focused on informal workers. The law had a cap on the interest rate charged by financial institutions in this modality. However, as shown in Graph 11, the balance of these operations is quite limited in Brazil given the very high level of default they show, which is higher than that of non-payroll deducted credit. At the same time, this loan model requires specific offering technology, involving the use of bank correspondents and the territorial expansion of agencies, and also requiring willingness and investment on the part of potential creditors. The interest rate cap instituted by the provisional measures, which reflects the greater vulnerability of this segment, also limits the net margin of financial institutions. All of these considerations are obstacles to the projects of 'financial democratization' and 'financial inclusion' defended by international organizations.

Graph 11. Evolution of the balance of credit operations (Individuals) R\$ (in millions)



Source: Created by the author based on Bacen (2023)⁴⁸.

In Brazil, both informal workers, who do not have pay stubs to be collateralized, and non-contributory pension and retirement recipients, who do not meet the criteria for payroll deducted credit, still face a shortage of safe and cheap credit. To make matters more difficult, these groups lack strong and organized

⁴⁸Available at <<https://www3.bcb.gov.br/sgspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>>.

advocacy groups that represent their interests. Salaried workers were among the beneficiaries of payroll deducted credit as per Provisional Measure 130 (BRASIL, 2003a), enjoying lower interest rates for loans which were often used to consolidate previous debts. However, political creativity for a larger increase in the volume of loans for these groups would come up against the very purpose of financial institutions.

Conclusion

The right and left, progressive and conservative dichotomies describe how different ideologies are politically applied (FREEDEN, 2003), rather than just existing as abstract concepts. These ideologies actively participate in shaping public discourse, undergoing processes of adaptation and synthesis, with the ultimate goal of persuading others. Thus, the agendas of parties or groups located at one pole or another do not correspond to symmetrical opposites, as they may present common proposals and specific agreements. In this study, we seek to analyze a policy that was part of distinct political platforms, albeit with different institutional designs. The inherent laxity of dichotomies is a reflection of the challenges faced by the ruling party (POMBENI, 2006), which negotiates what is feasible before implementing its agendas. In these terms, public policies that have the plasticity of the payroll deducted credit policy offer the advantage of aggregating diverse interests in their defense, to the benefit of the proposer.

From this understanding, this study aimed to determine who were the interested actors in the approval of the consumer credit expansion policies implemented in Brazil during the Lula government (2003-2010) and, in particular, what were their motivations. The focus was on the policy of payroll deducted credit, as it is the most significant in volume today. In addition to the documentary analysis, we relied on interviews with political actors and analysis of data provided by the Central Bank.

We argue that one of the mechanisms dependent on the ideology of the incumbent is the determination of the preferential locus of debate. Thus, one of the actors was the CUT, which organically allied with the then incumbent Worker's Party. The CUT supported Provisional Measure 130 as a way to broaden

the relative purchasing power of Brazilian workers through debt substitution, in an arrangement with the wage increase policy. Another actor was the Ministry of Finance, whose agenda was connected with that of a group of economists pursuing neoliberal reforms. This group saw payroll deducted credit, together with other microeconomic reforms, as a means of stimulating private investment in Brazil. Although there may be similarities between what these actors expected from the policy, their objectives thus differed significantly.

In detailing the effects of the payroll deducted credit policy on creditors and borrowers, we showed that these effects were consistent with the goals of the unionists and the neoliberals. However, both groups also had reservations about the policy. These reservations were related to the limits of a public policy that relies on the adherence of institutions whose profit-oriented purposes do not necessarily match any public agenda. Nevertheless, the increase in consumer credit in the country after the policies instituted is evident.

Before becoming an eminently conservative policy, as stated in the critical literature, payroll deducted credit was part of what Singer (2012) referred to as the 'Lulist arrangement': a set of reformist policies aimed at reducing poverty and activating the domestic market, although without challenging the established order or the interests of capitalists. A prerequisite for the success of this model is the magnitude of the needs of the 'lower classes'. Despite being slow and demobilizing, Lula's reformism was, after all, reformist in nature. It built a policy focused on the interests of the less fortunate, even if under the background of economic orthodoxy. The role of payroll deducted credit within 'lulismo' is evident, as it has proven to be a point of agreement between conflicting interests. This has led analysts to misjudge it as a policy that is free of conflicts and disputes.

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Annexes

List of Interviewees

Name	Date of the interview	Interviewee Bio
Ana Carolina Tosetti Davanço	February 18 th , 2021	Economist for the ABC Bankers' Union. A specialist in public management, she defended a thesis on financial inclusion. Tosetti Davanço worked as a parliamentary advisor and in the PT leadership in the Legislative Assembly of São Paulo.
Antoninho Trevisan	April 27 th , 2021	Auditor and entrepreneur. Since 2003 he has been a member of CDES, having been responsible for presenting the Payroll deducted credit proposal of the Lula government to the council. In 1983, he founded Trevisan Auditors and Consultants and, in 1998, Trevisan Business School. Between 1986 and 1987, he was Secretary of State Company Control at the Ministry of Planning.
Antônio Carlos Castrucci	February 16 th , 2022	Production Engineer. In 2003 he was director of Febraban. Between 1997 and 2000, he held the position of President of ABBC.
Bernard Appy	February 17 th , 2021	Economist. Between 2003 and 2005, he was the executive secretary of the Ministry of Finance. Appy signed the exposition of motives for MP 130/2003, which proposed the Payroll deducted credit policy. In 2008 he was a special advisor to President Lula in the preparation of tax and fiscal reform proposals. Between 2010 and 2011, Appy was the director of strategy and planning at BM&F Bovespa. In 2015, he was a co-founder of the Citizenship Center (CCiF).
Fernando Nogueira da Costa	April 7 th , 2021	Economics professor at Unicamp. Between 2003 and 2007, he was Vice President of Finance and Capital Markets at Caixa Econômica Federal. During the same period, he was the Executive Director of Febraban. Nogueira da Costa also worked as a consultant for CONTRAF-CUT and Organized the PT Economist's Core in Rio de Janeiro.
Glaucia Campregher	July 25 th , 2022	Economist and university professor. Campregher worked in the government secretariat of Rio Grande do Sul during the Olívio Dutra administration, having been one of the individuals responsible for PortoSol microcredit. She taught courses on macroeconomics and the Brazilian economy at Unisinos and UFRGS. Campregher is currently a professor at UFBA.
Jefferson da Conceição	February 2 nd , 2021	Economist and university professor. Conceição is coordinator of the Public Policies, Entrepreneurship, Innovation and Conjuncture Observatory at USCS. He worked at DIEESE/CUT from 1987 to 2009, serving at the ABC Metalworkers Union DIEESE Subsection until 2004 and at the National CUT DIEESE Subsection until 2009. Conceição was a member of CDES from 2005 to 2010.

José Francisco Siqueira Neto	January 28 th , 2021	Lawyer and university professor. Siqueira Neto was a lawyer for the Metal Workers Union from 1983 to 1990, having advised the PT during the Constituent National Assembly proceedings. He then worked as a legal advisor for CUT. From 2003 to 2005, he was technical coordinator of the National Labor Forum. Siqueira Neto was also a researcher at the International Labor Organization (ILO).
Luis Carlos Haully	December 16 th , 2021	Politician and tax consultant. Haully completed seven consecutive terms as a congressman from 1991 to 2019. Between 2003 and 2007 he was a federal deputy for the PSDB and vice-leader of the party. Twice he took a leave of absence from the position to assume the position of Secretary of Finance of Paraná. Haully is an expert in tax policy and works with micro and small businesses.
Luiz Marinho	January 27 th , 2021	Politician and unionist. Between 1996 and 2003, Marinho was the national president of CUT. Previously, he held the positions of treasurer, secretary-general and vice-president of the same institution. Between 2003 and 2004, he took over as the president of the Food Security Council, and was responsible for the credit programs for family agriculture. Between 2005 and 2007, Marinho was the Minister of Labor and, between 2007 and 2008, he was the Minister of Social Security.
Marcos Lisboa	February 3 rd , 2021	Economist and CEO of Insper. From 2003 to 2005, Lisboa was Secretary of Economic Policy at the Ministry of Finance. From 2006 to 2013, he served as President and Vice President of Itaú-Unibanco Bank. Lisboa is one of the signatories of the 'Lost Agenda' document.
Marcos Tresmondi	March 31 st , 2021	Geographer and trade unionist. Since 1996, Tresmondi has been an advisor to the Secretary of Administration and Finance of CUT. Among others, he was responsible for the agreements between banks and unionized workers to establish payroll deduction loan contracts.
Miguel José Ribeiro de Oliveira	April 6 th , 2021	Economist. Ribeiro de Oliveira is Executive Director of Studies and Research at the National Association of Financial, Administrative and Accounting Executives (ANEFAC).
Otávio Damaso	February 11 th , 2022	Economist. Between 2003 and 2008, Damaso was the Deputy Secretary of Economic Policy at the Ministry of Finance. Before taking office in 2003, he was the coordinator of the department for financial affairs. He has been a career employee at the Central Bank since 1998. Damaso is currently the Director of Regulation at the Central Bank, where he has served as the Chairman, and has—since 2007—been a member of the Board of Directors of the Caixa Econômica Federal.
Roberto Luis Troster	February 16 th , 2022	Economist and university professor. Troster was chief economist of Febraban from 2001 to 2006.

Roberto Pires Messenberg	November 29 th , 2021	He was also the chief economist of ABBC and worked as a professor at PUC-SP. Economist. In 2003, Pires Messenberg was the Deputy Secretary of Economic Policy in the area of macroeconomics. Currently, he is a Planning and Research Technician/Ipea/ DIEST.
Tarcísio Zimmermann	April 30 th , 2021	Politician and sociologist. Zimmerman was a federal deputy for Rio Grande do Sul for three consecutive terms, from 1999 to 2009, always as a member of the PT (Workers' Party), which he helped found. Between 2009 and 2013, he was the mayor of Novo Hamburgo (RS) and, between 2015 and 2019, he held a term as a state deputy in Rio Grande do Sul.
Tarso Genro	April 11 th , 2021	Politician and lawyer. In 2003, he was the executive secretary of CDES. Genro was Minister of Education between 2004 and 2005, Minister of Institutional Relations between 2006 and 2007, and Minister of Justice between 2007 and 2010. In 2005, he became the national president of the PT. Previously, Genro was elected councilor in Santa Maria (RS), federal deputy, mayor of Porto Alegre (RS), and governor of Rio Grande do Sul.
Wagner Guerra Jr.	February 7 th , 2022	Economist. In 2003, Guerra Jr. was the Deputy Secretary of Economic Policy in the area of microeconomics. He is a career employee of the Central Bank. Guerra was Deputy Secretary of Macroeconomic Policy during the Fernando Henrique Cardoso administration.
William Thomazzi Salasar	April 7 th , 2022	Journalist. Thomazzi Salasar has been the director of communication at Febraban since 2006. Between 1982 and 2002, he was the assistant editor of finance at the newspaper Gazeta Mercantil. He has also worked at the O Estado de S. Paulo newspaper and at the Exame magazine.
