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Rentiers and distributive conflict in Brazil (2000–2019)

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The paper examines the determinants of rentier income in contemporary financialised capitalist economies by analysing the case of Brazil. It argues that different drivers of rentier income may have comparable potential to channel a substantial share of aggregate income to asset owners. The paper estimates an expanded functional income distribution for Brazil for the period between 2000 and 2019, which distinguishes between rentier income, wages, profits of enterprise and government income. In the last two decades, the share of rentier income in Brazilian GDP has fluctuated around an approximately stable trend even though its composition has changed profoundly. The estimation presented allows for an analysis of the role played by financial expropriation (i.e. interest payments out of wage income) in this expanded functional income distribution, which points to alternative results concerning the recent trajectory of the wage share of income and of the distributive conflict.

Key words: Financial expropriation, Rentier income share, Functional income distribution, Brazilian economy
JEL classifications: B51, E25, E44

1. Introduction

Luiz Inácio Lula da Silva, president of Brazil between 2003 and 2010 and elected for a third term in 2022, frequently claims that the banks never made as much money as they did in his government, resenting the fact that they allegedly turned against his successor, Dilma Rousseff.[1] Indeed, headlines of record profits accrued by banks

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[1] See, for instance, a speech he made in March 2016, available at https://tvuol.uol.com.br/video/nunca-ganharam-dinheiro-como-no-meu-mandato-diz-lula-sobre-banqueiros-04020D183666C0C15326.

regularly show up in the press, anecdotally suggesting that the Brazilian economy is a notorious example of the centrality of financial institutions and financial interests in contemporary capitalism. For a long time, Brazil had extraordinarily high interest rates, a common feature among peripheral economies (Bonizzi, 2013). In particular, the high policy rate aimed at attracting foreign capital flows to an economy heavily dependent on external financing (Paulani, 2010). Recently, however, these two salient aspects of the Brazilian economy—the high policy rate level and the dependence on foreign capital—went through substantial transformations.

In October 2016, about two years into one of the most massive recessions in Brazilian history, the central bank began a round of monetary easing with unprecedented depth. Starting with the nominal policy rate at 14.25% (close to the average rate observed in the previous two decades), the central bank had already taken it below 7% by December 2017—the lowest level since the establishment of inflation targeting in 1999. But it did not stop: the policy rate fell further and, with the onset of the pandemic in 2020, reached 2% (implying a negative real rate). Brazil seemed to have finally caught up with the recent world pattern of low policy rates. However, it did not last long. As we write in June 2022, the current ongoing round of monetary tightening which began in March 2021, has already taken the nominal policy rate back above 13%.

The dependence of the Brazilian economy on foreign capital also underwent a marked change. The immense accumulation of foreign reserves by the government since the mid-2000s altered its position from a net foreign debtor to a net foreign creditor and reduced its dependence on incoming capital flows, even if net external indebtedness still characterises part of the private sector.[2] In less than a decade, between 2005 and 2012, foreign reserves held by the central bank were multiplied by around seven, from 53.8 to 373.1 billion dollars (see Kaltenbrunner and Painceira, 2018, esp. pp. 279–301).

There is a vast literature aimed at coming to grips with these changes and their meaning to the financialised character of capitalist accumulation in Brazil (Kaltenbrunner, 2010, 2015; Dos Santos, 2013; Kaltenbrunner and Painceira, 2015, 2018; Rezende, 2016; Biancarelli *et al.*, 2017; Bruno and Caffe, 2017; Lavinas, 2017; Lavinas *et al.*, 2017; Bresser-Pereira *et al.*, 2020). The present research aims to contribute to these efforts by examining a hitherto overlooked question: how these changes have impacted income distribution and the distributive conflict. To do so, it estimates the trajectory of the share of income related to rentier activities, comparing it to the shares appropriated as profits of enterprise, wages and government income. One of its main results is bringing to the fore a distributive consequence of rising workers' indebtedness and the commitment of larger shares of wage income to interest payments.

The estimates presented in this article show that, in the last two decades, the rentier income as a share of Brazilian GDP has fluctuated around a slightly increasing trend, but its composition has changed profoundly. In the first decade of the twenty-first century, rentier income relied on a rising financial expropriation of workers' households, as property income received from the government declined with falling interest rates in a context of abundant international liquidity. However, between 2012 and 2013,

[2] Such changes in the Brazilian government's external position may be temporary, of course. Moreover, as suggested by Biancarelli *et al.* (2017), the absence of a balance of payments crisis in the recent period does not necessarily mean that external vulnerability was overcome, given that the economy remains strongly related to international financial and productive cycles.

rentiers exhausted their ability to increase financial expropriation and experienced an income squeeze. Finally, with the economic collapse observed in 2015 and 2016, the rentier income share recovered to its previous peak due to a strong monetary tightening. In the stagnant period that followed, between the recession and the beginning of the pandemic, our measure of rentier income observed a relative decline, associated with the falling interest rate. Nevertheless, this may have been compensated by an asset price inflation not captured by the data used for this research. In short, the Brazilian case indicates the plasticity of rentier income and its ability to adapt to changing economic circumstances.

The empirical effort undertaken effectively provides a way to assess an expanded functional distribution of income and, thus, contributes to the literature that has been empirically analysing the Brazilian distributive conflict (Serrano and Summa, 2012; Dias and Ruiz, 2016; Rugitsky, 2017; Saramago *et al.*, 2018). The estimate presented here shows, in contrast to previous research, that the wage share of income—when interest payments are accounted for—has fallen almost continuously between 2001 and 2011. In other words, the present research suggests that a significant part of national income appropriated by workers via real wage gains was redirected towards rentiers via interest payments associated with rising household debt. More broadly, it suggests that growing pervasiveness of household indebtedness brings with it the need to rethink the determinants of the functional income distribution.

The first section after this introduction examines the theoretical literature that has examined the role played by rentiers in distributive conflict. Section 3 turns to the previous empirical literature that estimated rentier income shares, describing the similarities and differences between the present exercise and the previous ones. Section 4 focuses on the trajectory of the different components of rentier income. Section 5 contextualises the trajectory of the rentier income share in the political economy of the period. Finally, Section 6 offers concluding remarks.

2. Bringing rentiers in: a tripartite distributive conflict

In Part 5 of Volume 3 of *Capital*, (Marx, 1894/1991) examines 'the division of profit into interest and profit of enterprise' and how it is associated with the dynamics of class conflict in capitalism (see also Van der Pijl, 1984/2012, chap. 1; Pivetti, 1985, 1991; Panico, 1988; Argitis, 2001; Harvey, 2018, Vol. 2, chaps. 5–7). According to Marx, 'this division (…), once it becomes a qualitative one, receives this character of a qualitative division for the total capital and the capitalist class as a whole' (Marx, 1894/1991, p. 499). The division of the capitalist class opposes money capitalists and functioning capitalists (which include both industrial and commercial capitalists) (Marx, 1894/1991, p. 472). Marx indicates in this way that different functions performed by capital in its reproduction process (money capital, productive capital, etc.) tend to be borne by different factions of the capitalist class (the money and the functioning capitalists).

Whereas functioning capitalist is a more elementary category, the definition of money capitalist (henceforth referred to as rentier) is a knotty task, especially considering contemporary forms of capital accumulation. Since rentier activities and sources of income have been historically transformed and diversified (Duménil and Lévy, 2001, pp. 583–4; Paulani, 2014; Chesnais, 2016), a general definition could consider both their ties with the traditional forms of financial activity, credit relations and banking

(Hilferding, 1910/1981), and with the reproduction of fictitious capital that characterises contemporary financialisation (Lapavitsas, 2009, 2013; Fine, 2010, 2014).

It is controversial whether such an association of different functions of capital with a division of the capitalist class is (still) valid, especially as financialisation has allegedly blurred the distinction between money and functioning capitalists (Lapavitsas, 2009, pp. 141–3). There is, however, an extensive literature that focuses on the role of rentiers in class conflicts. Some of these works examined the relations between interclass conflicts (i.e. between capitalists and workers) and intraclass conflicts (between the two factions of the capitalist class). In such a way, a tripartite distributive conflict is conceived, resulting in a functional income distribution that has three (rather than the usual two) components: wage, profit of enterprise and rentier income.

Kalecki (1943) may have been one of the first modern economists to follow this lead in his classic '*Political Aspects of Full Employment*'. Although his focus is mainly on the conflict between capitalists and workers, he claims that 'lasting full employment' tends to coincide with price increases, as capitalists attempt to compensate for rising wages. Such price increases occur at 'the disadvantage of small and big *rentiers* and makes them "boom tired"' (Kalecki, 1943, p. 329). Interclass conflict overlaps with intraclass conflict, as rising wages and prices are obtained at the expense of the rentier income.

Later literature followed Kalecki's footsteps and explored the cyclical nature of the distributive conflict, contributing to further specifying these connections. Boddy and Crotty (1975), for instance, corroborate Kalecki's suggestion that rentiers stand to lose in the boom, but, for them, the same is true for the functioning capitalists. Kalecki assumed that profits increased with full employment, given higher capacity utilisation rates and capitalists' ability to pass wage increases along to prices. His main argument was, thus, that capitalists would oppose full employment policies, *despite* the higher profits received. For Boddy and Crotty (1975), however, empirical evidence suggests that profits actually decline in the boom, as Marx had claimed, and the alliance between rentier and functioning capitalists for contractionary policies, predicted by Kalecki, becomes more straightforward given the alignment of their economic interests.

In Epstein's (1996, p. 685) view, 'the Kalecki and Boddy-Crotty analyses are each applicable depending on the nature of the exchange rate regime'. Under flexible exchange rates, currency depreciation might compensate for functioning capitalists' losses, making a profit squeeze becomes less likely. Once profits are preserved, there is no convergence between rentiers and capitalists on supporting contractionary government policies, given that full employment results only in a rentier squeeze. According to him, 'rentiers might have sufficient political power to convince the government, and particularly the central bank, to impose restrictive macroeconomic policy, even before industrialists become concerned about the increasing political power of labour' (Epstein, 1996). Kalecki's 'political business cycle', in this view, could result only from rentiers' pressure. However, under fixed exchange rates, Boddy and Crotty's (1975) 'analysis is more likely to apply'.[3]

This literature focussed on the effect of inflation on rentier income, paying little attention to the potential influence of the interest rate level in these dynamics. The gap was filled by the works of Pivetti (1985, 1991) and Panico (1988), who introduced into a Sraffian framework the tripartite distributive conflict (see Argitis, 2001,

[3] In later work, Epstein (2002/2019) suggests that, in financialised environments, rentiers might be interested in 'asset inflation' bubbles and prefer lower interest rates alongside functioning capitalists.

pp. 461–4; Lima and Setterfield, 2010, pp. 24–6). In contrast to Marx's formulations, this approach assumes that wages are not paid in advance but are instead the residual component of the tripartite distribution. Thus, the relation between interest and profit rates ends up determining the wage share of income. More specifically, by considering exogenous the interest rate, permanent changes in monetary policy, through its impact on the cost of production (borrowing cost is assumed to be part of the cost of production), affect prices and through them, the profit and wage rates. As a result, contractionary monetary policy tends to raise production costs, increase prices and intensify the pressures on real wages (Pivetti, 1985, 1991; Panico, 1988). Argitis (2001), however, stresses that functioning capitalists might be unable to transfer rising costs from higher interest rates to prices, depending on the level of workers' organisation and the ability to obtain rising money wages.

It should be mentioned that Keynes was also concerned about the role played by rentiers, referring to them, in the *General Theory*, as 'functionless investors' and famously defending the 'euthanasia' of the rentier class (see, on Keynes' views on the issue, Seccareccia and Lavoie, 2016: pp. 207–9). His works on this theme were continued by Post-Keynesian economists working with models of growth and distribution. They have focussed on the effects of interest rate changes on accumulation, rentiers' position in the distributive conflict and dividend payments. Regarding the tripartite distributive conflict, the Post-Keynesian framework is similar to the Kaleckian and Sraffian ones. Depending on the conditions assumed for class disputes (i.e. the degree of wage flexibility or the mark-up elasticity to the interest rate), variations in interest or dividend rates affect non-financial firms' mark-up and alter income distribution among capitalist factions and workers (Dutt, 1989; Hein, 2007; Hein and Van Treeck, 2007, 2010).

Notwithstanding the several analytical possibilities that arise from the tripartite distribution, concretely distinguishing functioning capitalists from rentiers in contemporary capitalism may prove to be more complicated than the literature above suggests (Lapavitsas, 2009, pp. 141–3). First, as capital gets more concentrated and centralised, individual capitalists tend to alternate between the two roles, transforming their accumulated profits of enterprise into interest-bearing capital. In this case, '[w]hat initially appears as a relation between class factions is actually internalised within the persona of the individual capitalist', when he embraces 'two very distinctive roles'. (Harvey, 2018, p. 472) Second, the separation between ownership and management also complicates the clear identification of the two factions, especially due to the growing importance of financial activities and markets (Duménil and Levy, 2001, p. 584). Marx himself noted this phenomenon when he analysed the 'formation of joint-stock companies', arguing it entailed the '[t]ransformation of the actual functioning capitalist into a mere manager, in charge of other people's capital, and of the capital owner into a mere owner, a mere money capitalist' (Marx, 1894/1991, p. 567). Third, shares of non-financial corporations are increasingly owned by financial institutions (Glyn, 2006, p. 56; Lagoarde-Segot, 2017), and an extensive literature discusses the engagement of the former in financial activities and their reliance on financial gains (Krippner, 2005, pp. 182–6, Fiebiger, 2016; Rabinovich, 2019). It is noteworthy, however, that if part of the processes mentioned above could blur the frontiers between the two factions, they could also, alternatively, lead to the establishment of a 'financial aristocracy', separated from—and opposed to—functioning capitalists (Marx, 1894/1991, p. 569; for a recent assessment see Hager, 2015).

In light of the above, it may be plausible to argue that despite the enduring relevance of differentiating capital functions (interest bearing, industrial, commercial, etc.) in the accumulation process, their embodiment in functioning capitalists and rentiers has become subject to more complex historical specificities. In any case, identifying how the income flows related to different functions of capital affect the functional distribution of income remains a fruitful endeavour. Besides, the conflict inherent in the division of profit between interest and profit of enterprise might still lead, in specific places and contexts, to the organisation of conflicting (and identifiable) factions, consisting of groups predominantly involved in, respectively, commodity production and rentier activities. That is, different functions of capital may underlie, in certain junctures, specific intraclass conflicts, as class struggle is not merely a reflection of class structure but emerges from the interplay of these structures and the historical processes of class formation, being thus contextually contingent (Wood, 1982).

3. Data and definitions

Attempts to empirically examine the tripartite distributive conflict are less abundant than theoretical discussions about it. For the present purposes, two lines of research focussed on estimating rentier shares of income need to be analysed.[4] The first of them is the one represented by the work of Epstein and his co-authors, which aims to compare intertemporal and international trends of financialisation in OECD countries (Epstein and Power, 2003; Power *et al.*, 2003; Epstein and Jayadev, 2005). Referring to Marx's and Kalecki's views on the rentier class and considering data limitations, they define rentier income as 'profits earned by firms engaged primarily in financial activities plus interest income realised by all nonfinancial non-government resident units, i.e. the rest of the private economy' (Epstein and Jayadev, 2005, p. 50) The rentier income is, then, divided by gross national product (GNP) net of government expenditures to arrive at the rentier share. Although this approach allows for comparing the rentier share across countries and through time, it does not lend itself to examining the distributive conflict, given that the other shares are not defined.

The second line of research was first proposed by Dünhaupt (2012) and later taken forward by Hein *et al.* (2017, 2018). Its starting point is precisely the referred limitation of the former approach. In Dünhaupt's (2012, p. 474) words, while Epstein and his co-authors 'present a comprehensive picture about the evolution of rentier income shares, they do not provide evidence at whose expense rentiers could increase their share in national income'.

This line of research offers an alternative calculation of the rentier share, allowing for a comparison of the tripartite distribution among rich economies and within them. In this case, the rentier income is defined as the net property income of households, given that 'on balance, corporations and the government pay for the rentier income of the household sector with only a very small positive rentier income of the corporations. Therefore, it is the private household sector to which the money ultimately goes'. (Dünhaupt, 2012, p. 477) As a consequence, the net national income is divided into three parts: retained earnings of corporations (financial and non-financial profit income), net property income (rentier income) and compensation of employees (wage

[4] Similar efforts, although less connected to this empirical exercise, can be found in Argitis and Pitelis (2006), Duménil and Levy (2001) and Kohler *et al.* (2019), among others.

income). Ultimately, it offers a narrow definition of the rentier share by excluding the financial sector's profits and property income from the rentier income.

The estimates for the rentier share of income in Brazil presented here are based on a definition that combines elements from the two approaches presented above. On the one hand, following Epstein and his co-authors, profit and property income of the financial sector are included in rentier income. On the other, following Dünhaupt, the definition aims at dividing the national income in a way that makes the distributive conflict explicit. Concretely, we divide gross national income into four parts, following national accounting conventions: rentier income, wages, profit of enterprise and government income. Rentier income (R) is defined as:

$$R = \mathrm{GOS_f} + \mathrm{NPI_f} + \mathrm{IIR_h} \quad (1)$$

where $\mathrm{GOS_f}$ is the gross operating surplus of financial corporations, $\mathrm{NPI_f}$ is the net property income received by them and $\mathrm{IIR_h}$ is the interest income received by the households.[5]

Conventionally, wage income (W) is defined as the sum of total employees' compensation (EC) and a share of gross mixed income ($\mathrm{GMI_w}$), which is calculated in a way proposed by Gollin (2002). In the present research, however, the aim is to account for the redistributive effects that arise from including the rentiers. W is, therefore, defined in the following, where $\mathrm{IIP_h}$, which represents the interest income that is paid by households, is subtracted from the sum of the other components:

$$W = \mathrm{EC} + \mathrm{GMI_w} - \mathrm{IIP_h} \quad (2)$$

Profit of enterprise (P), in its turn, is defined in a way to capture mainly the income of non-financial corporations (both gross operating surplus and net property income) and the 'profit income' appropriated by capitalist households and family firms. Concretely, we estimate it as follows:

$$P = \mathrm{GOS_p} + \mathrm{GMI_p} + \mathrm{NPI_p} \quad (3)$$

where $\mathrm{GOS_p}$ represents the economy's gross operating surplus net of the financial corporations' and the governments' shares (i.e. $\mathrm{GOS_p} = \mathrm{GOS} - \mathrm{GOS_f} - \mathrm{GOS_g}$). $\mathrm{GMI_p}$ is obtained by subtracting from total gross mixed income the amount allocated to wage income ($\mathrm{GMI_p} = \mathrm{GMI} - \mathrm{GMI_w}$). Finally, $\mathrm{NPI_P}$ is calculated by subtracting from the economy's net property income the net property income received by financial corporations ($\mathrm{NPI_f}$) and the government ($\mathrm{NPI_g}$), as well as from the net interest income received by households (IIRh): $\mathrm{NPI_p} = \mathrm{NPI} - \mathrm{NPI_f} - \mathrm{NPI_g} - \mathrm{NII_h}$, where $\mathrm{NII_h} = \mathrm{IIR_h} - \mathrm{IIP_h}$). $\mathrm{NPI_p}$ is usually a negative component.

Last, government income (G) is defined as the sum of the government's gross operating surplus ($\mathrm{GOS_g}$), taxes (net of subsidies) on production and imports (NT) and net property income ($\mathrm{NPI_g}$):

$$G = \mathrm{GOS_g} + \mathrm{NT} + \mathrm{NPI_g} \quad (4)$$

Considering rentier income, wages, profit of enterprise and government income together—that is, definitions (1)–(4)—one obtains the gross national income (GNI). In

[5] 'Households' refer to the sum of households and non-profit institutions serving households (NPISH). In the national accounts, property income includes interests, distributed income from corporations, reinvested profits from foreign direct investment, income from investment disbursements and income from natural resources. It may be interesting to note that the latter grew substantially in the period under consideration, but remained nevertheless a relatively minor share of total property income.

other words, the four income components 'exhaust' gross national income. It becomes clear after a simple algebraic manipulation. Adding definitions (1), (2), (3), and (4) results in the following:

$$R + W + P + G = \text{GOS} + \text{GMI} + \text{EC} + \text{NT} + \text{NPI} = \text{GNI} \quad (5)$$

Then, dividing by GNI, it is possible to obtain the four shares (see also Table 1):

$$\frac{R}{\text{GNI}} + \frac{W}{\text{GNI}} + \frac{P}{\text{GNI}} + \frac{G}{\text{GNI}} = 1 \quad (6)$$

The definition above implicitly considers dividends received by non-financial corporations and households as part of the profit of enterprise instead of part of the rentier income. This issue divides the two lines of research discussed above. Dünhaupt (2012, p. 474) includes dividends in rentier income, claiming that this option is adequate to a 'broader perspective regarding financialization', given that dividend income 'is certainly a major channel of influence of increasing shareholder power on income distribution'. For the purposes at hand, however, including dividend income in the profit of enterprise share seems more appropriate. This is the option of Epstein and Jayadev (2005, p. 49), who claim that '[e]xcluding dividends of nonfinancial firms [from rentier income] thus allows us to talk about possible divergences of interest between finance and industry'. In any case, the role played by dividends in the Brazilian case is highlighted in the next section.

The treatment of the interest income of households also deserves justification. The option of considering the interest income received as part of rentier income and deducting interest paid from the wage share is based on the recent literature about the role of workers' indebtedness in contemporary capitalism. Mainly, it refers to the recent effort by Marxist literature to conceive the growing role of consumer finance from a value-theoretic perspective (Dos Santos, 2009; Fine, 2009, 2010; Lapavitsas, 2009; Harvey, 2010; Lattanzi-Silveus, 2019). As argued by Lapavitsas (2009, pp. 126, 129), commercial banks, pushed by the 'declining reliance of large corporations on bank-finance', have turned to workers to defend their profits, taking advantage of the latter's increasing involvement 'in the mechanisms of finance in order to meet elementary needs, such as housing, education, health, and provision for old age'. In his view, this move represents a diversification of the sources of financial profits enabled by financialisation since the extraction of 'financial profit directly out of the personal income of workers' (Lapavitsas, 2009, p. 115) occurs as banks appropriate part of the

Table 1. *Expanded functional income distribution*

	Rentier income	Wage income	Profit of enterprise	Government income
EC		EC		
GOS	GOSf		GOS – GOSg − GOSf	GOSg
GMI		GMIw	GMI − GMIw	
NT				NT
NPI	NPIf + IIRh	−IIPh	NPI − NPIf − NPIg + IIPh − IIRh	NPIg

Source: Authors' own elaboration.

wages besides a share of surplus value. This phenomenon is defined by Dos Santos (2009) and Lapavitsas (2009) as financial expropriation.

Their formulation was criticised, first, because it does not offer a precise theorisation about the relationship between financial expropriation and the determination of the value of labour power. Second, it conceives the mechanism of financial expropriation as a reminiscence of pre-capitalist usury, suggesting that it is not essentially capitalist and, therefore, cannot be related to contemporary forms of labour exploitation and capital accumulation (Fine, 2009, 2010). Following this argument, Lattanzi-Silveus (2019) finds it problematic that Lapavitsas considers that financial expropriation manifests itself independently and alongside exploitation. For him, the growing importance of consumer finance must be understood as 'an integral part of modern capitalism', and financial expropriation 'can only take place on a broad scale if it helps increase or at least does not decrease the ability of capital to extract surplus value' (Lattanzi-Silveus, 2019, p. 107, fn. 18).

If it is true that such a controversy has implications for the analysis of the longer-term consequences of workers' indebtedness in Brazil, the identification of an immediate impact of consumer finance on the wage share via interest payments—which is the focus of this article—could be accepted by both sides of the dispute. There seems to be a common understanding that 'the proximate source of banking profits out of provision of personal finance are the deductions from wages' (Fine, 2009, p. 11). In this article, 'financial expropriation' refers to this uncontroversial aspect of workers' indebtedness. Data to capture it is limited, especially due to the difficulty of distinguishing workers from capitalists' households in national accounts (Lapavitsas, 2009, p. 13). Nevertheless, it seems to be an adequate approximation to assume that most of the IIRh accrues to the capitalist ones and that interest payments are mainly made by workers (BCB, 2015, p. 123).

The present estimation is based on data from the Brazilian System of National Accounts' Integrated Economic Accounts, which cover the period between 2000 and 2019. By analysing data for two decades, we do not focus on longer-term trends of the functional distribution of income, as the two above-mentioned lines of research do. Our goal, instead, is capturing the medium-term distributive conflict and its cyclical rather than structural aspects. Still, the intricate relation between these two dimensions must be recognised.

Regarding the estimation method, at least three general caveats are worth mentioning. First, the separation of households according to paid and received interest income suggests a strict division that neglects the intermediate layers of the class structure. If, on the one hand, these middle classes have been mainly net payers of interest, their incorporation would allow us to assess the trajectory of the wage share net of interest payments due to the distinct trajectories of the income share of the working classes and the middle classes. As previous research has identified a relative decline in middle classes income during the 2000s economic expansion in Brazil (Figueiredo Santos, 2015; Loureiro, 2020A), it may be the case that workers did not entirely bear the fall of the wage share reported in the present article and that the decline of the latter's share was milder than suggested by our data. On the other hand, if the middle classes have been net receivers of interest payments, then part of the estimated rentier income share was not appropriated by the capitalist class but by this intermediate layer, tying them to rentier interests, with potentially significant political implications.

The other two caveats refer to the fact that data limitations have not allowed our estimates to capture rentier and government income in their entirety. Regarding the former, we do not consider capital gains (one major source of rentier income), especially in periods in which low-interest rates lead to asset price inflation. Bringing capital gains in may attenuate the negative impact of falling interest rates on rentier income share. Nevertheless, a simple replication of Epstein and Power's (2003) method of estimating capital gains to Brazilian data suggests that, if included in rentier income, they add considerable volatility to the expanded functional distribution but do not have a clear impact on trends.

Regarding government income, the approach adopted here does not fully capture how fiscal policy mediates the distributive conflict, as it incorporates only indirect taxes, leaving out direct taxation. Consequently, it follows a conventional national accounting distinction between primary and secondary income distribution, with indirect taxes being part of the former and direct taxes only of the latter (SNA, 2008, chaps. 7–8). A different estimate of the functional income distribution, fully incorporating redistributive transfers (including direct taxation), would likely reduce the income shares flowing to capitalists and increase that appropriated by workers (Silveira *et al.*, 2020, 2021). However, there is no reason to expect that the trends would be substantially impacted during the period examined for this article. Future research could explore ways to deal with the issues mentioned in these three caveats.

Finally, to the best of our knowledge, there is only one previous attempt to estimate Brazil's rentier share of income, undertaken by Bruno and Caffe (2018). The main difference between the present definition and the one adopted by them is that the latter includes the gross operating surplus of the financial sector in the profit share instead of in the rentier share. In any case, the present paper complements this previous effort, given that the estimations are used for different, if related, purposes.

4. Rentier income in Brazil (2000–19)

Before examining the expanded distributive conflict, it is useful to analyse the trajectory of the rentier income share in more detail, disaggregating its two main components (Figure 1, Table 2): the income appropriated by financial firms (i.e. GOSf + NPIf) and the IIRh.

4.1 Financial firms

Oliveira (2016, p. 244) has recently suggested that 'a striking characteristic of the Brazilian banking system' is the capacity of its private firms to earn high profits in different contexts, that is, both in periods of prosperity and crisis. However, he argues that the gradual decline of real interest rates increased the impact of the business cycles on the largest banks, as it raised 'the importance of revenues from credit operations' (Oliveira, 2017, p. 8; see also Freitas and Cagnin, 2014 and Santos, 2016, for recent empirical analyses of the Brazilian financial sector). As can be seen in Figure 1, after a volatile period in the early 2000s, the share of income appropriated by financial firms halved between 2007 and 2012, declining from 4.90 to 2.45%, as the average annual real policy rate fell continuously—from 12.64%, in 2005, to 2.17, in 2013 (see Table 5)—and, between 2012 and 2013, interest rate spreads were forced downward

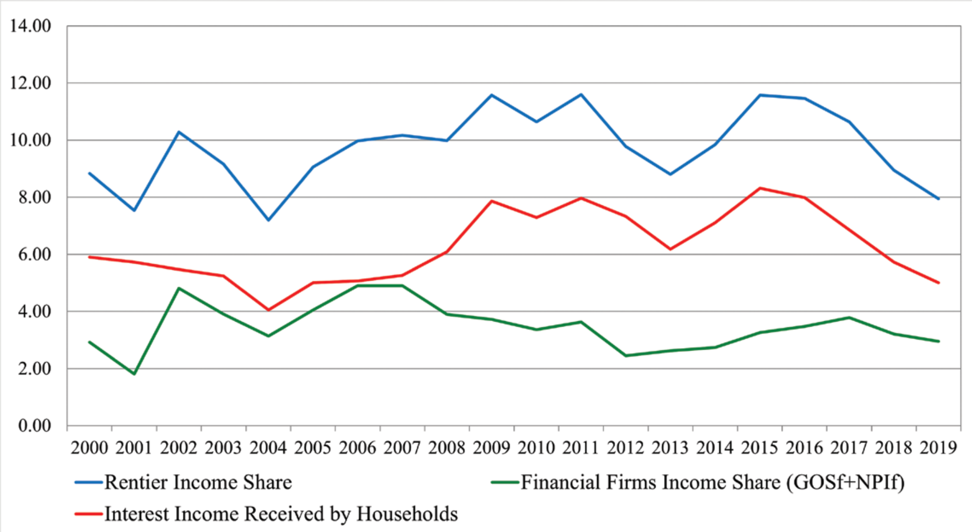

Fig. 1. *Rentier income share and its main components in Brazil (2000–19).*
Source: Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.

deliberately by the government (resorting to the competitive pressure exerted by the public banks).[6]

The trajectory of the share of income appropriated by financial firms since 2012 also seems to be closely connected to the real policy rate. Both recovered from the troughs in 2012 and 2013, respectively, but were not able to restore the levels observed in the early 2000s. The financial firms' income share peaked at 3.78 in 2017, whereas the real policy rate recovered to 7.28 in 2016. Then, between 2017 and 2019, they drift downward, once more in parallel fashion. Evidence from econometric exercises corroborates the interpretation that the policy rate plays a significant role in explaining financial firms' income, finding a direct impact of the policy rate on Brazilian banks' return on equity (ROE) and return on assets (Bittencourt *et al.*, 2017).

The importance of the trajectory of the interest rates to the income appropriated by financial firms should not be underestimated. But a more disaggregated examination of the data indicates that it does not tell the whole story and brings the trajectory of dividends to the fore.[7] Between 2000 and 2007, financial firms received, on average, more dividends than they paid out. These positive net dividends constituted a minor part of the financial firms' income share, but it was a positive part nonetheless. From 2008 onwards, however, the level of dividends paid increased markedly and net dividends became negative: it averaged −0.47% of gross national income between 2008 and 2011, −1.12 between 2012 and 2014, −1.57 during the crisis years of 2015 and 2016 and finally

[6] Considering the contested nature of the national accounting conventions related to banking activities (see Christophers, 2011), especially regarding the flow of interest, GOSf is not examined separately from the net property income of the financial firms in the present paper. Both are considered income related to the rentier activities specific of financial firms.

[7] The other components of the financial firms' net property income should be studied more carefully in future research.

Table 2. *Rentier income share in Brazil (2000–19)*[a] *[%]*

	Rentier income share	Disaggregated rentier income share			
		Financial firms			IIRh
		GOSf	NPIf	Total	
2000	8.83	2.54	0.38	2.92	5.90
2001	7.53	2.85	−1.04	1.81	5.73
2002	10.28	3.84	0.97	4.81	5.47
2003	9.16	3.69	0.22	3.91	5.25
2004	7.19	2.92	0.22	3.14	4.05
2005	9.06	3.46	0.59	4.05	5.01
2006	9.98	3.45	1.45	4.91	5.07
2007	10.17	3.63	1.27	4.90	5.27
2008	9.98	3.04	0.86	3.90	6.08
2009	11.58	3.18	0.53	3.72	7.86
2010	10.64	3.42	−0.06	3.36	7.28
2011	11.59	3.17	0.46	3.63	7.97
2012	9.77	3.05	−0.60	2.45	7.33
2013	8.80	2.76	−0.14	2.62	6.18
2014	9.83	3.20	−0.47	2.73	7.10
2015	11.57	3.61	−0.35	3.26	8.31
2016	11.47	4.23	−0.76	3.47	7.99
2017	10.64	3.97	−0.19	3.78	6.86
2018	8.94	3.62	−0.41	3.21	5.73
2019	7.95	3.74	−0.79	2.95	5.00
Period averages					
2000–03	8.95	3.23	0.13	3.36	5.59
2004–07	9.10	3.37	0.88	4.25	4.85
2008–11	10.95	3.20	0.45	3.65	7.30
2012–14	9.47	3.00	−0.40	2.60	6.87
2015–16	11.52	3.92	−0.56	3.37	8.15
2017–19	9.18	3.78	−0.46	3.31	5.86

[a]Shares of gross national income.
Source: Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.
Notes: GOSf, gross operating surplus of the financial firms; NPIf, net property income of the financial firms; IIRh, interest income received by households and non-profit institutions serving households.

−1.83 between 2017 and 2019. If net dividends had remained positive, the decline in the income appropriated by financial firms would have been much milder. Forewarned by the abundant literature that has studied dividend income, one should not exclude the possibility that the trend above reflects a rising shareholder-value orientation (Lazonick and O'Sullivan, 2000).[8] But a different explanation may be responsible for a significant part of it: the anticipation of dividend payments from the Brazilian development bank to the Treasury for fiscal policy purposes (see Biasoto and Afonso, 2014, pp. 268–73).[9]

[8] This is suggested, for instance, by the relative growth in profit participation (around 9% on average) and interest on equity (around 10%) as shares of financial firms' net profits between 2000 and 2017, according to data from the BCB. Other possible indicators of trends in shareholder-value orientation (like share buybacks) might be considered in future research. See Lazonick (2014).
[9] Average dividends received by the government (as a share of GNI) increased from 0.33, between 2004 and 2007, to 0.62, between 2008 and 2011.

Unfortunately, it is not only the development bank that may bias the interpretation of the data. The central bank is also included as part of the institutional sector 'financial firms' in the Integrated Economic Accounts of the Brazilian System of National Accounts, something that is not peculiar to Brazil but a common issue for exercises that resort to this kind of data (see Power *et al.*, 2003, Appendix; Silva and Santos, 2016). However, examining the ROE of major Brazilian banks—public and private—allows us to conclude that the trajectory observed in the national accounting data is not an artefact (Figure 2 and Table 3).[10]

The ROEs of Banco do Brasil, Itaú and Bradesco go through a clearly discernible declining trend between 2006 and 2012, falling on average from 41.2 to 29.8%. The exception is the trajectory of the ROE of Caixa Econômica Federal, which remains stable during these years, probably due to the reliance of this large public bank on government-subsidised housing credit. The trajectory of the ROEs of the major banks since 2012 is less closely connected to the estimate of the financial firms' income share from the national accounts, the former presenting greater volatility. After a brief recovery between 2013 and 2015 (especially notable in the case of the private banks), the ROEs of the major banks declined with the recession of 2015 and 2016 and recovered mildly afterwards.

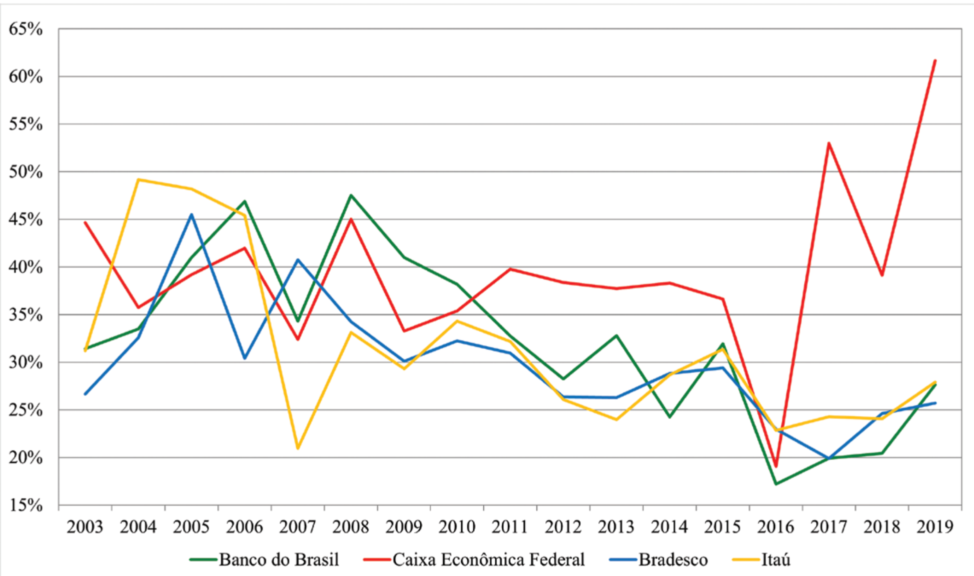

Fig. 2. *Return on equity of major Brazilian banks (2003–19).*
Source: IFdata, Brazilian Central Bank (BCB).
Notes: Own elaboration. Return on equity is defined as net profits over equity. Similar results can be obtained by relying on banks' annual reports and data provided by Brazil's stock exchange (Bovespa).

[10] Following a suggestion from an anonymous referee—for which we are grateful—we dropped Santander from the analysis, as its ROE seems to be substantially influenced by profit remittances to its Spanish headquarters. Also, the merger between Itaú and Unibanco in 2008 impacted the former's profits in that specific year. However, as we are assessing the trends over several years, it does not seem to bias our conclusions. On the effect of the merger on Itaú's profits, see Oliveira (2017, p. 29).

Table 3. *Return on equity of the four largest banks (2000–19) [%]*

		2000–03	2004–07	2008–11	2012–14	2015–16	2017–19
Public banks	Banco do Brasil	28.52	38.91	39.86	28.43	24.57	24.03
	Caixa Econômica Federal	−12.89	37.32	38.36	38.13	27.84	50.39
	Average	7.82	38.11	39.11	33.28	26.20	37.21
Private banks	Bradesco	28.96	37.30	31.88	27.16	26.17	25.15
	Itaú	36.67	40.92	32.23	26.24	27.09	25.99
	Average	32.81	39.11	32.05	26.70	26.63	25.57
	Average for the four banks	20.31	38.61	35.58	29.99	26.42	31.39

Source: Brazilian Central Bank's IFdata, own elaboration.
Notes: Return on equity is defined as net profits over equity. Similar results can be obtained by relying on banks' annual reports and data provided by the Brazil's stock exchange (Bovespa).

4.2 Interest flows and financial expropriation

The other component of the rentier income, the IIRh, represented an average of 64% of the total rentier income between 2000 and 2019. In contrast to the income appropriated by financial firms, but similarly to total rentier income, IIRh did not decline after 2007: it actually increased until 2011 (with a minor fall in 2010), being squeezed only in 2012 and 2013. Then, it recovered in 2014 and 2015 and fell again from then onwards. To understand such a trajectory, it is useful to briefly examine the interest flows in the economy as a whole (Table 4).

Between 2000 and 2019, intersectoral interest flows represented about one-tenth of gross national income.[11] Until 2007, about two-thirds of interest payments were undertaken by the government. On the receiving end were mainly households but also financial firms and non-residents. After 2007, however, households became the primary source of interest payments, surpassing the government. This is crucial to understand how the share of total interest income paid increased by almost two percentage points, comparing the averages of the periods between 2004 and 2007 and 2008 and 2011, *despite* a reduction of net interest income paid by both governments and non-financial firms (as shares of GNI). Households absorbed entirely such an increase, as net interest income (as a share of GNI) received by financial firms remained virtually stable. In contrast, net interest income flowing to non-residents declined.[12]

Without distinguishing interest received from interest paid by households, one could think that the financial flows in the Brazilian economy were declining in a period when, in fact, the number of credit relations increased substantially, reaching in an unprecedented manner the poorer sections of society (Dos Santos, 2013; Lavinas, 2017, chap.

[11] Intersectoral flows refer to flows between, instead of within, the institutional sectors defined in this part of the national accounts: households, financial firms, non-financial firms, government and rest of the world. The only specificity of the present discussion is dividing the households into two sectors: capitalist households that receive interest payments and worker households that make interest payments.

[12] An issue that deserves further investigation is the fact that rising interest income payments by households went predominantly to households and not to the financial firms, which is decisive to the changing composition of rentier income.

Table 4. *Interest income flows in Brazil (2000–19)*[a] *[%]*

		2000–03	2004–07	2008–11	2012–14	2015–16	2017–19
Interest income paid	Households	1.46	2.27	4.98	5.09	6.24	4.37
	Non-financial firms	1.56	0.53	0.25	0.08	0.20	0.42
	Government	6.18	5.36	4.76	4.38	5.52	4.61
	Total	9.21	8.17	9.99	9.55	11.96	9.39
Interest income received	Households	5.59	4.85	7.30	6.87	8.15	5.86
	Financial firms	1.62	2.18	2.19	2.02	2.72	2.51
	Rest of the world	2.00	1.14	0.50	0.66	1.08	1.02
	Total	9.21	8.17	9.99	9.55	11.96	9.39

[a]Values refer to the share of net interest income (received or paid, depending on the institutional sector) on gross national income. The exception is the household sector, for which interest income received and interest income paid are reported separately, in an attempt to deal with the phenomenon of financial expropriation. Additionally, 'households' refer to households plus non-profit institutions serving households.

Source: Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.

3; Garber *et al.*, 2018). The reserve accumulation mentioned above allowed domestic banks to expand their balance sheet and promote short-term lending to households (Kaltenbrunner and Painceira, 2018). One evidence of such a development was the increase of household debt as a share of disposable income from below 20%, in 2005, to more than 45%, in 2014 (Rugitsky, 2017). Besides, the average annual growth of debt undertaken by individuals earning up to three minimum wages was almost double that of those earning more than 10 minimum wages (Garber *et al.*, 2018, figure XIII).

In rich countries, the rise in household debt has been explained by workers trying to keep consumption patterns improving despite decades of stagnant wages (Barba and Pivetti, 2009). In the Brazilian case, in its turn, the story is different: higher indebtedness followed rising wages, as large segments of the population were able to overcome credit constraints and access banking services in general for the first time. Additionally, institutional factors, like the legal permission of a credit modality with automatic repayments from the paycheck (the *crédito consignado*), stimulated increased borrowing at lower interest rates, especially among the growing share of workers with formal labour contracts. The government, in its turn, further stimulated this trend, adopting a strategy of expanding access to education, health and housing through financialised circuits (Lavinas, 2017; Loureiro, 2020B). In this sense, rising financial expropriation was marketed as a successful financial inclusion. It did allow, of course, poorer workers to access essential durable goods and improve living standards. But it did so at the cost of entrenching mechanisms of reproducing inequality (see, for instance, Dos Santos, 2013; Kim *et al.*, 2019). Household borrowing, excluding mortgages, started to decelerate around 2011 as a result of a set of factors, including policy changes (more restrictive macroprudential policies), a deceleration of labour market formalisation and the fact that the level of indebtedness had already reached too high a level for a large share of the population (Paula *et al.*, 2015, pp. 423–4; Serrano and Summa, 2015, pp. 816–9). As shown by Brazilian Central Bank (BCB) data, average household income commitment with debt service, amortisation and interest peaked at, respectively, 29.62, 21.16 and 9.46% in October 2011. The first two levels would only be surpassed with the pandemic in March 2020. The adoption of the housing programme 'My House, My Life' in 2009 allowed mortgages to go on increasing up to 2015, as other forms of borrowing decreased—it also explains why the ROE of Caixa Econômica Federal, the public bank responsible for the programme, remained stable between 2011 and 2015, while the ROE of the other major banks were falling (Figure 2).

As can be seen in Table 4, interest income paid by households (as a share of GNI) remained stable, around 5%, if one compares the averages of the periods between 2008 and 2011 and between 2012 and 2014, after having increased from 2.27% (the average between 2004 and 2007). The increase that took place during the crisis period (between 2015 and 2016) was due not to more extensive borrowing but to higher interest rates and a reduction of the denominator, that is, of gross national income. Once economic activity stabilised (at a lower level) between 2017 and 2019, and interest rates resumed their decline, the share of interest paid by households declined to, on average, 4.37%.

The stabilisation of household borrowing between 2012 and 2014 is important to understand the rentier share squeeze that was observed in the period because such stabilisation blocked household borrowing from compensating for falling interest payments (as a share of GNI) by non-financial firms and by the government, as it had done in the preceding periods. The subsequent reduction of total interest payments (as a share of GNI), thus, pushed downward the two components of the rentier income share. In other words, since 2005, an increase in the level of borrowing, especially by workers, compensated for falling real interest rates, sustaining the level of interest payments and rentier income.[13] As the level of borrowing stabilised, the effect of lower interest rates could no longer be avoided and rentier income was squeezed. Critically, such a stabilisation took place precisely when the government was openly challenging rentier income by reducing the policy rate and forcing down interest rate spreads—an episode that was called the 'battle of the spreads' (see Singer, 2020).

5. The political economy of the distributive conflict

Having examined the trajectories of the components of the rentier income share, the distributive conflict and the shifts of the four major shares remain to be analysed. The data for the expanded functional income distribution and some other relevant variables can be seen in Table 5 and Figure 3. After an initial period of economic volatility, from 2000 to 2003, in which the four shares swung up and down, economic growth accelerated and wage pressure started to build up (as can be seen in the rise of the employees' compensation share in Table 5). First, given the high level of unemployment, the pressure stemmed mainly from policy (especially increases in the minimum wage) and sectoral dynamics (growth being concentrated in economic activities with above-average wage shares) (Dias and Ruiz, 2016; Martins, 2017, p. 108; for an interpretation of these sectoral dynamics, see Rugitsky, 2017, 2019; Loureiro, 2020A). Later, in the recovery from the 2008 global financial crisis, actual tightening of the labour

[13] There is a clear declining trend between 2006 and 2012 for both the real policy rate (Table 5) and some market rates (for vehicles and the *crédito consigado*, for instance; see Serrano and Summa, 2015, p. 815).

market started to be observed, along with rising strike activity (Medeiros, 2015, chap. 3; Serrano and Summa, 2018; see also Rugitsky, 2022).

The puzzle is why the economic expansion, and the consequent tightening of the labour market, did not allow the working classes to appropriate a larger share of income from 2004 to 2011. In effect, both the wage and the profit of enterprise shares declined in this period, and the benefits were reaped mostly by the rentiers—and, to a lesser degree, by the government. To explain these trends, one needs to look at the disaggregated data of the expanded functional distribution of income (Table 5). The working classes indeed managed to capture a larger share of income in the labour market, with the share of employees' compensation in gross national income increasing by almost four percentage points between 2004 and 2011. However, collectively, they transferred more than what they gained to the rentiers through interest payments on their ballooning debts.[14] Taking these two issues into account, one understands how the wage share of income *fell* almost two percentage points in the period.

The functioning capitalists, in their turn, also saw their share of income decline.[15] In their case, such a fall was a combined result of the decline of the three components of their share of income: gross operating surplus, gross mixed income and net property income—with the reduction in gross mixed income contributing the most. While the falling gross operating surplus may be interpreted as the result of wage pressure, the decline in net property income seems to have been mostly due to strategic decisions of multinational corporations following the 2008 crisis—the reduction in net property income is mainly explained by an increase in (imputed) property income paid due to rising reinvestment of profits from foreign direct investment.

Comparing the averages for the periods between 2004 and 2007 and 2008 and 2011, the shares of wages and profit of enterprise declined together by 2.75 percentage points, making room for larger rentier and government shares. The latter took hold of a third of it due to falling interest payments on government debt, which accompanied the mentioned decline of the real policy rate (Table 5). The main winner of the distributive conflict in the period was, however, the rentiers. As noted in the previous section, the increase in their share of gross national income was a consequence of financial expropriation, as it is mainly associated with rising interest received from workers' households, as interest payments by functioning capitalists remained stable and the ones by the government fell (Table 4).

[14] The observed decline in the share of gross mixed income appropriated by the workers is probably a result of the formalisation process that took place in the period, which pushed down the share of mixed income—both the part going to the workers and the part flowing to functioning capitalists (Carvalho, 2015; Maurizio, 2015). If this is so, part of the increase in the share of employees' compensation is actually a result of the re-classification of income from mixed income to compensation, resulting from previously informal workers obtaining formal labour contracts.

[15] Such a decline in the profits of enterprise share does not necessarily entail a squeeze on profit rates, as the latter is determined not only by the former but also by the capacity/capital ratio and the capacity utilisation rate, as shown by Weisskopf's (1979) seminal decomposition. Martins and Rugitsky (2021), using a different measure of the profit share, identify a profit rate squeeze between 2009 and 2014. According to their data, from 2004 to 2009, the decline in the profit share was more than compensated by increases in the other components of the profit rate.

Table 5. *Functional income distribution in Brazil and other selected variables (2000–19)*[a] *[%]*

			Disaggregated wage share					Disaggregated profit of enterprise share				Disaggregated government share			Other selected variables		
	Rentier income share	Wage share	EC	GMIw	−IIPh	Profit of enterprise share	GOSp	GMIp	NPIp	Government share	GOSg	NT	NPIg	Inflation rate	Nominal policy rate	Real policy rate	GDP growth
2000	8.83	45.76	40.37	6.85	−1.46	33.29	30.45	5.89	−3.05	12.13	1.69	15.19	−4.75	5.97	17.45	10.83	4.39
2001	7.53	46.08	40.90	6.61	−1.44	33.83	29.57	5.52	−1.25	12.55	1.70	16.22	−5.37	7.67	17.32	8.96	1.39
2002	10.28	45.13	40.29	6.23	−1.38	32.53	29.77	5.46	−2.70	12.06	1.65	16.25	−5.85	12.53	19.16	5.89	3.05
2003	9.16	44.69	39.79	6.48	−1.57	34.31	29.97	5.75	−1.40	11.84	1.68	15.95	−5.79	9.30	23.34	12.84	1.14
2004	7.19	43.99	39.51	5.82	−1.35	34.06	31.14	5.26	−2.34	14.76	1.63	16.78	−3.65	7.60	16.24	8.03	5.76
2005	9.06	44.07	40.43	5.76	−2.12	32.82	29.99	5.00	−2.17	14.05	1.60	16.76	−4.31	5.69	19.04	12.64	3.20
2006	9.98	43.86	41.02	5.52	−2.68	32.88	29.89	4.69	−1.70	13.28	1.52	16.49	−4.72	3.14	15.08	11.58	3.96
2007	10.17	43.62	41.14	5.41	−2.93	32.84	29.76	4.58	−1.50	13.37	1.41	16.27	−4.31	4.46	11.85	7.08	6.07
2008	9.98	43.02	41.60	5.30	−3.88	31.96	29.62	4.34	−2.00	15.04	1.39	17.25	−3.60	5.90	12.48	6.21	5.09
2009	11.58	43.08	43.40	5.04	−5.36	30.72	29.13	3.92	−2.32	14.61	1.42	16.21	−3.01	4.31	9.92	5.38	−0.13
2010	10.64	43.04	42.99	4.86	−4.81	31.05	30.04	3.93	−2.93	15.27	1.35	16.62	−2.69	5.91	9.78	3.66	7.53
2011	11.59	42.22	43.33	4.75	−5.86	32.06	29.94	3.78	−1.65	14.12	1.33	16.35	−3.57	6.50	11.62	4.80	3.97
2012	9.77	43.45	43.88	4.95	−5.38	31.87	29.26	3.80	−1.18	14.91	1.34	16.31	−2.74	5.84	8.48	2.50	1.92
2013	8.80	44.25	43.88	5.00	−4.62	32.79	28.95	3.77	0.07	14.15	1.33	15.75	−2.93	5.91	8.21	2.17	3.00
2014	9.83	43.98	44.37	4.90	−5.28	32.87	29.14	3.72	0.01	13.31	1.38	15.21	−3.27	6.41	10.91	4.23	0.50
2015	11.57	44.22	45.44	4.93	−6.15	32.98	27.63	3.55	1.80	11.22	1.49	15.28	−5.55	10.67	13.29	2.36	−3.55
2016	11.47	44.37	45.69	5.00	−6.32	31.53	27.22	3.62	0.70	12.64	1.60	14.84	−3.80	6.29	14.03	7.28	−3.28
2017	10.64	44.75	45.21	4.89	−5.35	31.33	27.46	3.57	0.30	13.28	1.60	15.22	−3.54	2.95	9.96	6.81	1.32
2018	8.94	45.71	44.89	4.90	−4.08	31.27	28.41	3.67	−0.81	14.09	1.57	15.82	−3.30	3.75	6.42	2.58	1.78
2019	7.95	45.99	44.76	4.89	−3.66	30.66	28.45	3.70	−1.48	15.39	1.61	15.62	−1.84	4.31	5.95	1.57	1.41
Period averages																	
2000–03	8.95	45.42	40.34	6.54	−1.46	33.49	29.94	5.65	−2.10	12.15	1.68	15.91	−5.44	8.87	19.32	9.63	2.49
2004–07	9.10	43.88	40.53	5.63	−2.27	33.15	30.20	4.88	−1.93	13.87	1.54	16.57	−4.25	5.22	15.55	9.83	4.75
2008–11	10.95	42.84	42.83	4.99	−4.98	31.45	29.68	3.99	−2.23	14.76	1.37	16.61	−3.22	5.66	10.95	5.01	4.12
2012–14	9.47	43.90	44.04	4.95	−5.09	32.51	29.12	3.76	−0.37	14.12	1.35	15.75	−2.98	6.05	9.20	2.97	1.81
2015–16	11.52	44.29	45.56	4.97	−6.24	32.26	27.42	3.59	1.25	11.93	1.54	15.06	−4.67	8.48	13.66	4.82	−3.41
2017–19	9.18	45.48	44.95	4.90	−4.37	31.09	28.10	3.65	−0.66	14.25	1.59	15.55	−2.89	3.67	7.44	3.65	1.51

Table 5. *Continued*

[a]Shares of gross national income.

Sources: *Distribution data* from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.

Notes: *Inflation rate* refers to IPCA from the Brazilian Institute of Geography and Statistics (IBGE). *Nominal policy rat*e refers to the annual average of the SELIC rate, calculated from montly averages published by the Brazilian Central Bank. *Real policy rate* is defined as 100 × (1 + Nominal Rate)/(1 + Inflation Rate). *GDP growth* refers to real annual change of GDP at market prices, from the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (SNA/IBGE).

EC, employees' compensation; GMIw, workers' share of gross mixed income; IIPh, interest income paid by households and non-profit institutions serving households; GOSp, economy's gross operating surplus minus financial firms' and government's gross operating surplus; GMIp, functioning capitalists' share of gross mixed income; NPIp, economy's net property income minus financial firms' net property income minus households' and non-profit institutions serving households' net interest income minus government's net property income; GOSg, government's gross operating surplus; NT, taxes net of subsidies on production and imports; NPIg, government's net property income.

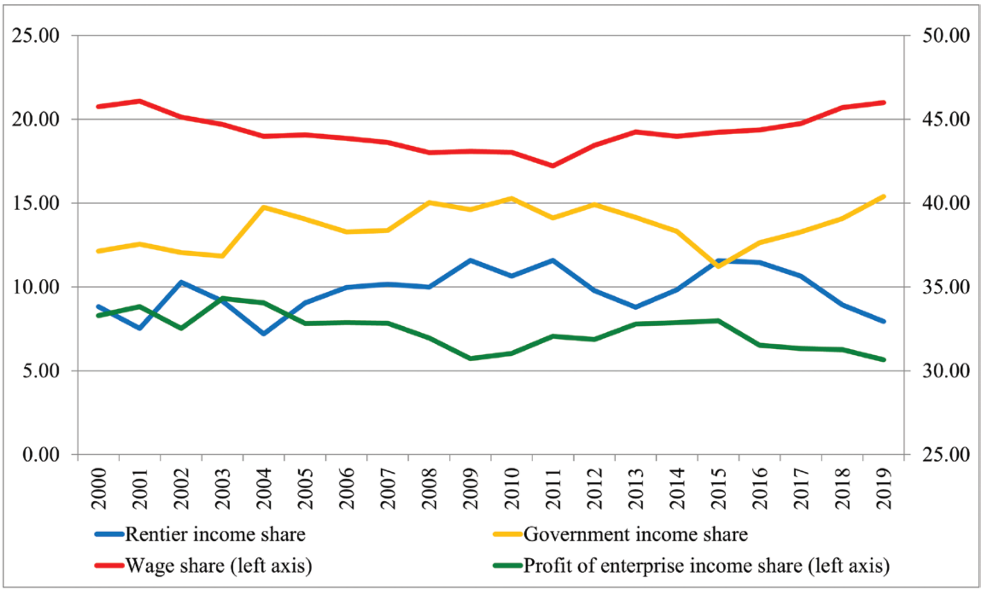

Fig. 3. *Functional income distribution in Brazil (2000–19).*
Source: Data from the Integrated Economic Accounts of the Brazilian System of National Accounts, Brazilian Institute of Geography and Statistics (CEI/SNA/IBGE). Own elaboration.

Studies about the functional distribution of income in Brazil, focussed on the last two decades, tend to emphasise how distribution shifted in favour of the workers during the government of the Workers' Party (Serrano and Summa, 2012; Dias and Ruiz, 2016; Rugitsky, 2017; Saramago *et al.*, 2018). Without dismissing the important redistribution efforts undertaken in the period, the present research paints a different picture: an inclusive growth strategy that eases access to credit and stimulates the diffusion of financial services may end up redistributing income to the rentiers rather than the workers. The rentier bonanza was cut short in 2012 in the run-up to the multiple crises (economic, political and social) that would start to overlap from 2014 onwards. At this point, the decline in unemployment that began in 2004 had resulted in an unprecedentedly tight labour market, and strike activity increased substantially (Braga, 2016; Marcelino, 2017; Summa and Serrano, 2018). The number of strikes recorded in 2013 was the highest in the series compiled since 1984 and was almost three times higher than the average for these thirty years (Marcelino, 2017, p. 206). Inevitably, this intensified the wage pressure that characterised the preceding period. The different feature of this period was the stabilisation of the share of interest payments from workers, which no longer compensated the rising share of employees' compensation. In 2012 and 2013, the wage share of income increased by more than two percentage points.

The trajectory of the profit of enterprise share also underwent an inflexion, rising between 2012 and 2015. However, such an increase was entirely due to net property income, given that the functioning capitalists' gross operating surplus continued falling. The main reason for the reduction of property income paid out by this institutional sector was a decline in dividends paid to non-residents (and, to a lesser extent, to the government) and an increase in the dividends received from the financial firms.

A reduction in the government income share, due to a decline in the share of taxes net of subsidies on production and imports, partly allowed for the mentioned increases in the shares of wages and profit of enterprise.[16] But as the rentiers had been the main winners of the distributive conflict from 2004 to 2011, they were the major losers between 2012 and 2014. In the span of just two years, from 2011 to 2013, the rentier share of income declined by 2.79 percentage points. As mentioned before, household borrowing stabilised in the period, constraining rentiers' capacity to increase their income from financial expropriation and to compensate, in this way, for falling interest rates. Besides, the decline in interest rates itself was intensified.

In August 2011, the BCB started a process of reduction of the policy rate that would, in 14 months, lead to a decline of 5.25 percentage points, bringing the real interest rate to around 2%. It was part of a policy shift that was immediately denounced by financial market operators as a weakening of the central bank's autonomy. It could also be read as an attempt to make monetary policy autonomous from rentier interests. Additionally, in 2012, the government scaled up the challenge, using public banks to force down interest rate spreads, leading to a reduction in the market share of private institutions (Freitas and Cagnin, 2014; Oliveira, 2017; Singer, 2020).

These shifts ended up being short lived, however. With the economic collapse between 2014 and 2016—GDP fell more than 3% in 2015 and 2016—the rentier income share recovered, virtually reaching the previous peak levels observed in 2009 and 2011. One of the reasons for such a recovery lies in the monetary tightening that was both a cause and a consequence of the crisis: the real policy rate reached, in 2016, its highest level since 2006, and financial firms were able to take advantage of that by shifting their focus from credit operations to the buying of bonds (Oliveira, 2017). This time, however, the increase in the share flowing to rentiers was not mainly at the expense of workers and functioning capitalists but of the government.

Regarding the workers, even with the steep increase in unemployment, the reduction in wage income did not keep pace with the fall in total income. The wage share tended slightly upward in the crisis years, despite interest payments increasing with the monetary tightening. Such a development is typical of the beginning of a crisis, but the persistence of high unemployment eventually forced down the share of employees' compensation between 2017 and 2019. In what concerns the functioning capitalists, their share was negatively affected by a reduction of about two percentage points of the gross operating surplus between 2014 and 2016, also a usual development during crises. Once more, however, this was almost entirely compensated by a reduction of dividends paid to the government and non-residents and an increase in dividends received from financial firms. In terms of the distributive conflict, then, the government was the institutional sector most affected by the crisis, with its income share dropping more than two percentage points (comparing the averages for 2012–2014 and 2015–2016), as taxes net of subsidies declined further and, most importantly, interest payments on government debt increased with the monetary tightening.

The trajectory of the distributive conflict in the last three years for which data is available can appear surprising at first sight, as the wage and, especially, the government

[16] The decline of the share of net taxes can be attributed to an effort by the federal government to reduce payroll taxes to boost foreign competitiveness of domestic production, see Scherer (2015).

shares gained ground to the detriment of the rentier and profit of enterprise shares. After all, the period after 2016 was characterised by a profound political turn against previous redistributive policies, with a coup ousting the Workers' Party from the government after 13 years in 2016, and the election of a far-right president, Jair Bolsonaro in 2018. The shift represented, quite explicitly, the adoption of virulent anti-labour policies and the gradual dismantling of the institutional framework that supported the redistributive efforts undertaken by the preceding governments. An example was the spending cap constitutional amendment approved in 2016, which froze government expenditure in real terms for 20 years. Given the trajectory of the expanded functional income distribution, is it possible to say that such a shift did not succeed in meeting its goals? It probably did.

By looking at the disaggregated data for the wage and profit of enterprise shares, it seems that the shift towards austerity since 2016 was able to reorient distribution against workers. The employees' compensation share has been falling since that year, and the wage share of income drifted upwards exclusively because of falling interest payments. The functioning capitalists, in their turn, managed to appropriate larger shares of income as gross operating surplus (which has been increasing every year since 2016) and did not end up with larger shares of income overall due to larger payment of natural resource royalties to the government and, once more, an increase in the (imputed) income paid to multinational corporations. Finally, the increase in the government share is not only a consequence of the mentioned increase in royalties received but also of the falling interest payments on government debt.

As for the rentiers, since they relied more and more on financial expropriation of workers as a source of income, it may be the case that they were harmed by the crisis and the ensuing stagnation, which were not conducive to the expansion of workers' indebtedness. Contrary to what Barba and Pivetti (2009) noticed in the US case, the growth in Brazilian household debt did not follow stagnant wages. Instead, it was fuelled by a rise in the compensation of employees. Following the crisis of 2015 and 2016, when debt levels were the highest, policy decisions did not focus on boosting demand, relying instead on reducing labour costs to restore Brazilian economic activity. Such a strategy had little effect on opening the way to increasing household indebtedness levels, failing to contain the reduction of financial expropriation to record lows. Indeed, the downward pressure on the rentier share after the crisis was led by the decreasing share of IIRh, probably a consequence of the new round of monetary easing.

Although the fall in the policy rate should not be understated in this case, neither should the inability to promote a new credit/indebtedness cycle. Low demand levels, high unemployment and stagnant wages might be associated with a reduced ability of rentiers to engage in financial expropriation. Ongoing efforts to stimulate the expansion of *crédito consignado* backed by government cash transfers may be interpreted precisely as an attempt to unlock workers' borrowing. It could reflect a particular dimension of financial expropriation in peripherical economies, where wage levels tend to be relatively low compared with developed economies.[17]

[17] Lattanzi-Silveus (2019, pp. 13–4) suggests that interest income paid by workers derives from both surplus value and means of subsistence. The first case would only be possible 'if capitalists had to pay workers more so that they could pay the interest while keeping their standard of living constant'. The second, however, seems to be the rule: 'What we have seen empirically already, though, is that wages have not increased, even though debt has'. As the reduction of financial expropriation accompanies wage compression in Brazil, it raises the question about rentiers' ability to expropriate income from workers' means of subsistence in low-income economies.

Finally, it is also not unlikely that the rentiers might have compensated what they lost in interest income with capital gains, as the steep decline in the real policy rate led to asset price inflation. If this is so, the decline of the rentier share reported here could be misleading as, due to data constraints, capital gains were not incorporated.

6. Concluding remarks

The preceding interpretation makes three main contributions to the available literature. The first one concerns the theoretical literature on the tripartite distributive conflict. As Kalecki (1943) anticipated, Brazilian rentiers did get 'boom tired', but they did so for reasons different than the ones suggested by the Polish economist, as they were able to postpone the squeeze of their income share by compensating falling interest rates with increasing credit volume (especially targeted to workers, in the process of financial expropriation). Epstein's (1996) suggestion also needs to be qualified: despite its 'floating' exchange rate regime, the Brazilian currency did not depreciate during the boom to accommodate rising wage costs. In fact, until 2011, the exchange rate appreciated continuously as the central bank took advantage of the commodities boom and the related global liquidity cycle to hold inflation down (Barbosa-Filho, 2008; Serrano, 2010; Summa and Serrano, 2018). It managed to do so with falling policy rates as international policy rates declined. Such appreciation probably squeezed the margins of the producers of tradable goods, but it is not unlikely that this was insufficient to squeeze profit rates (being compensated by higher capacity utilisation rates and capacity-capital ratios) (Martins and Rugitsky, 2021). Profit rates were only squeezed later in the boom, together with the rentier income share, in line with what Boddy and Crotty (1975) predicted.[18]

The second contribution is related to the literature on the recent trajectory of income distribution in Brazil. Research resorting to fiscal data (Medeiros *et al.*, 2015) and a class decomposition of inequality (Loureiro, 2020A) has shown that inequality has fallen, if at all, much less than previously supposed. While the lot of the poorest sections of the population has certainly improved and wage disparity has declined, the class determinants of inequality were mostly untouched. The present expanded functional distribution of income adds to these findings by revising the trend of the wage share of income, which was believed to have increased since 2004 (see, for instance, Rugitsky, 2017; Saramago *et al.*, 2018): once interest payments by workers are considered, the wage share falls almost continuously between 2001 and 2011. Such decline reinforces the hypothesis that growing household indebtedness, by increasing the volume of interest flows from poorer to richer groups, leads to higher inequality (Dos Santos, 2013). In addition, it illustrates the need to rethink the determinants of the functional distribution of income as household debt becomes increasingly pervasive.

Finally, the third contribution regards the literature on the recent crisis in Brazil. It is broadly accepted by critical approaches that the origins of the crisis should be placed in an intensification of class struggle that was observed during Dilma Rousseff's first government (2011–14), even if the details of how this happened are subject to

[18] Martins and Rugitsky's (2021) identification of a profit squeeze relies on a functional income distribution that does not consider rentier income. It would be interesting to check whether the functional income distribution presented here would change this result.

heated controversy (Boito, 2018; Carvalho, 2018; Serrano and Summa, 2018; Singer, 2018; Martins and Rugitsky, 2021). The role of rentier interests is often mentioned in these debates. By describing the trajectory of rentier income from growing financial expropriation to the rentier squeeze of 2012 and 2013, the present research provides a useful starting point to examine the political action of rentiers and their conflicts with workers and functioning capitalists.

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