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On financialization and state spatial fixes in Brazil. A geographical and historical interpretation of the housing program My House My Life

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ABSTRACT

The paper presents a historical overview of the relations between housing, housing finance and capital markets in Brazil, while embedding it into an analysis of the recently launched housing program My House My Life (MCMV).

Considering the absence of a consolidated market for mortgage finance and a public housing stock, Brazilian financialization doesn't fit standard narratives that have either prioritized US or European experience. Brazilian financialization has been truncated in the sense that it has always depended on the contradictory territorial intervention of a developmental state that has never reached out to lowest income groups.

While MCMV has seen continuities in relation to the housing delivery and finance of the technocratic developmental state in terms of not matching low-income housing targets and priorities of national urban reform, it is argued that contradictions are not inscribed in space. More particularly, where proactive local governments have been able to make use of city statute instruments in order to articulate land delivery, the program has been able to produce affordable and well-located housing units.

Finally, the inherent contradictions of financialization are not likely to lead to subprime crises, contagion and ex-post state rescue operations as occurred in the US and European context. Instead, endogenous state involvement in subsidized housing finance will increasingly face budgetary and monetary restrictions, leading to a relatively soft landing and gradual public withdrawal from low-income housing finance. In that sense, MCMV might prove to become another innovation that fails to live up to expectations.

Introduction

Financialization has been a recurrent theme in the literature on the demise of Bretton Woods and Fordism (Amin, 1994; Helleiner, 1994). Aalbers (2008: 151) defines it as a "pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production". Along the same lines, Gotham (2009: 360), also referring to Krippner (2004), argues that "as a multidimensional, contested and conflictual process, financialization refers to the growth of financial actors (banks, lenders, private equity corporations, etc.), new financial tools (mutual funds, asset-backed securities, hedge funds, etc.), and the increasing significance of financial firms in different areas of the economy such as real estate".

Some of the earlier work on financialization asked whether the stagnation of wages and consumption that marked the Fordist crisis could be compensated by income from asset holdings and capital gains that accompanied the emerging finance-driven regime (Boyer, 2000).

Considering the significance of owner-occupied housing within the average portfolio of families as well as its role in the legitimization of state policies, specific analytical work has been undertaken on how financialization unfolds in the real estate sector. Harvey's work long recognized that the "secondary real estate circuit" represented investment opportunities in times of crisis and productive restructuring in the primary circuit of commodity production. This articulation of circuits nevertheless brought in potential macroeconomic instability and negative impacts on low-income workers without any, or only *subprime* access to credit markets (Harvey, 1989).

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The subprime crisis has renewed this older debate on the real estate-finance complex (Rolnik, 2013). Obviously, it has concentrated on the US context, grounding explanations on the crisis within an analysis of secondary mortgage markets, financial and regulatory innovation which enabled "the creation of liquidity from spatial fixity" (Aalbers, 2009; Gotham, 2009).

But while the subprime crisis gradually contaminated some of the more highly leveraged European economies, questions were raised on how the articulation between financial, land and real estate markets was unfolding similar crises in socio-institutional and political environments that were quite different from the US. In many European economies, where housing was part of spatial Keynesianism (Brenner, 2004), crises-driven regulatory-financial rollback and subsequent roll-out of the state triggered "financialization of homeownership and housing rights" (Rolnik, 2013: 1058). More specifically, programs aimed at the privatization of public housing stocks and/or conversion of rental into owner-occupied housing were supported by new lending tools, entrepreneurial planning regimes and real-estate flagship projects, all of which were instrumental in "unlocking land values" (Rolnik, 2013:1063) and generating a series of contradictions in the landscape of spatial Keynesianism.

Not much work has been undertaken on emerging countries either. Brazil is emblematic. Since the 1940s, as part of its national-developmental strategy, the country went through a relatively early urban transition and has experimented with housing finance. Unlike the US, however, it has neither consolidated a market for mortgage finance. Nor did it, as occurred in Europe, built up any state owned housing stock that could be the object of subsequent processes of privatization and financialization. Moreover, the penetration of housing and real estate finance in the Brazilian "real" economy is on the rise but still relatively small as compared to international standards (FGV, 2007).

Nevertheless, the country's recent renewed developmental stance, which has led to regulatory and financial roll-out since the late 1990s aimed at strengthening housing finance and capital markets and the launch of programs such as *My House My Life* (*Minha Casa Minha Vida – MCMV*), has re-opened a debate on the significance of financialization in the Brazilian setting (Fernandes & Novy, 2010).

We argue that the specific Brazilian housing finance trajectory can be characterized in terms of a *truncated financialization process.*

First, the scale and assertiveness of the private market in the financialization process has proven limited. Contrary to standard narratives on privately driven financialization, in the Brazilian scenario the state has traditionally been called upon in order to build bridges between illiquid and high risk housing and real estate markets and financial and capital market circuits that are marked by shorter pay-back periods and turnover times.

Second, financialization has never really reached out to the poorest households, neither through private *niche-markets* nor through state supported housing-finance and housing delivery. The spatial selectivity and contradictory nature of the Brazilian developmental state itself has generated a financialization pattern unable to deliver to low-income groups.

Finally, financialization is a multi-scalar and contested process, embedded in specific geographical and historical settings (Swyngedouw, 1997), whereby both public and private actors alike (e.g. social housing movements, mayors, construction and real estate actors, federal and state agencies and development banks) are keen to fill it in according to their particular political projects and strategies. In Brazil, the shape and direction of the financialization process is contested and filled in by competing political projects associated with social-urban reform, the right to "social market-provided housing" (Shimbo, 2012), urban competitiveness and maximization of growth, income and exchange value of land, among others. As such, the initial results of low-income housing finance programs such as *MCMV (My House My Life)* appear disappointing in light of the challenges to connect it with more structural reforms in land and housing markets.

This paper provides a critical framework based on state spatial and scalar theory in order to analyze the Brazilian trajectory of financialization, developmental state restructuring and housing finance (Brenner, 2004).

In its original formulation for the European scenario, state spatial theory provided useful insights to understand the transformation of "spatial Keynesianism" –structured around centralized and homogeneous housing and urban development policies aimed at redistributive and welfare-like compensating arrangements- to a "rescaled competitive regime". Decentralized and customized institutions aimed at building internationally competitive and flexible city-regions characterized the latter. Recent contributions enriched this debate by analyzing the contemporary nature of scale itself. According to this work, there is nothing inherent about scale, which is contested and (de)constructed by specific actors according to their interests and political projects (Swyngedouw, 1997). Finally, the usefulness of state spatial and scalar theory in understanding the contradictions of urban and regional policies since the rise, demise and contemporary restructuring of the Brazilian developmental state has become object of initial discussions. The bottom-line of this debate is that, while state spatial theory provides useful starting points, its application needs careful reflection considering the fact that the Brazilian national developmental state always prioritized economic growth over the socio-spatial inclusion and sustainability (Fernandez & Brandão, 2010; Klink, 2014). Moreover, instead of the downscaling that characterized the post-Keynesian European context, the contemporary restructuring of the Brazilian developmental state seems to involve complex processes of up, down and rescaling (Klink & Keivani, 2013).

After a synthetic geo-historical reconstitution of the Brazilian housing finance system since the 1940s, this paper zooms into an analysis of the post-2000 reformist developmental state momentum and the recently launched *MCMV*. The latter is conducted on the basis of a review of the critical literature on the program and own case-research conducted by the authors.

After this introduction, the paper is organized in three sections. The first provides a synthetic overview of the territorial organization and intervention of the Brazilian developmental state, emphasizing its contradictory articulation with housing finance since the 1930s. In the second we discuss *MCMV*. The objective here is not to provide a detailed evaluation of this program, but to ground its significance in a geo-historic reading of developmental state restructuring and financialization.[2] In the final section we provide some conclusions for further research and policy making on financialization in Brazil.

A geo-historical reading of developmental state restructuring and financialization in Brazil

Experimentation and late rollout of housing finance (1930–1985)

Industrialization and experimentation (1930–1964)

This period was characterized by a fragile populist pact between the emerging urban-industrial bourgeoisie and the labour

[2] Most literature on financialization only mentions MCMV *em passant* (Fix, 2011; Sanfelici, 2013; Shimbo, 2012), while critical evaluation of MCMV is often disconnected from discussions on financialization.