

RESUMO

Esta pesquisa visa examinar questões gerais sobre autoridade monetária, bancos públicos, e democracia através de um estudo histórico e institucional da Caixa Econômica Federal. Uma análise preliminar da história, da organização, e das tendências recentes das Caixas Econômicas brasileiras introduz uma discussão das tendências recentes nos mercados de crédito brasileiros. A organização de bancos de dados nesta primeira etapa da pesquisa permitirá uma comparação da atuação de bancos privados, públicos, e estrangeiros durante o período recente de 1994-2001, como também uma discussão sobre as políticas de crédito e de poupança depois de que as instituições financeiras públicas federais foram saneadas em 22 de junho de 2001.

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Instituições Financeiras Públicas Federais; Sociologia Política; Desenvolvimento.

ABSTRACT

This research explores general concerns about monetary policy, public banks, and democracy through a historical-institutional study of the Brazilian federal government savings bank (Caixa Econômica Federal). This report presents initial results of research on the political and social dimensions of government savings banks in Brazilian history as well the organization of data bases for analysis of the behavior of private, public, and foreign banks in Brazilian credit markets since the end of high inflation in 1994. Analysis also focuses on the government refinancing of the Caixa Econômica Federal during 2001 and current efforts of strategic reorientation within the bank.

KEY WORDS

Government Savings Banks; Political Sociology; Development.

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STILL THE CENTURY OF GOVERNMENT SAVINGS BANKS? A CASE STUDY INTO FEDERAL BANKS, MONETARY AUTHORITY, AND DEMOCRACY*

Kurt von Mettenheim

“O papel da caixa-econômica está acabada, e outras instituições cabem encarregar-se desse dinheiro...”

“The role of government savings banks ends, and other institutions assume responsibility for the money...”

Charles Gide, *Compêndio de Economia Política*, ed. port 1935

I. INTRODUCTION¹

The original intent of government savings banks was to teach popular classes the habit of saving, increase the liquidity of capital, and spur economic growth. Government savings banks were founded in France (1818), Austria (1819), and several German states (1835) while government guarantees appear to have provided incentives for private or community savings banks in the Netherlands, England, Italy, and the United States.² In 1906, almost a century after the *Caisse d'Epargne* was founded in France, the economist Charles Gide argued that after a short period

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² De Pladido e Silva *As Caixas Econômicas Federais*. Curitiba: Empresa Gráfica Paranaense, 1937, p. 4.

these banks would no longer be needed.³ According to Gide, popular classes will
This research began in response to the public hearing, refinancing, and restructuring
of Brazilian federal banks during 2001.⁴ An open-ended, empirical and political
research focus on the federal government savings bank is adopted because,
unfortunately, no academic manuscript seems available on the Caixa Econômica
Federal since administrative analyses from the 1950s (with the notable exception of
an EPGE-FGV master's dissertation in 1992).⁵ Consequently, the preliminary
historical analysis presented in this report required (and will require further)
primary research into the history of the Caixas Econômicas Federais. Two legal and
administrative histories of the Caixas Econômicas Federais are available.⁶ But
analysis of primary sources such as the *Revista das Caixas Econômicas Federais*
(1949-?), Annual Reports, and the *Boletim Estatístico*, (Consultoria Técnica das
Caixas Econômicas Federais) will be needed to better understand the interplay
between political, social, and economic factors in the historical evolution of
government savings banks in Brazil.

Second, open-ended empirical research on the CAIXA and preceding government
savings banks is needed because debates about government banks among
economists are excessively ideological.⁷ Many liberal economists affirm that
privatization is the only solution for state banks. Indeed a recent World Bank
publication cites *Banespa* and other Brazilian public banks as examples of moral

³ Gide, Charles. *Principes d'économie politique*. Paris : Editions L'Harmattan, 2000 and *Coopération et économie sociale 1886-1902*. Paris : Editions L'Harmattan, 2001 and *Histoire des doctrines économiques depuis les physiocrates jusqu'à nos jours* Paris : Editions Dalloz , 2001 (1st edition, 1909).

⁴ Consórcio Booz-Allen & Hamilton – Fipe, “Instituições Financeiras Públicas Federais: Alternativas Para a Reorientação Estratégica. Audiência Pública.” Ministry of Finance, June 2000.

⁵ Souza, Henrique A. *O Crédito Imobiliário da CEF*. Masters Dissertation, Escola de Pós-Graduação em Economia, Fundação Getulio Vargas, 1992.

⁶ Henrique, João. *Estrutura e Conjuntura das Caixas Econômicas Federais*. Rio de Janeiro: Conselho Superior das Caixas Econômicas Federais, 1960 and De Placido e Silva, *As Caixas Econômicas Federais: Sua História, Seu Conceito Jurídico, Sua Organização, Sua Administração e Operações Autorizadas*. Curitiba: Empresa Gráfica Paranaense, 1937.

⁷ For a recent review of debates about moral risk and central banking that emphasizes the importance of focusing on politics, see: Sola, Garman, and Marques, “Central Banking Reform and Overcoming the Moral Hazard Problem: The Case of Brazil.” in *Brazilian Journal of Political Economy*, vol. 21, no. 3 (83) July-Sept. 2001, pp. 40-64.

hazard and proof of why “bureaucrats make bad bankers.” And while theories of national-developmentalism and finance-capital/imperialism may defend state banks, their critical emphasis may conceal policy opportunities. Given the refinancing of all Brazilian federal banks to meet Basle II regulations during 2001, surely the role of these banks in social, economic, and political development must be reassessed.

A few additional comments are in order to introduce the focus from political science that are adopted in this research; historical-institutionalism and empirical democratic theory. Historical institutionalism is a longstanding tradition in sociology and political science that explores compelling theoretical problems about politics through analysis of institutions across time.⁸ The second theoretical focus adopted in this research is the tradition of *empirical democratic theory* in political sociology, a tradition that spans democratic theorists such as Weber, Dahl, Sartori, Lipset, Rokkan, Linz, Huntington, Tilly and many others that attempted to understand how social classes were incorporated into political institutions during modernization. Although often perceived as conservative or elite oriented, this perspective draws attention to the unfinished business of popular incorporation in Brazil. It is precisely the dramatic distribution of Brazilians in terms of IBGE social classes – more simply the persistence of poverty -- that suggests the importance of the CAIXA and other federal banks in redistributing wealth. Normative questions aside, the perspective of political sociology emphasizes that social classes C, D, and E form an immense majority of Brazilian voters. And the conclusion of this report is that federal banks and especially the government savings bank appear to be efficient mechanisms of incorporating citizens and voters within the institutions of Brazilian democracy.

Reference to several landmarks in comparative and Brazilian political studies may help clarify the advantages of combining political sociology and empirical democratic theory. The first comment can be stated in terms of level of analysis.

⁸ For an overview, see: Steinmo, Sven., et.al. *Structuring Politics: Historical Institutionalism in Comparative Analysis*. Cambridge: Cambridge University Press, 1992.

While much work in the study of social and economic development focuses on case studies, best practices, and, in Lindblom's classic description, concrete comparisons for administrators, the present case study is designed to explore the opportunities and constraints presented by federal banks on a macro-level in Brazil. Two references may make it clearer why a macro-political and economic perspective is required to analyze the Caixa Econômica Federal.

The first reference is to Souza's *Estado e Partidos Políticos no Brasil, 1930-1964*, that remains a classic because of her adroit use of Lowi's distinction between government policies in the sense that they either regulate, distribute, or redistribute wealth. An exemplar of the latter type of government policy is macro-economic policy. This research focuses on the CAIXA and Brazilian federal banks precisely because of their potential to produce significant economic redistribution. The second reference is to Bolivar Lamounier's description of "underdevelopment" of the Brazilian party system and political institutions. Although I have criticized this concept and its use in the past, it seems especially important today to remind observers of Brazilian politics that, despite a series of positive developments in terms of democratic transition and democratization, it cannot yet be said that Brazilians in classes C, D, and E have been included in the economy, society, and polity. In sum, these references attempt to define the macro-level of analysis and object of inquiry: the possibilities for redistributing wealth through the work of Brazilian federal banks.

This report also argues that domestic matters provide far more opportunities for redistribution and popular credit programs than generally is acknowledged among political economic analysts that tend to emphasize international constraints to domestic policy. While much ado is made of globalization, privatization, and the need to reorient Brazil's insertion into the world economy, the theory of *inertial inflation* produced more political capital and presidential popularity than any of these structural factors because it redistributed wealth to the Brazilian poor from June 1994 through August 1997. Indeed, the theory of inertial inflation remains a

model worthy of emulation because Brazilian and Latin American economists rejected orthodox macroeconomics and reduced inflation while positively redistributing wealth. The de-indexation of the economy ended the erosion of wages and salaries and non-indexed assets that predominate among poorer Brazilians. A central assumption of this research is that popular savings and credit programs may bring Brazilians in these social classes (and *sem conta*) into the formal economy and reduce their continued losses and persistent exclusion.

Recent developments in economic policy tend to reinforce this argument that domestic matters predominate and the conceptual innovation is needed. Since the adoption of a flexible exchange rate for Real on January 15, 1999 and the adoption of inflation targeting, external shocks appear to have been, at least to a greater degree, buffered from internal macroeconomic variables that are of primary concern to federal banks such as interest rates and credit policies. Under the fixed currency exchange regime from 1994-1999, the federal government reacted to international currency crises by dramatically increasing interest rates. Under the floating exchange regime adopted in early 1999, the external shocks to the Brazilian economy should, in theory, be absorbed primarily through market driven exchange devaluation and not dramatic interest rate hikes. This shift from fixed to floating exchange rate regime increases the opportunities for federal bank domestic credit policies.

Another assumption of this research should be made clear: that federal banks differ from state banks. This is a rather critical assumption given that state banks have been the focus of sustained criticism from a variety of political, economic, and fiscal perspectives. While the perverse behavior of state banks has been widely documented, scholars have also emphasized the reality that discipline, supervision, refinancing, privatization, and political-financial reform have come “from the top down.” The Brazilian Central Bank and other ministries and federal government agencies responsible for fiscal, monetary, budget, and banking policies have

introduced a series of reforms that have altered the domestic financial system and the context of the CAIXA and other federal banks.

Federal banks are also different than state banks because federal politics differs from politics within states. Not only because the Brazilian federal government faces external realities, but also because politics is more contested and involves more actors and processes. Brazilian federal politics also differs from state-level politics in the sense that the federal government has been in the forefront of financial and bank reforms. These factors clearly require further attention and research. However, the assumption of this research is that Brazilian democracy at the federal level has altered the circumstances of federal banking. The consequence is that the CAIXA and other federal banks now act within a context of greater transparency and accountability that may reduce risks associated with government banks.

The Caixa Econômica Federal and other government banks also appear central to the tasks of recreating governing coalitions. In this respect, Sergio Abranches redirected debate about Brazilian political institutions by suggesting that *presidencialismo de coalizão* (presidentialism via coalitions) worked because Brazilian presidents were able to recreate partisan support despite minority status. Indeed, this characteristic of presidential institutions has emphasized by observers of U.S. politics since Weber's famous address "Politics as a Vocation." Weber, like James Bryce, Carl Friedrich, and others argue that the direct election of executives and their subsequent prerogative to nominate politicians to administrative posts provide a more dynamic alternative to parliamentary institutions for political development. While Abranches and others focusing on the Brazilian federal executive have made clear the logic of electoral and party alliances and inter-branch politics, this additional dimension of direct popular appeals of central concern to political sociology has escaped a more institutionalist perspective. From this perspective, the reality of political coalitions within the CAIXA may be less detrimental to macroeconomic matters than widely supposed given the recent record

of state (as opposed to federal) savings banks in Brazil and the condemnations of liberal economists.

In terms of political sociology the question is whether federal bank policies can redistribute wealth to poor or whether bank policies will, like in the past, act primarily as agents to distribute benefits to federal employees and other organized sectors of the middle classes tied to political machines. Although further empirical research will be required, the latter has apparently predominated in the history of the CAIXA and other Brazilian government banks.

The risks associated with credit and savings policies directed at popular sectors also differ from state banking practices directed at middle class groups that have often been captured by political machines and prone to default. Even commercial banking has found that higher default rates in popular credit are more than compensated by greater profit margins and the greater pulverization of risk across a greater number of clients. Although further analysis will be needed, this would appear to have considerable implications for the political sociology of federal banking. Programs of popular credit are more viable and less prone to risks of default than the traditional program lending and subsidized middle class housing loans that have haunted federal bank balance sheets.

The report is organized as follows. First, an overview of government savings banks in Brazilian history is presented to set the historical context and compare cycles of expansion, crisis, and adjustment from the perspective of banks and politics. After review of foundation, expansion during the 1930s, crisis during the 1950s, expansion during the 1960s, the report turns to recent trends in private and public credit in Brazil and discussion of the Public Hearing on the Reform of Brazilian Federal Banks held by the Brazilian Finance Ministry held during 2001. Although critics of the report have identified significant biases and shortcomings, this public debate provides a point of departure to discuss the CAIXA and Brazilian federal government banks. Finally, discussion of the June 22, 2001 refinancing of federal

banks and the strategic reorientation of the CAIXA conclude the report in an attempt to link the historical and contemporary observations to present policy debates.

II. THE POLITICS OF GOVERNMENT SAVINGS BANKS IN BRAZILIAN HISTORY

Although scattered evidence can be found about the Caixa Econômica during the Empire and Old Republic, more secure and consistent data on the size, organization, levels of deposits and loans, and a series of other financial indicators is available on Brazilian government savings banks since the 1930 revolution. The appendices present the data so far compiled from annual reports and other primary sources that provide comparable data from 1934-1959, while additional data is available from the 1959-1969 period. Organization of the data bases on the 1988-2001 period were created from National Financial Information System of the Brazilian Central Bank that includes a historical series of credit and assets in public and private financial institutions from 1988-2001.

The first Brazilian government savings banks (Caixas) appear to have been modeled after European public banks, especially the French government savings bank, *Caisse d'Epargne* (founded in 1818). In Brazil, regulation of private popular savings banks, *mealheiros*, occurred before regulation of public banking institutions in 1849 through decree 575 (January 10, 1849). The regulation of the Caixas first occurred with decree 1083 of August 22, 1860 that contained a series of provisions and measures about banks of issue, money, and diverse companies and societies.

Three relatively simple rules defined the founding, organization, and administration of Caixas Econômicas: Deposits were limited to Cr\$ 4:000 per week; total deposits were limited to Cr\$50:000; and an annual interest rate of 6 percent (as well as the security of deposits) were guaranteed by the Brazilian government. Decree 2.723 of

January 12, 1861 provided further legal and organizational regulations of the government savings banks by defining the Guarantee of the Imperial Government, their subordination to the Finance Ministry, and the goal of:

“...responsibility for receiving deposits of popular savings and capital reserves across the Brazilian territory to increase their liquidity and encourage saving habits and facilitate the development and circulation of wealth.” (Decree 2,723, 1861)

A series of regulations followed for the organization of fiscalization and control by the Finance Ministry, the organization of Supreme and Administrative Councils and the definition of staff and administrative structure.

The role of the Caixas was to encourage the habit of popular savings and permit the accumulation of capital in the Brazilian economy generally. This intent to restrict the role of the Caixas to popular savings can be seen in the refusal of the government to increase the Cr\$4:000 weekly and Cr\$50:000 total limits to deposits.

Brazilian government savings banks expanded from the center of the Empire to the provinces. In 1867 legislation encouraged the organization of Caixas in the provinces: Finance Minister Visconde do Rio Branco authorized Provincial Presidents to retain one percent of lottery receipts to offset administrative costs while reserving an additional one percent of receipts of funds remitted by the provincial government savings banks to the central government treasury.

Further legislation and regulations in 1874 and 1886 encouraged the organization of pawn credit to be annexed to the Caixas and placed in or alongside already existing central government agencies and postal offices. Indeed, subsequent regulations in 1887 provided for creating Caixas at all *Mesas de Rendas Coletas* or Postal Agencies of the Imperial government (while an 1892 decree under republican government separated pawn services from the Caixas in several states).

Although the fate of Caixas during the Old Republic (1889-1930) appeared to confirm Gide's prediction that their time would end, it appears that lack of government interest and incentives rather than the dynamism of the market economy explain the reality that Caixas, during this period, "returned to a corner of some public agency" and lost their central role in the encouragement of popular savings.⁹ Further research into the Caixas Econômicas Federais during the Old Republic will be needed, especially into the impact of legislation passed in 1915 that increased the limit for weekly deposits and loans. The debate during the Old Republic also appears to have set the policy agenda for government policies after the 1930 Revolution. More expansive proposals for the Caixas developed by Alfredo Rocha and Leopoldo de Bulhões (based on ideas by Ouro Preto and Lafayette) were also not adopted during the Old Republic but gained favor after the 1930 revolution.

The 1930 revolution brought new efforts to expand popular credit programs, efforts associated with Solano Carneiro da Cunha who focused on the opportunities within the 1915 regulations to expand the Caixas. Decrees in 1931 and 1934 altered the legal parameters for government savings banks and encouraged their rapid development (See Table 1).

Table 1

Select Indicators of Caixas Econômicas (Contos)

	Empire 1860-1889	Old Republic 1890-1915	Old Republic 1917-1930	1930 Revolution 1934
Savings Accounts:	8,500	15,500	22,600	510,000
Value of Deposits:	3,500	25,000	88,000	210,000
Loans:			230,000*	205,000
Reserves:			14,000**	30,000

* 1917-1930 total loans

**Reserves = 1930

Note: entries are Contos

⁹ De Placido e Silva, *Caixas Economicas Federais*, p. 70.

The 1930 revolution brought new incentives for the organization of the Caixas Econômicas, with initial measures consolidated in decree 24.427 of June 19, 1934 that encouraged popular credit by exempting the earnings the Caixas Econômicas Federais from taxes levied on other commercial bank transactions. The goal of expanding the Caixas and orienting their social and economic impact is stated clearly in the 1934 decree that opens with the definition of the Caixas as “essentially institutes for social assistance.” Instead of the temporary role envisioned by Gide and liberal designers of government popular savings programs under the Empire, the 1930 revolution redefined the role of the Caixas to a permanent institution designed to provide social assistance and encourage public savings. The Caixas were conceived as essential social assistance that also brought private savings into circulation, encouraged the habit of savings and sought to increase economic development through loans and investments in accord with the substitution of imports and the agenda of national populist development.

A series of decrees and regulations defined the legal and administrative parameters for the organization of the Caixas during the 1930s, while expanding the type of financial transactions and assets administered by these public savings banks. Annual meetings of the Executive Council as well as definition of types of independent and associated agencies as well as guidelines for administrative structure and staff, capital reserves, loans, and savings programs offered by the agencies of the Caixas.

The social and economic role of the Caixas Econômicas Federais in expanding popular credit were emphasized in an address by Getulio Vargas in August 1937 – well after the assumption of emergency powers and the authoritarian turn of the Estado Novo.¹⁰ President Vargas emphasized the passive role of state savings banks before the 1930 revolution, as well as the trebling of deposits since the revolution. The importance of popular savings and popular credit is emphasized in the speech as necessary to increase general economy activity as well as finance industrial

¹⁰ Ibid., p. 232.

development. This speech emphasizes the tripling of deposits in the Caixas from 448.700 Contos in 1930 to 1,338,500 Contos at year-end 1936. Getulio Vargas also reports the sum of assets accumulated in the seven Caixas Econômicas Federais, (See Table 2).

Table 2

Caixas Econômicas Federais, Assets 12/31/1936 (contos)

Housing Loans	301,000:000.00
Diverse Guarantees:	183,000:000.00
Consignments:	106,000:000.00
Bonds:	150,000:000.00
Pawned Goods	35,000:000.00
Titles	25,000:000.00

Total:	775,000:000.00

The distribution of assets at year-end 1936 reported in Table 2 suggest the new role of Brazilian government savings banks in urban development through the extension of housing loans. Data is also presented regarding the size of housing loans: Of the 1623 housing loans reported by the Rio de Janeiro Caixa, 1050 of the total were at the minimum value of 50 Contos, 306 loans between 50-100 Contos, and 112 loans between 100-200 Contos. The regulations of the Caixas during the 1930s also expanded the types of investments permitted and diversified the structure of assets.

The growth of government savings banks in response to the 1934 Decree and subsequent legislation can also be seen in the increase of agencies, branches and postal-agencies. In addition to the Caixas Econômicas Federais already existing in 1934 in the states of Rio de Janeiro, São Paulo, Rio Grande do Sul, Parana, Pernambuco, Bahia and Minas Gerais, new savings banks were founded in the new Rio de Janeiro State in 1938, followed in November 30, 1945 (Decree 88.257) in the

states of: Amazon, Ceará, Espírito Santo, Maranhão, Mato Grosso, Para, and Santa Catarina.

After the end of the Estado Novo and the return to competitive electoral and democratic government, the expansion of Caixas Econômicas Federais continued. New Caixas Econômicas Federais were founded on June 28, 1946 (Decree 9.141) in the states of Alagoas, Goiás, Paraíba, Piauí, Rio Grande do Norte, and Sergipe. It is also of note that the 1946 legislation separated the Caixas from *Delegacias Fiscais*, substituting internal fiscalization for the external control previously exercised by State Finance Secretaries. Finally, Caixas Econômicas Federais were founded in the Federal Territories of Acre, Amapá, Roraima and Rio Branco on December 1956 through law 3.079.

Like similar initiatives since the Empire, regulations for creating Caixa Econômica Federal Postal Agencies were set by Decree 25.733 on November 29, 1948, once again with the intent to increase popular access to credit and savings across Brazil.

A forum for analysis, discussion, and promotion of government savings banks was also founded during this period. In July of 1949 the *Revista das Caixas Econômicas Federais* was founded by the Superior Federal Council at its VI Annual Congressional Reunion, at the suggestion of Counselor Francisco Solano Carneiro da Cunha. Although no date is provided, the *Boletim Estatístico* published by the *Consultoria Técnica* of the Federal savings banks also organized information about the Caixas Econômicas Federais.

Understanding the trajectory of the Caixas Econômicas Federais after 1945 is critical given the negative perception of government banking in the systems of patronage, clientelism, corporatism, and populism that prevailed during this period of competitive electoral politics that ended with the military coup on March 31, 1964. Although further analysis will be needed to assess the role of government

savings banks during this period, the first characteristic of these institutions that springs from the data is their sheer size.

Total deposits during the 1950s represented approximately one third of money circulating in the Brazilian economy. The Caixas Econômicas Federais were not only large, they grew during the 1940s and 1950s. From 1955 to 1959: Deposits increased from Cr\$22.6 million to Cr\$40.9 million; Loans increased Cr\$18.6 million to 34.6 million; and Receipts increased from \$1.9 billion to \$4.2 billion. These nominal figures overstate growth to the extent that inflation increased during the 1950s. Indeed, a central goal in future research is to index against inflation the nominal financial data on the Caixas Econômicas, not only during the 1950s but during the other periods in Brazilian history as well.

In any case, and irrespective of inflation levels, these apparently positive trends in deposits, loans, and receipts were countered by a geometric expansion of administrative costs, especially personnel costs during the 1950s. During this same period, administrative costs increased from R\$739.662.000 in 1955 to over Cr\$2.3 billion in 1959. Personnel increased at a greater rate from Cr\$613.783.000 to Cr\$1.9 billion in 1959, an increase of 284 percent over 31/12/54 levels. The consequences were to reduce financial results as well fell from 0.8 percent of deposits to 0.1 percent of deposits from 1955 to 1959, results that first consumed the internal reserves of the Caixa Econômica Federal then forced the Brazilian federal government to transfer funds to the Caixas in the states.

The first deficits reported by Caixas Econômicas Federais were those of Mato Grosso and Rio Grande do Norte in 1955. And while the system as a whole reported a surplus of Cr\$190 million during 1955, the following year brought a total deficit of Cr\$59 million – a trend to continue through fiscal year 1959 with data reported by J. Henrique in *As Caixas Econômicas Federais*.

Upon separation from the *Delegacias Fiscais* in 1946, the sum of the *Contas Patrimoniais* or reserves set aside within the Caixas Econômicas Federais contained a total of Cr\$274 million. Following the rhythm of post-1945 expansion, these reserves increased to Cr\$1.17 billion in 1957 before being consumed by the increasing deficits incurred by the state banks. By 1959 thirteen of the total twenty one Caixas Econômicas Federais had consumed their *Contas Patrimoniais* and required fiscal inputs from the Brazilian Federal Government to cover the deficits totalling Cr\$480 million (while the other eight Caixas supplied a Cr\$1.39 billion surplus, the Caixa Econômica Federal de São Paulo alone reporting a surplus of Cr\$116 million for 1959).

Why this turn for the worse during the mid-1950s? Can the available evidence distinguish between explanations that focus on populism, corporatism, and clientelism? Although this report presents initial impressions from a historical overview and the organization of financial data across time, it appears that the greatest impact on the Caixas was the increasing levels of inflation during the 1950s that eroded balance sheets, but that the rapid expansion of personnel and administrative costs also played an important role.

João Henrique argues that early warnings came from within the Fiscal Councils and were clearly articulated by the Superior Council and annual reports:

“Depositários de cerca de um terço do dinheiro em circulação no país e sendo a maior instituição de crédito popular da América Latina, elas refletem necessariamente as variações do ambiente econômico-financeiro nacional.”

J. Henrique, *Estrutura e Conjuntura das Caixas Econômicas* p. 138

And from this general economic and financial environment Henrique notes that inflation appears the central cause for financial deterioration of the government savings banks:

“Embora o surto inflacionário faça correr dinheiro, a recuperação econômica das Caixas, em consequência de mais poupança e mais depósitos, não será tão milagrosamente rápida que as capacite ao comprimento do ônus que, por lei, lhes foram deferidos.”

J. Henrique, *Estrutura e Conjuntura das Caixas Econômicas* p. 138

In sum, the internal financial records of the Caixas Econômicas Federais suggest that their financial deterioration dates from the mid-1950s, but the explanations forwarded by the then President of the Superior Council of the government savings banks will require further research to distinguish the role of political causes such as clientelism, corporatism or populist mismanagement of the macroeconomy.

Table 3
Number and Type of Agencies, Caixas Econômicas Federais, 1959

States	Sucursais	Filiais	Agencies	Postal-Agencies	Total
Alagoas	--	--	3	14	17
Amazonas	--	--	--	7	7
Bahia	--	--	28	4	32
Ceará	--	--	--	2	2
Espírito Santo	--	--	4	16	20
Est. Rio de Janeiro	2	--	29	30	61
Goiás	--	--	1	8	9
Maranhão	1	--	--	2	3
Mato Grosso	--	--	3	4	7
Minas Gerais	4	60	--	2	66
Pará	--	--	5	6	11
Paraíba	--	--	5	5	10
Pernambuco	--	4	4	1	9
Piauí	1	--	--	8	9
Rio de Janeiro	--	--	38	--	38
Rio Grande do Norte	--	--	1	9	10
Rio Grande do Sul	--	36	--	--	36
Sta. Catarina	--	--	13	11	24
São Paulo	--	--	52	3	55
Sergipe	--	--	1	15	16
TOTAL	8	100	226	149	483

Source: Henrique, (1960) from Annual Report (*Relatório Anual*), 1959

Further analysis of the data compiled on the Caixas Econômicas Federais during the 1960s will also be required. Initial review of the number and geographical distribution of agencies (in 1969), and the evolution of deposits, loans, and current account flows to the federal government from 1959 through 1969 suggest that the Brazilian government savings banks grew dramatically after 1966 (See Tables 3,4,5,6).

Table 4

Number and Location of Agencies, Caixas Econômicas Federais, 1969

States	Capital	Interior	Total
Amazonas	1	0	1
Alagoas	1	3	4
Bahia	4	16	20
Brasília	8	0	8
Ceará	1	0	1
Espirito Santo	2	6	8
Est. Rio de Janeiro	4	23	27
Goiás	3	2	5
Maranhão	1	1	2
Mato Grosso	1	3	4
Minas Gerais	13	69	82
Pará	1	4	5
Paraíba	1	6	7
Pernambuco	5	4	9
Piauí	1	1	2
Rio de Janeiro	39	0	39
Rio Grande do Norte	1	2	3
Rio Grande do Sul	25	79	104
Sta. Catarina	1	15	16
São Paulo	38	85	123
Sergipe	1	1	2
TOTAL	163	351	514

Source: Annual Report (*Relatório Anual*), 1969

Note: Nominal data does not reflect inflation.

Table 5**Deposits, Caixas Econômicas Federais, 1959-1969 (Cr\$ million)**

Year	Demand	Savings	Total
1959	31.1	1.8	32.9
1960	38.1	1.9	39.9
1961	49.1	1.5	50.6
1962	68.5	6.6	75.1
1963	106.2	6.4	112.6
1964	158.2	12.5	170.7
1965	286.2	42.2	328.4
1966	339.5	74.5	414.0
1967	588.0	155.0	743.0
1968	598.0	210.0	808.0
1969	703.0	420.0	1,123.0

Source: Annual Reports (*Relatório Anual*, 1959-1969)

Note: Nominal data does not reflect inflation

Table 6**Loans, Caixas Econômicas Federais, 1959-1969 (Cr\$ million)**

Year	Mortgages	Pawns	Consignments	Others	Total
1959	16.5	1.5	5.5	4.1	27.6
1960	20.5	1.9	5.9	4.1	32.4
1961	22.7	2.4	7.0	6.7	38.8
1962	28.8	4.4	16.0	8.9	58.1
1963	43.8	8.1	22.1	11.7	85.7
1964	57.4	14.8	31.8	11.8	115.8
1965	87.6	28.8	74.1	20.9	211.4
1966	194.8	50.6	95.3	53.1	398.8
1967	206.9	66.8	143.8	199.1	615.6
1968	492.0	76.0	176.0	385.0	1,129.0
1969	743.0	83.0	152.0	570.0	1,548.0

Source: Annual Reports (*Relatório Anual*, 1959-1969)

Note: Nominal data does not reflect inflation

Table 7**Capital Accounts, Caixas Econômicas Federais, 1959-1969 (Cr\$ million)**

Year	Assets	Total
1959	0.8	1.3
1960	1.1	1.5
1961	3.4	3.3
1962	3.4	4.1
1963	4.8	6.7
1964	3.9	5.0
1965	8.4	14.5
1966	21.1	54.6
1967	65.5	150.0
1968	260.0	321.0
1969	411.0	515.0

Source: Annual Reports (*Relatório Anual*, 1959-1969)

Note: Nominal data does not reflect inflation

Table 8**Consolidated Balance Sheet of Federal Savings Banks, 1967, 1968, 1969 (Cr\$ millions)**

	1967	1968	1969
Assets			
In Cash	184	91	161
Loans	615	1,129	1,548
Securities	129	199	242
Real Estate	21	17	40
Fixed Assets	42	95	128
Other Credits	126	148	170
Total Assets	1,117	1,670	2,289
Liabilities			
Capital Account	150	321	515
Third Party Assets	967	1,349	2,289
Demand Deposits	588	598	703
Savings Deposits	155	210	420
Liabilities	224	541	651
Total Liabilities	1,117	1,670	2,289

Source: Annual Reports (*Relatório Anual*, 1967,1968,1969)

Note: Nominal data does not reflect inflation

Further research will also be needed to understand the political consequences and causes associated with the consolidation of Brazilian government savings banks under greater control of the central government during the period of military rule after March 31, 1964. Of special interest in future research will be the impact of the monetary and financial reforms introduced by Ministers Campos and Bulhões on the Caixa Econômica Federal.

The Caixas Econômicas Federais were transformed into a single federal savings bank in March 1970 (in response to the Decree no. 759 of August 12, 1969) while the Superior Council was eliminated and the legal status of the bank changed to a public institution within the National Financial System. The CAIXA was redefined by this decree as an auxiliary entity in the implementation of the federal government's credit policy.

The place of government savings banks during this period appears to have changed significantly, given the expanded role of these institutions in the administration of new public savings programs implemented during the period of military rule. During the 1970s the Caixa Econômica Federal was responsible for the nationwide implementation of the mandatory savings Program for Social Integration (PIS) and the expansion of sports lotteries, the implementation of Education Loans, as well as the implementation of the Social Development Assistance Fund (FAS) under the authority of the Social Development Council.

After the transition from military to civilian rule, the Brazilian government savings banks also acquired new portfolios and new roles. With the extinction of the National Housing Bank (Banco Nacional de Habitação, BNH) in 1986, the Caixa acquired the BNH's considerable (and considerably problematic) portfolio of housing loans. The Caixa Econômica Federal also assumed responsibility for administration of the mandatory social security fund, Guarantee Fund for Time Served, (Fundo de Garantia de Tempo de Serviço, FGTS). In sum, given the mission of the government savings banks to serve as agent in the implementation of federal government social

policies, significant differences in administrative costs and obligations distinguish these banks from their commercial competitors. For example, in 1990 the Caixa Econômica Federal was charged with the unification of the over 130 million FGTS accounts dispersed across 76 banks; a charge completed in 1993 after the process identified over 72 million inactive accounts.

Table 9**General Trends of Government Savings Banks, 1860-2001**

Decade	Political Regime	Economic Regime	Caixa Growth/Decline	Explanation for Growth/Decline
1990-2001	Democracy	“Toucan”	Decline	Adjustment to Basle I, II
1980s	Transition	Inflation/Debt	Growth	Clientelism/Corporatism
1970s	Military	“Miracle”	Growth	Savings Boom
1960s	Military	Adjust/Reform	Decline	1965 Reforms
1950s	Democracy	“JK Metas”	Decline	Clientelism
1930-1950	Nat-Populism	ISI/State-led dev.	Growth	Gov’t. Incentives
1890-1930	Olig. Dem	Econ. Liberalism	Decline	Gov’t. Abandon
1860-1889	Monarchy	State-led dev.	Growth	Gov’t Incentives

A general summary of the historical evolution of the Caixas Econômicas Federais is reported in Table 9. The explanations in the last column are preliminary suggestions to be pursued in further research. Perhaps the greatest limit to the financial data reported in Tables 1,2,5,7 and 8 is that the currencies do not reflect devaluation through inflation. And given that indexation of popular savings dates from 1965,

analysis of the redistributive impact of government savings bank on the basis of nominal data will require further research.

As noted by Wanderley Guilherme dos Santos, social policies during the Brazilian Empire (1822-1889) were, in comparative terms, generous.¹¹ Despite the existence of slavery and other eminently non-liberal institutions (and like the terrible combination of authoritarianism, militarism, and generous social policies in late 19th century Germany), the creation of social guarantees in Imperial Brazil were top-down concessions from government rather than bottom-up conquests of citizenship.

A central question emerges from the preliminary historical analysis presented herein. What is the direction of capital flows to and from popular classes in government savings banks? Two theoretical traditions appear to have answers. The liberal tradition of political economy would, at first glance, suggest that popular savings banks permit the accumulation of wealth among those most needing it. The Marxist tradition of political economy would, at first glance, suggest that savings banks may serve only to extract value from popular classes. Although further analysis of macroeconomic trends and internal financial flows will be needed, the initial conclusion from this historical overview is that the fortunes of popular and other social classes did indeed change dramatically across Brazilian history, but the causal process is not so clear. Sometimes value appears to be added in accord with political-economic reforms that favor popular inclusion; sometimes value appears to be dramatically eroded by inflation; and sometimes savings appear to have expanded simply because economic growth creates virtuous cycles.

¹¹ Dos Santos, Wanderley G. *Cidadania e Justiça: A Política Social na Ordem Brasileira*. Rio de Janeiro: Editora Campus, 1979.

Notes on the Organization of the Caixas Econômicas Federais

The Caixas Econômicas Federais are also unique in terms of internal organization and external supervision. The federal savings banks are autonomous institutions managed by administrative councils that have the authority to decide internal services, business, patrimony and reserve levels, as well as the general mandate to encourage social and economic development. Council members are responsible to the Superior Council of five members nominated by the President of Brazil. Since the 24.427 decree of 1934, annual congressional reunions of bank council members are held, including the members of administrative councils, the federal superior council, and presided by the Minister of Finance or delegate.

As government institutions, the federal savings banks are considered auxiliary entities for the implementation of public policies while, as banks, they are subject to the control of the National Monetary Council. Since the 1994 entry of Brazil into the Basle Accords designed to regulate financial risks, the federal savings banks have been brought within the guidelines of reserves and portfolio risk defined by the Basle I and Basle II accords. While the federal savings banks are exempt from compulsory deposits with the Brazilian Central Bank, they retain federal government guarantee on deposits.

The current organizational format reflects the place of the Caixa Econômica Federal in the National Financial System and its external supervision by the Tribunal de Contas da União and the Finance Ministry. The Administrative Council contains five members nominated by the Finance Minister.

Having briefly surveyed the data and interpretations available on government savings banks in Brazilian history, this report turns to more recent policy debates about the role of state banks as well as evidence about credit and banking.

III. ARE BUREAUCRATS BAD BANKERS? CAN PRIVATE BANKS DO BETTER?

This section explores evidence about bank performance and credit markets in Brazil in an initial attempt to test these different perspectives/theories about state banks in Brazil. Several introductory comments about the Caixa Econômica Federal (CAIXA) and federal banks in the Brazilian economy and polity are in order. Perhaps the most important empirical characteristic of credit markets in Brazil is their underdevelopment. While the volume of credit in advanced capitalist countries generally exceeds 100 percent of the nations gross national product, credit in Brazil remains below 1/3 of the nations GNP. While evidence of underdevelopment does little to settle matters among competing explanations for its causes, the structural characteristics and trends that appear in additional data suggest that domestic Brazilian banks (private and federal) seem not only to predominate but to have expanded in recent years.

The second notable characteristic of credit markets in Brazil (and one that is more counterintuitive) is the predominance of government banks. Even after the refinancing and restructuring of federal banks on June 22, 2001, the big-three federal government banks still account for over 40 percent of commercial bank loans in Brazil. The CAIXA is a large institution that, alone, accounts for 10 percent of Brazilian domestic financial assets, 6.2 percent of domestic credit, and 18.7 percent of deposits.

And for those that may cry “big but bad,” take a closer look. With respect to profitability, return on assets, credit, workforce, and standard measures of efficiency, the CAIXA also compares favorably with the best private banks in Brazil. Restructuring during 2001 indeed produced a R\$298 million loss for the year. But the CAIXA’s return on capital during 1999 and 2000 averaged 10.1 percent, with the bank’s assets growing 147 percent over the last six years, from R\$51 billion in 1994 to R\$126 billion in 2000. Liabilities from 1994-200 grew from

R\$1.7 billion to R\$3.1 billion. In terms of an index of efficiency used by Austin Allen, the CAIXA ranked 85.6, less than Brazilian benchmark Bradesco, but similar to or better than reputable and competitive international banks such as Citibank (76.3) ABN Amro Real (72.9) and HSBC (94.2).

Although these are rough comparisons, the data is slanted against the CAIXA and favors the conclusion that Brazilian federal banks work well to the extent that they incur higher costs from their mandate to implement federal government credit policies and other social services. The CAIXA serves as principal executor of a wide variety of government services such as FGTS, PIS/PASEP, unemployment funds, grants and loans for education, and the new “citizenship card.” The bank is also contracted to accumulate data for the federal government (for the CNIS (Cadastro Nacional de Informações Sociais) and CAGED (Cadastro Geral de Empregados e Desempregados)) as well as other administrative responsibilities mandated by the federal government that present a unique set of opportunities, risks, and costs for the bank. Furthermore, while much ado is made about the extent of non-performing housing loans, the majority of these loans originated when the CAIXA was forced to acquire the Banco Nacional de Habitação in 1986.

The conclusion: large but not necessarily dinosaurs. Brazilian federal banks seem to counter critiques in the liberal tradition and among international financial community that see Brazilian federal banks as just another example of bad banks led by bureaucrats.

Another brief glance at the basic categories of banking activity in Brazil suggests that state banks, private banks, and foreign banks act differently. Note the different origin of profits of banks in these three categories. While these apparent trends deserve more careful analysis, the following differences appear to be sound inferences from the data. First, in an ominous development that may echo the vicious cycle of government debt currently underway in Argentina, in 1999 and 2000 half of foreign bank profits have been obtained from (largely government)

bond trading. Indeed, while gains in currency markets accounted for 38.6 and 42.8 percent of foreign bank profits in 1994 and 1995, since then currency markets have provided considerably less profit for banks (with the exception of 1999 due to the floating and devaluation of the Real). Another trend that leaps from the data is the decline of profits in state banks based on credit, from 68.4 percent in 1994 to 29.8 percent in 2000. Further research will be required to explain this trend.

Table 10

Origin of Profits among Public, Private and Foreign Banks in Brazil, 1994-2000

% Profits	1994	1995	1996	1997	1998	1999	2000
Credit State Banks	68.4	66.7	50.9	40.2	34.9	30.1	29.8
Private Banks	29.2	37.0	33.2	32.8	25.8	20.7	26.5
Foreign Banks	12.7	16.4	27.4	23.7	18.3	10.2	17.3
Bonds State Banks	7.3	5.6	6.1	6.1	19.7	19.9	24.4
Private Banks	10.1	10.4	13.1	21.8	27.5	31.2	28.8
Foreign Banks	4.2	9.6	17.7	33.1	41.4	51.9	48.9
Exchange State Banks	11.7	9.2	2.7	0.9	1.3	8.5	4.3
Private Banks	17.0	10.7	5.4	5.6	5.8	23.6	11.8
Foreign Banks	38.6	42.8	13.1	11.2	10.3	23.5	13.1

Compiled from Gazeta Mercantil, Austin Assis study

These trends appear to counter the expectations created by a strong decline in the Brazilian benchmark Selic interest rate (nominal) from 45 percent in January 1999 to below 18 percent in early 2001. Indeed, consumer and business credit appear to have increased during this initial period of the new floating exchange rate regime. Nonetheless, this apparent predominance of a virtuous macroeconomic cycle was reversed at year-end 2000 and remains in check still as this report is written in the late third quarter 2001. Furthermore, the decline or retraction of credit appears to

have several characteristics of import to this comparison between Brazilian federal banks and private and foreign banks sketched above.

Despite a series of state-bank privatizations and mergers and acquisitions of domestic banks conducted by foreign banks, the net of bank agencies across Brazil has decreased. According to a recent study by the Brazilian Central Bank, the percent of Brazilian municipalities without any bank branch at all rose from 22.7 percent in 1994 to 30.1 percent in May 2001. That is to say that 30.1 percent of Brazilian municipalities have no bank branch. As one would expect, the regional concentration is considerable: 17 percent of municipalities in the Brazilian south and 16 percent of municipalities in the southeast lack any bank branches, while 50 percent of municipalities in the northern states and 45.2 percent of municipalities in the northeastern states lack bank offices.¹²

This concentration of banking in the more advanced economic regions of the country suggest the importance of Brazilian federal banks for the implementation of government credit and development policies.

IV. THE BOOZ-ALLEN HAMILTON/FIPE REPORT AND PUBLIC HEARING ON THE REFORM OF BRAZILIAN FEDERAL BANKS

Having briefly considered some of the basic structural characteristics of Brazilian banking, the recent public hearing held by the Ministry of Finance provides a point of departure for discussion of how federal banks are related to broader questions of monetary authority and democracy in the country. Despite significant problems with the consortium's report (discussed below), of interest at present is the report's conceptual distinction of state banks in the following terms: commercial banks;

¹² Cited in Folha de S. Paulo, July 15, 2001, p. B8.

banks designed to provide popular access; banks acting as urban development agencies; banks acting as agricultural development agencies; and banks designed to promote long-term macro-economic and social development. Indeed, the advantage of the focus on the entire set of Brazilian federal banks adopted in the consortium's report is that the niche of each in Brazilian economic and political development becomes clear.¹³

In this sense and taken as a whole, Brazilian federal banks can be seen to specialize in the following areas. The Banco do Brasil (BB) acts as the primary agent of agricultural credit and development, while also focusing on international commerce and export programs. The Banco Nacional de Desenvolvimento Econômico e Social (BNDES) provides long term credit to economic sectors seen as critical by the federal government for economic and social development. The BNDES coordinates the federal government program of privatization and provides export financing. The Banco do Nordeste (BNB) and Banco da Amazonia (Basa) focus on regional development. Finally, the consortium correctly notes that the Caixa Econômica Federal (CAIXA) has traditionally focused on urban development, especially sanitation and housing, and the transfer of government benefits such as pensions, public savings programs, and unemployment funds.

This report commissioned by the Ministry of Finance and conducted by the Booz-Allen Hamilton/FIPE consortium was criticized by Unicamp Professor Fernando Nogueira da Costa for several serious errors of conceptualization, analysis, and inference. Indeed, the Booz-Allen Hamilton/FIPE study appears to have been commissioned after a previous study apparently conducted by a major international consulting firm suggested that the best solution for Brazilian federal banks was privatization. Fortunately, the Booz-Hamilton/FIPE study avoided such banal generalizations and developed alternative possibilities for the reorganization and reform of federal banks. Nonetheless, the report remains far from a scholarly

¹³ Readers will note that discussion of the Brazilian Central Bank is lacking because this report focuses on the set of Brazilian federal banks involved in traditional commercial activities rather than macro-economic management.

exercise, given the lack of references to data source and methods used to forecast future expected profits (and losses) for Brazilian federal banks. Indeed, the prediction that Brazilian federal banks would sustain losses in 1999 and 2000 have not proven correct (average return on capital by CAIXA = 10.1 percent). And the declaration of losses for 2001 suggests that recent evidence about the profitability of the banks is less clear.

Regarding the Booz-Allen Hamilton/FIPE-USP study, the selection of 1994-1995 as baseline for the analysis is also problematic because the Brazilian government appears to have relied heavily on federal banks during this period to ameliorate the distributive consequences and disequilibria incurred by a variety of sectors and groups during “dis-indexation.”

From these specific criticisms one can add general critiques of state banks in Brazilian development. In broader terms, state banks may indeed reflect the severe social and political consequences of market failures. More specifically, private banks have traditionally steered away from the vast interior of Brazil and the poor. The functional conclusion of Fiori: is that “O sistema bancário privado era incapaz de superar os estreitos limites do crédito comercial, o que obrigava o Estado a assumir uma função financeira.” (Fiori, 95, p. 69) While this comment suggests that commercial credit and private banks have failed to develop a domestic financial system, it begs for more empirically oriented analysis of how Brazilian state banks act. Indeed, since Habermas’s analysis of the collapse of traditional notions of private and public in advanced industrial societies, government banking has been widely recognized as necessary to avert market failures and social consequences. Classic analyses of political economy are full of rich references on how governments must intervene in markets to avert failures and ameliorate social consequences. Polanyi argues that failures in credit and money markets have always forced political authorities to design state banks, not only central banks but a variety of government owned banks to avert market failures and alleviate the social consequences of markets. Przeworski argues that Keynesian economics provided the

grounds for government policies that European socialist parties needed to govern, and save, advanced capitalist economies from crisis and breakdown.

In this sense, the perspective of political sociology adopted in this report does not share the widely held assumption among economists that politics impedes market equilibrium. To the contrary, the negative conceptions of politics among liberal economists fail to recognize the historical development of credit and money markets undergirded by public supervision, regulation, and direct participation. Of primary interest in this report is the political dimension of federal Brazilian banking. And to this author, the sheer size and widespread presence of federal banks in the Brazilian economy present significant opportunities exist for the redistribution of income and the inclusion of popular sectors within the political institutions of Brazilian democracy.

V. THE JUNE 22, 2001 REFINANCING OF FEDERAL BANKS

In the wake of the public hearing came the long awaited reforms. On June 22, 2001 Finance Minister Pedro Malan announced a broad refinancing scheme for the Brazilian federal banks. The refinancing injected R\$12.5 billion into Brazilian federal banks to meet Basel Accord capital requirements as well as Brazilian Central Bank resolutions 2.682/99 that set additional guidelines for provisions against credit risk. Regarding the Caixa Econômica Federal, the guidelines set out by Minister Malan were to guarantee the continuity of the bank as agent for the implementation of federal government policies while ensuring against the recurrence of large liabilities.

Four principles inform the refinancing of the CAIXA. First, the definition of a new administrative model is designed to increase the authority and capacity of the administrative council to avert abuse of credit programs and impose measures of

banking prudence. Second, new strategies to avert the emergence of large liabilities are to be introduced by clear accounting of public programs that appear in the federal budget and receive annual approval by the legislature and executive branches of government. Third, a series of financial engineering measures were to be used to exchange of assets and restructure bank capital. Finally, non-performing assets and housing credits were to be sold to an independent financial agency responsible for their administration.

The CAIXA balance sheet thereby received a total injection from the federal government of R\$86.7 billion, a figure that may startle unless it is disaggregated and analyzed more carefully. The following appear to be the central costs involved:

- * R\$24.0 billion is the cost of exchanging paper
- * R\$5.7 billion is the cost of splitting off old non-performing loans inherited largely from the BNH housing system that the bank was forced to acquire in 1986
- * R\$13.0 billion is the cost of credits arising from the federal government's re-negotiation of excessive and irregular debts incurred by Brazilian state governments and banks
- * R\$8.0 billion is the cost of purchasing the CAIXA's debt with the FGTS
- * R\$9.3 billion is the cost of capitalization
- * R\$26.7 billion is the cost of transferring risk arising from housing loans

After this refinancing during 2001, the CAIXA now appears to meet Basle Accord capital requirements and has shrunk in terms of assets to loose its traditional first or second place in the ranking of Brazilian financial institutions.

Before concluding, a few brief comments on the strategic reorientation of the CAIXA are in order. The central mandate of the bank remains to focus on urban development, specifically as government financial agent for housing and sanitation credits. Since the June 22 refinancing, the CAIXA has implemented this internal strategic reform assisted by the creation of a new Program of Subsidies for Housing

in the Social Interest (PSH, Programa de Subsídio à Habitação de Interesse Social), in accord with provisional decree measure no. 2.212. This new program replaced the Carta de Crédito da CAIXA that financed housing for Brazilians earning over R\$2,000 per month. Funding levels for the new PSH program depends on approval by the Brazilian Congress and President, consistent with the guidelines contained in the refinancing program of June 22.

While the CAIXA retains the goal of creating agencies in all 5,561 Brazilian municipalities through its existing agreement with the federal lottery system, it should be noted that the Brazilian private bank *Bradesco* won a government concession via the Brazilian postal office to provide banking services inside all existing 5,500 agencies of the postal system.

Additional goals of the CAIXA are to develop agreements to transfer government benefits through non-governmental organizations, to provide services to the federal government in terms of the transfer of funds to citizens and the oversight of spending in accord with the new federal budget process, and, as emphasized in this report, to extend housing loans and other forms of popular credit designed for the poorest Brazilians. In sum, several aspects of the CAIXA's strategic reorientation appear especially suited to address the social, economic, and political exclusion that remains the overwhelming reality of Brazilian democracy: The bank's focus on low income customers; its capacity to lending to small and micro-firms; the development of services designed for the informal sector; and its presence in less developed municipalities across Brazil that fail to attract private banks.

VI. CONCLUDING COMMENTS ON DEMOCRACY, MONETARY AUTHORITY, AND THE CAIXA: THE FEDERAL GOVERNMENT AND THE *SEM CONTA*

The relations between democracy, monetary authority, and federal banks of concern in the report can be summed up in the description of a new category in Brazilian politics: the *sem conta*. This expression of social economic and political exclusion surely has more impact than the unforgivably clumsy “*desbancarizados*” that has appeared in discussions of popular credit. Given the dramatic distributive effects of economic exclusion, new technologies and new government programs may provide new parameters for past political patterns and provide new means to many of the estimated 80 percent of Brazilians that have no bank account. Most of these Brazilians have no savings, no credit, and no links to the new information economy and society.

The continued existence of this deep social cleavage is hard to understand given that the Brazilian government retains an institution of popular savings and credit like the CAIXA with almost two thousand agencies across the country, and the capacity to offer a variety of social and anti-poverty program in a simple and unified card – the citizenship card. Few governments have these administrative resources. And, paradoxically, few governments have such an overwhelming legacy of social exclusion alongside cutting-edge firms, technologies, and financial services.

Hence one of the conclusions from this research has to do with current policy debates. Although someday private banks may do better (and the Bradesco postal concession may indeed suggest that this day has arrived), the CAIXA and other federal banks seem uniquely positioned to produce an immense difference in the political-economy of Brazilian democracy.

Recent research at the Social Policy Center of the Fundação Getulio Vargas also suggests that Brazilian federal banks present significant opportunities for new

policies designed to reduce poverty. Marcelo Neri has also suggested that federal banks have the technical capacity, information technologies, and branch presence across Brazil and its less developed regions that make possible new government credit and anti-poverty policies¹⁴ Given, as Neri argues, that education policy, retirement pensions, and new benefits designed especially for those working in the informal sector would have the greatest potential for ameliorating poverty, while citing the CAIXA and Banco do Brasil (and a new kind of bank card) as a possible mechanism to implement these measures.

Although the current strategic reorientation of the CAIXA remains focused on producing significant social gains and popular inclusion, it remains unclear how far international and macro-economic constraints will impede reaching the bank's goals. These policy opportunities clearly depend on a series of other political and economic factors such as the fate of the new system of inflation targeting and floating exchange rate adopted by the Brazilian government on January 15, 1999. And the federal government debt of R\$660 billion at year ends 2001 is high enough to both constrain the ability of the Brazilian Central bank to lower the benchmark *Selic* interest rate and curtail future government spending.

One unanticipated conclusion from this research is that the refinancing of federal public financial institutions during 2001 appears to provide a significant new series of opportunities for popular credit programs. Given the current structure of the Brazilian federal government budget process, additional capitalization of the CAIXA must pass through congressional and executive approval. However, given the current guidelines and regulations for the Brazilian financial system under the Basle Accord, the ten percent reserve requirement suggests that, *ceteris paribus*, the CAIXA can loan ten times whatever additional funds are allocated by the federal congress. In sum, government guaranteed popular savings banks may best provide social services and credit to Brazilian classes C,D, and E, thereby providing a broader social content to Brazilian democracy.

¹⁴ Cited in O Estado de S. Paulo, Jly 15, 2001, p. A9.

VII. APPENDICES

- 1) Deposits, Caixas Econômicas, 1934-1959
- 2) Loans, Caixas Econômicas, 1934-1959
- 3) Public and Private Credit, 1994-2001
- 4) Caixa Econômica Federal, Consolidated Balance Sheet, 1996
- 5) Caixa Econômica Federal, Consolidated Balance Sheet, 1997
- 6) Caixa Econômica Federal, Consolidated Balance Sheet, 1998
- 7) Caixa Econômica Federal, Consolidated Balance Sheet, 1999

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