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Income transfers and household debt. The advancing collateralization of social policy in the midst of restructuring crises*

Transferências de renda e dívida das famílias. O avanço da colateralização da política social em meio a crises de reestruturação

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RESUMO: O objetivo deste artigo é abordar como o endividamento das famílias e mercado de crédito contemporâneos surgem como os elementos definidores na reconfiguração da política social tanto nos países em desenvolvimento quanto nas economias avançadas. Começamos lembrando que a implementação de políticas de renda como núcleo de um novo paradigma de proteção social tem contribuído para promover expansão dos mercados financeiros. Tomamos o Brasil como um estudo de caso para ilustrar como essa nova conexão entre as políticas de transferência de renda (contributivas ou não contributivas) e os mercados de crédito se desdobrou resultando no aumento do endividamento das famílias. Mostramos evidências de que a conexão entre dívida e benefícios monetários assegurados pelo Estado é efetiva e significativa.
PALAVRAS-CHAVE: Benefícios monetários; colateralização; política social; crédito.

ABSTRACT: The aim of this article is to address how household debt and contemporary credit markets seem to be the defining elements in the reshaping of social policy both in develop-

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ing and developed countries. We start off by recalling how the implementation of income policies as the core of a new social protection paradigm has contributed to promote market-based finance. We take Brazil as a case study to illustrate how this new connection between state guaranteed income policies and credit markets has unfolded resulting in increasing household debt. We show evidence that the connection between household debt and state-provided monetary benefits is effective and significant.
KEYWORDS: Monetary benefits; collateralization; social policy; credit.
JEL Classification: E44; O11; O54.

Under financialized capitalism, the forms of social provision have become increasingly diverse, which is clearly a point of convergence among scholars on the subject. Indeed, the scholarly literature has emphasized the extreme diversity of forms of social provision that both privatization[1] and financialization have brought about, leading to the creation of typologies (Grubbauer and Mader, 2021) and novel methodologies grounded in studies across sectors, locations, agents, countries, and regions (Bayliss and Fine, 2020).

However, there are common structural threads that cut across this wide variety and tend to reinforce a specific modality of social policy: monetary benefits. In this article, we argue that the constant renewal of cycles of household indebtedness (Lavinas 2017; Lavinas et al., 2022), a distinctive and inseparable feature of financialization, and the continuous generation of asset-classes (Dafermos, Gabor and Michell, 2021; Griffiths and Romero, 2018), as a de-risking strategy for the deployment of private finance in the realm of social reproduction, are the key drivers that are now influencing and reconfiguring social policies, favouring further a wide adoption of income-schemes.

We claim that social policy has been integrated into the debt cycle, fomenting the expansion of secondary financial markets, a logic at odds with its previous blueprints. Social policy has become decisive in ensuring that the creation of new asset-classes, either in the Global North or in the Global South, pave the way to finance-promoting development. In one case as in the other, income policies stand out by acquiring a crucial role. The relationship of state-sponsored monetary benefits, be they contributory or non-contributory, with the production of debt cycles occurs through their use as a form of collateral (Lavinas, 2018, 2020) easing access to credit markets. Microfinance (Mader, 2015) has also served that same purpose by offering an alternative to fill the gap of non-existent social provisions. Regarding asset-classes, this strategy to be successful requires that user-fee models (Dafermos, Gabor and Michell, 2021) are brought into play. For this to happen, households (along with firms) who are the end-users of finnfrastructure[2] services (Fine, 2021a)

[1] To grasp the difference between these two concepts, see Cordilha (2023).

[2] Ben Fine defines finnfrastructure as how "financialized capital [is] expanding provision of economic and social infrastructure" (2021a, p. 269).

delivered through PPPs and other asset-class arrangements, must preserve their ability to pay for them. It is precisely here, when it comes to households, that income schemes are key to reducing risks for the financial system, offering a basic cushion for investments to dig in.

The aim of this article is thus to address how household debt and the development of asset-classes seem to be the defining elements in the reshaping of social policy both in the Global North and in the Global South in current times. To this end, section 1 starts off by recalling how the implementation of income policies as the core of a new social protection paradigm has long preceded the World Bank, IMF and G20' s more recent strategies to promote market-based finance. From the household perspective, monetary benefits have become part of the required arsenal to prevent illiquidity in financial markets notably in the Global South, where levels of monetisation are extremely volatile and often scarce[3]. In section 2, we take Brazil as a case study to illustrate how this new connection between state guaranteed income policies and the credit markets has been deployed. In the Brazilian case, this process has unfolded resulting in increasing and critical levels of household debt, including those that are welfare recipients and, therefore, the poorest among the worse-off. The question then became to gather empirical data to demonstrate that the collateralization of social policy is not an exception observed in this or that set of countries, but rather a global trend that undermines the meaning and the reach of social policies pledged to ensure redistribution and socioeconomic stability. We do this in section 3. In the following section, using a GMM regression model, we show evidence for the penetration and scale of income-support schemes, all the while pointing out that the connection between debt and state-provided monetary benefits is effective and significant in advanced countries as well as in emerging and developing economies. We wrap up the article by posing some questions for further research.

1. THE CENTRALITY OF INCOME SCHEMES

The role of income-support policies as complementary but indispensable mechanisms to steer the transition from public to financialized provision of essential services appears to have drawn little attention in the scholarly literature on financialization. In recent years, case studies have mainly scrutinized and unravelled mechanisms that have sparked financial accumulation to the detriment of collectivized welfare provisions in sectors characterized by in kind or highly subsidized provision – housing, health, care, education, water and sanitation, public transportation. These studies converge in highlighting that the processes of financialization

[3] Grubbauer and Mader (2021) coincide that income support policies are needed to generate opportunities for private investment. It sounds obvious but this point has nonetheless been disregarded because, presumably, it has been taken for granted.

always develop marked by strong heterogeneity, establishing contrasting patterns between countries of the Global North and the Global South. According to Fernandez and Aalbers (2020), this is because "the mechanisms underlying and pushing financialization are fundamentally different" (p. 694).

Although Fernandez and Aalbers have tremendously contributed to the understanding of financialization particularly in the realm of housing, we have doubts whether, in fact, the mechanisms that steer financialization in the North and in the South differ that much. From our perspectives, financialization has sparked logics, instruments and agents that have introduced commonalities across developed countries and emerging economies when it comes to the design and reach of social policy.

This trend is radically different from past accounts that have pointed to divergent patterns of welfare provision.

The three worlds of welfare capitalism as featured by Esping-Andersen in his outstanding 1990 book have never applied to the Global South, although they have served as a reference, as ideal types to lay the foundations of social protection systems where they did not exist or were embryonic. This dominant narrative, however, proved a "utopian promise" (Cardoso, 2010), that has merely pointed a way forward in the Global South, more often related to theories of modernization and catching up strategies that failed, than to principles of egalitarianism.

We argue that financialized neoliberalism also produces convergence. Not only in the logics that underpin variegated forms of social provisioning but in prioritizing specific blueprints for social policy. Our aim is to shed light on the growing centrality of monetary benefits within social protection systems, be them one-off measures or more regular transfers, grounded in entitlements. This is because wages and earnings alone do not suffice to guarantee the wide-ranging expansion and the enduring sustainability of commodified provision particularly in the Global South, but not only. Austerity policies repressing wages and earnings and pushing for the privatization of what used to be public, have enforced new blueprints for social policy, which can be turned into collateral and, as a result, into assets.

In this respect, though agreeing with Romero and Van Waeyenberge (2021) that public funds, in times of financialized capitalism, are being used to lever private finance through blended financial mechanisms, rather than for direct spending, we would add that direct spending remains on the government's balance sheets, but increasingly in the form of monetary transfers. This is not a minor issue. If the creation of regular revenue streams to be securitized and traded in financial markets is the ultimate goal in the process of financialization of social provision and social infrastructure, it is worth remembering that securing income flows at the household level for brewing financialization comes ahead of it.

Income-support programs have ended up embedded in the same logic of development policies: they are central to ensuring that the structural transformations underpinned by financialization can increase in scope and scale.

Few if any would question that the restructuring of social policy has been at the center of the operation of finance since the turn of the century. As put by Ben Fine in a dialogue with Sue Himmelweit (2016) in his 2021 article on the framing of social reproduction, “there can be no doubt that both globalization (of production) and financialization transform the ways in which social policy and reproduction are realized and weaken the prospects of progressive interventions” (Fine, 2021b, p. 270). And he concludes that new avenues for neoliberalism will certainly take place through the extension and intensification of financialized forms of welfare provision, on a scale unknown to date. The wide range of income schemes that have inundated the Global South since the 2000s corroborates Fine’s predictions. They’ve become a link in the chain.

According to the World Bank (2018), in 2017, around 2.5 billion people living in developing countries were recipients of monetary transfers, a figure that has very likely spiked since then. Indeed, in numerous countries these schemes where updated and expanded as key provisions inserted into covid-19 economic relief packages (Lavinas, 2021). More recent data, collected by sociologist Lutz Leisering (Weible and Leisering, 2020) estimate that 148 countries in the Global South have implemented at least one sort of cash transfer scheme. Two thirds of these provisions are located in Africa and Asia.

While public welfare regimes as we valued them for so long in developed nations are vanishing, a narrative of success has emerged from the Global South. The so-called “global rise of social cash transfers” has marked a dramatic shift in the repertoire of social policies whose greatest accomplishment is to “have extended social citizenship” as put by Lutz Leisering (2019, p. 208) on the periphery of capitalism, enhancing the social status of the poor (Ibid., p. 207). In Leisering’s words, this is “a revolution in the politics of recognition, with an entitlement revolution as its core” (Ibid, p. 208). James Ferguson (2015) claims that these novel social schemes foster processes of discovery and invention through experimentation, leading to an emergent and brand-new politics of distribution. In so doing, they could end up, he says, confronting neoliberalism.

Solutions that are marginal, residual, and ineffective in durably lifting people out of poverty have been cast as cutting-edge policies of recognition and distribution (Ferguson, 2015), instead of being perceived as an expression of the advancement of financialized capitalism on a global scale (Lavinas, 2020).

Surprisingly, there seems to be little consideration of the fact that these schemes’ take-up rates fall short in terms of coverage, leaving out a significant amount of potential beneficiaries and fueling horizontal inequities; or that half of these national programs have no legal basis to enforce a solid process of institutionalization, leaving them open to reversal; or even that their boundaries may not envelop the whole of a given nation-state’s territory, but rather favor certain areas, selected on a discretionary basis (Lavinas, 2013).

Here we are with a top-down new blueprint for social policies, hailed as revolutionary, designed for developing and transitional countries, and which would ideally inaugurate a new status for the poor as right-holders (Leisering, 2019, p. 148). What was once residual in the welfare capitalism edifice, namely welfare benefits, has become the backbone of a new model of social protection, which is unfolding in large parts of the world. Although safety nets remain an important pillar of Western social protection systems, they have been permanently scaled down, except in extraordinary times (like during the coronavirus pandemic). As a result, they have become less effective in fairly addressing poverty and deprivation.

If means-tested cash transfers consist of the lion's share of social provision in the Global South, in advanced nations the range of monetary benefits is also broad and tends to expand as well[4]. The OECD SOCX database (OECD, 2019) has classified as cash payments: pensions (old age and survivor), disability and family/child allowances, unemployment benefits and social assistance safety nets[5]. According to SOCX (OECD, 2022a), around the year 2020, in a pool of 50 countries, where rich countries prevail, half committed 60% or more of their social spending to income policies. The minimum amount spent on cash payments is 40%. Although no single trend emerges with regard to the profile of social spending in the countries included in the OECD database, one may say that over a few decades the share of cash has tended to increase to the detriment of in-kind policies.

In spite of the significant divergences between patterns of social provision and social rights which have marked the divide between rich economies and the rest of the world for the last 70 years, these parallel systems now seem to share mutual prospects: monetary benefits either account for nearly the overall social spending or have a high weight.

The question is then to examine if the outstanding participation of monetary benefits ends up promoting the collateralization of social policies (Lavinas, 2018; 2020), that is, if they establish a permanent source of indebtedness for households and individuals as a means to seek security and wellbeing, further entangling credit markets, social policy and debt. Debt has become the driver of the transformation, retraction, and or expansion of a certain type of social provision.

2. LESSONS FROM BRAZIL

Like other countries such as South Africa, Chile or Argentina, to name but a few, Brazil has experienced a new social phenomenon in the last 20 years: a sharp increase in the level of household debt.

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[4] In this work, all the data on fiscal monetary transfers encompasses both contributory benefits, derived from social insurance systems or universal schemes, as well as non-contributory ones, such as welfare cash benefits and different sorts of safety nets. Irrespective of the design of social protection systems that tend to be highly variegated, public provisioning essentially takes two forms: either cash (monetary) or in-kind (decommodified services and goods). For the purpose of this article, we built our data sets putting together all-declared and reported types of cash transfers paid through public social schemes.

[5] It is worth noting that rent subsidies and vouchers are ranked as in-kind benefits, along with social housing, for being earmarked, which very likely underestimates the real share of social spending as cash According to OECD: "housing- spending items recorded under this heading include rent subsidies and other benefits to the individual to help with housing costs. This includes direct public subsidies to tenants (in some countries, e.g., Norway, homeowners living in their house) 'earmarked' for support with the cost of housing. Because the benefits included here concern earmarked cash payments, by convention they are classified as in-kind benefits".

The profile of household debt is very different today from the loans that used to be contracted with family and friends, in the scope of the so-called informal circuits. In Brazil, this shift began in the early 2000s, when, on the one hand, the supply of household credit rose thanks to the relaxation of rules for access to new modalities of credit for individuals. A special focus was put on those – the vast majority – previously excluded from the financial system (Lavinas, 2017), for lacking credit records and collaterals (assets or regular formal jobs). This was the case with the creation of consigned credit, in 2003, even before the implementation of the paramount anti-poverty program, Bolsa Família (January 2004).

Consigned credit is a loan where installments are deducted automatically from paychecks (for those employed, be they civil servants or registered salaried employees) or from retirement plans or death pensions. Recipients of welfare programs such as BPC (Continuous Cash Benefit), Renda Vitalícia and lately Bolsa Família[6] and Auxílio Brasil (from 2020) are also eligible to take out consigned loans.

A crucial differential in the case of consigned credit in Brazil is that over 93% of its clientele are either civil servants or retirees and pensioners and other recipients of state monetary transfers too. Therefore, they rely on a very specific form of collateral: regular income paid by the State, whether in the form of salaries or a social security benefit or safety net. It was through this social engineering that previously marginalized income pools lacking collateral were given unprecedented access to financial markets. The novelty was the institutionalization of a long absent connection between credit, on the one hand, and secure wages and benefits, on the other, with the State serving as the principal underwriter.

On the demand side, two factors have worked together. On the one hand, the continuous expansion of the number of beneficiaries of the pay as you go public pension system, assembling, monthly, more than 31 million seniors in addition to those who receive welfare benefits (BPC and Renda Vitalícia), which total 4.8 million (INSS, 2022). In short, there are more than 35 million people who are potential consigned credit clients. On the other hand, the rise in the real value of the minimum wage above inflation had a huge impact on state-sponsored monetary transfers: around 25,4 million benefits regularly paid through the social insurance scheme correspond to one minimum wage. Another important aspect to be highlighted is the fact that, though falling, the number of public servants in Brazil, with average salaries above the national average, is significant, approximately 12% of the employed population[7] (IBGE, 2022). This amounts to 12 millions of them, a

[6] For the record: from 2023, Bolsa Família recipients are not allowed anymore to take out consigned loans.

[7] Statutory civil servants, whose employment is secure and without risk of unemployment, amounts to

contingent that raises the potential clients of consigned credit to almost 50 million borrowers in a rough estimate. Last but not least, the number of Bolsa Família recipients has also experienced a strong increase since the creation of the program, quickly attaining 15 million households in the mid 2010. An amount that has enlarged further the target audience of consigned credit.

As is widely known nowadays, on entering a loan, financing agreement or beginning to use a credit card conceded by a financial institution, the borrower issues an irrevocable authorization for the installments to be taken out of their paychecks or old age pensions up to a cap of 40%[8]. The interest rates applied are considerably lower than those governing non-consigned credit contracts for individuals[9]. However, they vary according to the category of the borrower: the lowest rates are for public servants, then slightly higher rates are applied to retirees and pensioners, and, finally, for formal workers the interest rates are the highest. Welfare recipients are also charged the more expensive rates.

The credit market boom throughout the 2000s was made possible by mass-indebtedness, which became a marker of social inclusion in Brazil. Three charts summarize this trend.

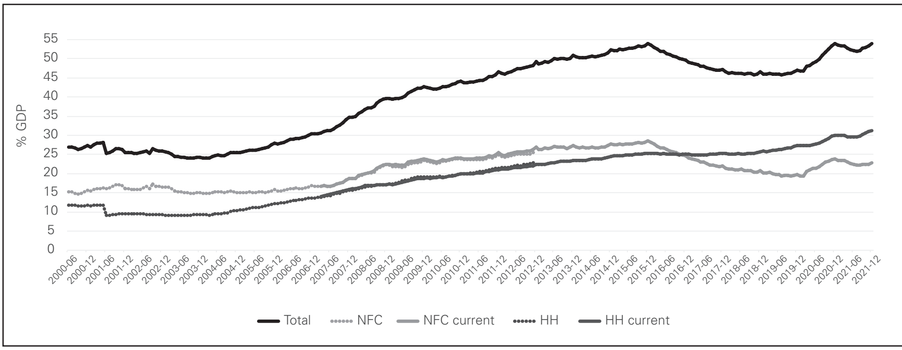
Figure 1 displays how credit supply sparked in Brazil since the year 2000. Total credit corresponded to only 25% of Brazilian GDP in the beginning of the period under scrutiny and reached around 55% of GDP by the end of 2021 (Brazilian Central Bank, 2022). As the figure shows, credit to non-financial firms and to households moved in synch and relatively close in terms of volume. But from the end of 2016 onwards, as we exit a severe two-year recession, the credit given to households exceeded the volume of that given to companies. This shift demonstrates crucial improvements in the condition of credit-taking for households. And the gap has widened ever since. This is a stunning feature as it indicates that the profitability of banks that has remained high even during the pandemic (Lavinas et al., 2022) was achieved thanks to the pretty expensive interest and fees paid by Brazilian families who need to borrow. As is well known, consumer credit, consigned or not, of shorter term, registers much higher interest rates than those charged on loans to companies.

5.2% of the occupied labour force: 0.45% work for the federal branch; 1.64% at the state level and 3.1% work in the municipalities.

[8] The Provisional Measure 1.106/22, valid until December 31 2022, raised the cap of the consigned margin in 5%, to 40%, from 35% before.

[9] In December 2019, just before the pandemic outbreak, annual interest rate applied to non-consigned credit for households reached 28.29%, p.a., against 20.54% for those borrowing on consigned credit (Brazilian Central Bank, 2022). The Selic prime rate was then at 4.59%.

Figure 1: Outstanding credit / GDP (%)
Total, non-financial corporations and households

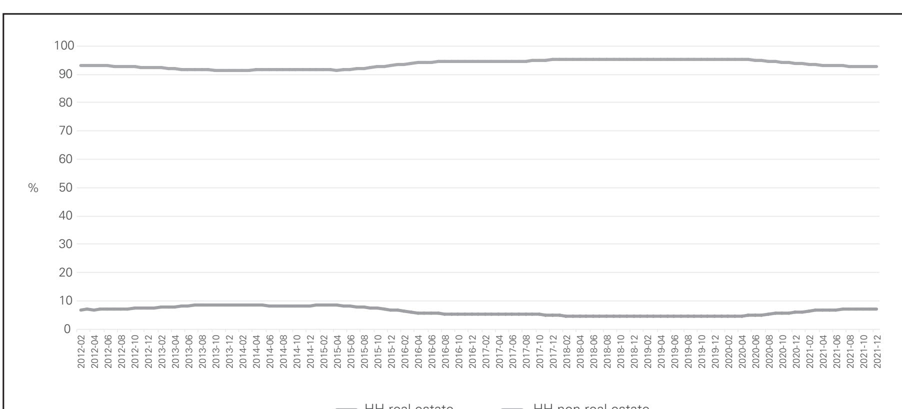


Source: Authors' elaboration based on Brazilian Central Bank (2022). Total credit outstanding/GDP accumulated in the last 12 months (the dot lines show that both series have been discontinued by the BCB, although they refer to the same credit modalities).

But what kind of credit do Brazilian households usually take on?

Since 2015, the stock of household credit broken down by mortgage and non-mortgage has maintained the same path, with one third oriented towards the purchase of real estate, and two thirds going to consumer credit in general (several modalities). But if we look at the dynamics of new lending concessions, rather than considering the stock (which in the case of mortgages implies long-term loans that therefore have a higher weight in the overall stock of credit), we see that since 2012 the pattern in the mortgage / non-mortgage distribution is virtually invariant, as Figure 2 shows. Real estate new loan concessions over a ten-year period represent less than 10% of the overall credit to households (Brazilian Central Bank, 2022). This is an alarming trend meaning that Brazilians are getting into debt to finance their daily lives instead of becoming asset holders by purchasing a home.

Figure 2: Share of 12-month cumulative household credit concessions – mortgage (real state) and non-mortgage (non-real state)

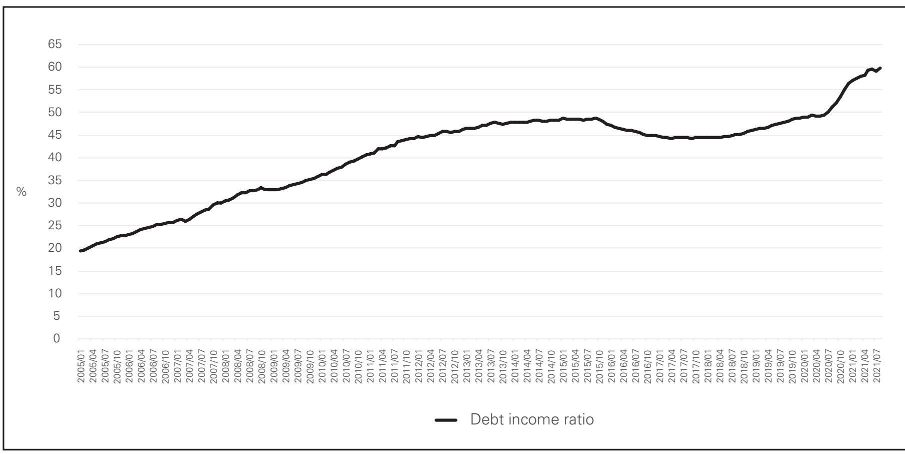


Source: Authors' elaboration based on Brazilian Central Bank (2022).

The credit modality that expanded the most during this period was consigned credit, amounting to 18,9 % of personal credit in 2021 against 17,4 % in 2012 (Brazilian Central Bank, 2022).

Figure 3 illustrates the rapid escalation in the level of indebtedness of Brazilian households during this process of mass-financialization. The debt-to-income ratio triples from 2005 to 2020, surging from 20.1% in 2005 to 59.9% by the end of 2021. This growth has been steady, only cooling off in the years 2015-16, at the time of the recession that had curbed the supply of credit (Ibid., 2022).

Figure 3: Household debt (debt-to-income ratio – % of 12-month cumulative disposable income) (quarterly moving average)



Source: Authors' elaboration based on Brazilian Central Bank (2022).

Lavinas (2017) brought up empirical evidence from 2012 of "a strong correlation between consigned credit and the private provision of healthcare and educational services, while the expanded wage bill showed no such association. Nor was non-consigned credit significant in the expansion of the services in question" (p. 141), indicating that in addition to incentivizing the consumption of basic and durable goods, banking loans guaranteed by a special collateral – fiscal monetary transfers, underwritten by the state – have facilitated access to private provision that was supposed to be delivered through universal public policies.

Therefore, austerity policies that have been predominant in Brazil starting in 2013, aggravating the underfinancing of a large swatch of social policies, ended up being individually compensated through access to debt. This indicates a total reversal of the logic of social policy, which from being a mechanism for fighting poverty and providing socio-economic stability, smoothing consumption, ends up becoming a collateral that serves mounting indebtedness and financial accumulation, making households even more vulnerable and unprotected.

3. INTERTWINING DEBT AND INCOME BENEFITS

Brazil, however, is no exception. It's worth noting that, like in Brazil, household debt has increased substantially throughout the 2000s in line with a consequential upsurge in credit supply in both developed and developing countries.

Table 1 summarizes total household credit as a share of GDP for a group of countries that comprises advanced nations and emerging market economies for the period 2008-2020. In the aggregates[10] that includes the developed economies (the top three), one observes a drop in the credit share after the 2008 crisis, a trend that is only reversed after 2016. In the case of emerging economies, by contrast, the progression is continuous between the two ends of the period. The strong growth registered in 2020 in all aggregates is possibly the combined effect of the fall in world GDP, due to the coronavirus crisis, as well as the relaxation in the rules of access to the credit market that followed the liquidity guarantee measures that resulted from the rescue plans adopted widely.

Table 1: Total credit to households (core debt) as percentage of GDP (2008- 2020)

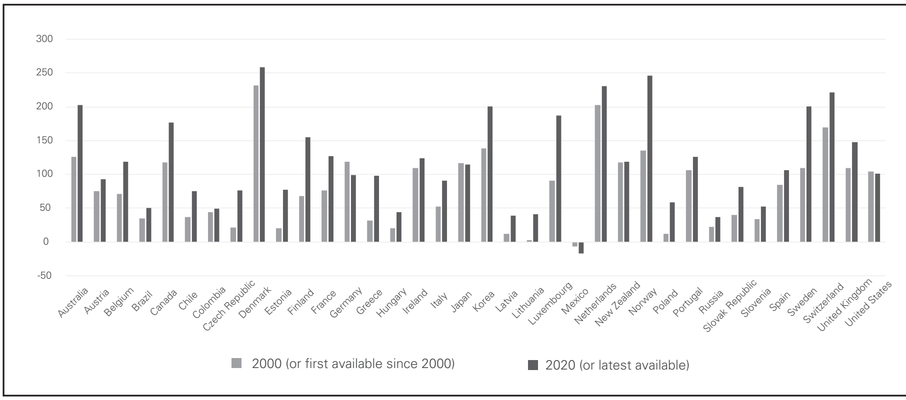
	2008	2010	2012	2014	2016	2018	2020
G20 (aggregate)	61.3	64.6	59.7	56.1	58.9	59.6	69.6
All reporting economies	60.8	64.9	60.6	56.9	59.8	60.4	70.7
Advanced economies	76.3	81.7	77.2	71.5	72.5	72.2	81.1
Emerging market economies	22.0	29.3	30.4	32.3	38.2	41.8	54.2

Source: Authors' elaboration based on BIS (2022). Aggregates based on conversion to US dollars at market exchange rates.

Figure 4 portrays household debt trends among OECD countries as a percentage of disposable income. Except Mexico, whose trend requires some explanation, and Germany, both displaying a decline in household debt, and Japan and the US that show constancy, there is a net deterioration in household debt levels.

[10] Back in 2017, both the IMF and BIS had risen concerns about the trajectory of household debt. They had captured a sharp and consistent increase in median household debt-to-GDP ratios in all world regions throughout the 2000s, despite some slight trend reversals in advanced nations as of late. Of course, the ratios vary significantly among developed countries and the Global South, but the trend is rather similar.

Figure 4: Household debt (% net disposable income)

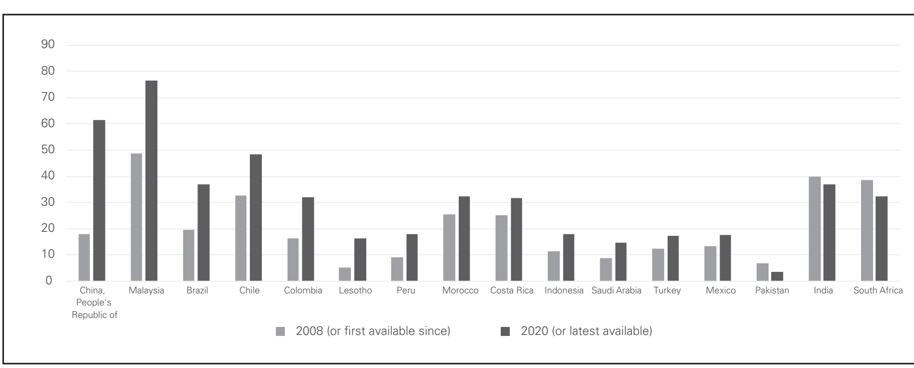


Source: Authors' elaboration based on OECD (2022b).

As for the Global South, due to the lack of information about debt-to-income ratios in large datasets, the option available was to resort to the IMF Global Debt Database, where household debt is measured against GDP. Figure 5 presents a small sample of countries from the Global South, in a shorter time series (2008-2020). It shows that, with a few exceptions, household debt-to-GDP ratio has also risen over time.

According to the 2017 IMF Financial Stability Report, significant changes in debt ratios have been driven mainly by debt increases rather than low or negative income. This means that households are increasing their leverage either to enhance their total assets, often through mortgages, or just to make ends meet given the growing costs of living they are facing, partially due to the erosion or the lack of public provision of basic goods and services. They turn to the many forms of consumer credit that have accompanied the increase in the supply of credit.

Figure 5: Household debt – loans and securities (% GDP)

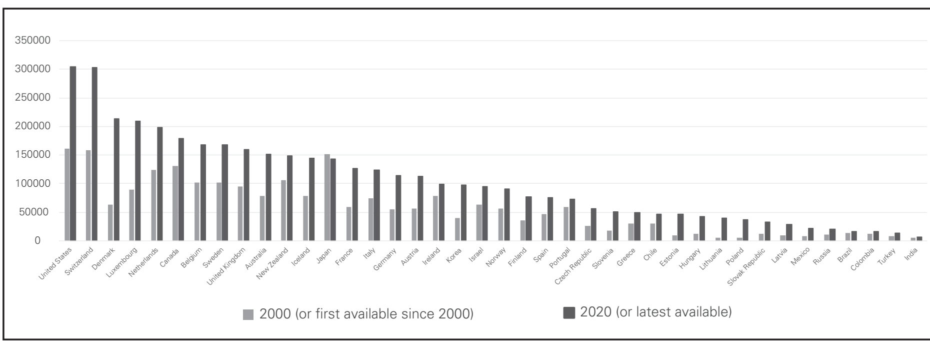


Source: Authors' elaboration based on IMF (2022): Global Debt Database.

In advanced economies, mortgage debt accounts for more than 60% of household debt (IMF, 2017), whereas in middle- and low-income countries it makes up much less, barely a third. In the Global South, the struggle for homeownership, which for the vast majority of the population runs outside of access to bank financing, reflects a social protection strategy to preserve some autonomy to cope with in trying times. Housing remains a savings buffer, kind of a self-insurance.

One pending task consists of collecting data to correlate growing levels of household debt with private wealth build up. Because the composition of household debt differs so radically between rich and developing countries, we understand that households' abilities to build up wealth through getting into debt also differs significantly. We lack data broken down by income levels to apprehend how this strategy unfolds across income groups, modifying dynamics of inequality. Indeed, as Figure 6 indicates, though on the rise, financial assets held by households appear to be a defining feature of rich nations and elites. This suggests that in the Global South the picture seems to be one of growing debts relative to assets, which translates into mounting vulnerability.

Figure 6: Financial (exclusive) assets held by households,
per capita, constant 2015 PPPs, US dollars



Source: Authors' elaboration based on OECD (2022c).

Back in the late 20 th century, with the turn of pensions to individual capitalization accounts, dependent on asset valuation, the asset-mindset gained momentum and started to reframe the semantic field of welfare systems.

Following successive tides of pension reforms, that corroded public pillars and fomented distrust of pay as you go redistributive social schemes, the dream of income security in old age crumbled. To cope with declining pensions and soaring living costs, particularly care-related, asset building strategies linked to housing ownership developed / initially in western countries, encouraged by governments and also embraced by middle and low-income families thanks to regulatory shifts in residential mortgage loans. This reflected a turning point in the way of characterizing the evolution of Western welfare systems, then dubbed asset-based or property-based (Doling and Ronald, 2010).

Asset-based welfare linked to home ownership as a strategy to prevent and mitigate risks entailed the rapid increase of household debt in developed countries, a pattern that continues today. But figure 6 shows that financial assets have also expanded considerably, diversifying household's portfolios, mainly due to the weight of bonds and equities accumulated in fully-funded pension plans. In the Global South, by contrast, growing levels of indebtedness relate mainly to the financing of essential goods and access to basic services rather than building asset buffers, while the importance of financial assets remains relatively modest in per capital terms.

4. TRACKING DOWN EMPIRICAL EVIDENCE

In light of the evidence that household debt, as a mark of financialized capitalism, is rising across the globe, would it be possible to capture the determinants of household indebtedness at a global level? The factors most cited as determinants of household debt are declines in interest rates, surges in credit supply, lower unemployment rates, among others. But are monetary benefits, underwritten by the state, that have developed as a crucial form of social provision, also associated with increasing levels of household indebtedness? Put it differently, does the assumption that social policy has been turned into collateral hold?

To answer this question, we ran a regression putting together a sample of countries, including advanced nations, emerging economies and low-income countries. We created a dataset[11] that encompasses macroeconomic and social variables. The dataset is an unbalanced panel data, made up of 50 countries, covering the period from 2008 to 2017 (annual data), and comprising a total of 500 observations. All variables are expressed in growth rates. The Annex displays the variables and their sources.

The assumption is that monetary benefits underwritten by the State, either in the form of pensions, or welfare stipends, rather than preventing access to credit markets, serve now as a form of collateral and for this reason contribute directly to mounting levels of household debt as an alternative for granting social reproduction. In addition to expressing a sign of greater vulnerability and dependence for families and individuals, the collateralization of social policy ends up deepening and expanding mechanisms of revenue expropriation, especially in the developing world where the wage nexus has never predominated. This means that fiscal monetary benefits that tend to increasingly make up the bulk of social protection schemes, now serve as collateral, fueling household indebtedness.

[11] List of countries that are part of the database: Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Japan, Korea (Republic of), Latvia, Lithuania, Luxembourg, Malaysia, Malta, Netherlands, New Zealand, Norway, Peru, Poland, Portugal, Romania, Russian Federation, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, United Kingdom and United States.

To test this hypothesis at a global level, we estimated a model where household indebtedness (hh_debt) is determined by variations in GDP growth (gdp), inflation (inflation), residential property prices (property) and new loans provision (fas_loans). To this basic model we add another 3 variables that represent our central assumption, such as state-cash transfers (speed_coc_exp), government spending on education (edu) and out-of-pocket health expenditures (who-oop).

Hh_debt = *f* (inflation; property; gdp; fas-loans; speed_coc_exp) ... Model 1

hh_debt = *f* (inflation; property; gdp; fas-loans; edu)......................Model 2

hh_debt = *f* (inflation; property; gdp; fas-loans; who-oop) ....Model 3

For the estimation of these models[12], the approach is based on the generalised method of moments (GMM)[13].

Table 2: Determinants of Household Indebtedness

VARIABLES	Model (1) D.loghhdebt	Model (2) D.loghhdebt	Model (3) D.loghhdebt
LD.loghhdebt	0.302***	0.337***	0.299***
	(0.044)	(0.041)	(0.049)
consumer_price	-0.005***	-0.005***	-0.007***
	(0.001)	(0.001)	(0.002)
L.logpropertyp	0.035***	0.037***	0.035***
	(0.008)	(0.007)	(0.008)
gdp	-0.009***	-0.009***	-0.010***
	(0.001)	(0.001)	(0.001)
D.logfas_loans	0.218***	0.213***	0.188***
	(0.030)	(0.029)	(0.031)
LD.logspeed_soc	0.006***		
	(0.001)		

[12] The dynamic panel data model was implemented to face the possibility of endogeneity bias. Nevertheless, to check the consistency of this estimator, it is necessary that the instruments used in the model are valid. For this, Arellano and Bond (1991) suggest the Sargan test, whose null hypothesis is that the instruments are valid. The application of this test indicates that the restrictions of our models are not valid.

[13] The GMM method proposed by Arellano and Bond (1991), is consistent when applied to dynamic models. To eliminate the specific purpose, the first difference of the equation is made, which becomes:

DYit = Dai + dDYit – 1 + b´DXit + Deit

The strategy consists of employing the GMM method to estimate the model of the first difference, using all possible lags as an instrument for the lagged variable. For endogenous variables, their lagged levels are used as instrumental variables, and for predetermined variables, their levels are lagged once. This method seeks to use all the information contained in the sample to build the set of instrumental variables, and the non-noticeable specific effect is simultaneously eliminated, allowing the estimation.

D.logwho_oop		0.059**	
		(0.026)	
l.D.logeduc			-0.033**
			(0.013)
Constant	-0.097***	-0.103***	-0.090***
	(0.026)	(0.025)	(0.027)
Observations	265	296	217
Number of pais	43	45	38
Sargan test	59.40	57.01	52.24
Prod	0.48	0.48	0.41

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Elaborated by the authors.

Initially, Table 2 shows that, for this sample, the macroeconomic variables used in the regression to explain household indebtedness, namely economic growth and inflation, were negative and significant. Thus, surges in economic growth and in inflation rates contribute to the decline of household indebtedness levels, as expected, very likely because the former implies more job opportunities that may improve workers earnings, curtailing the demand for credit, whereas the latter restrain access to loans due to mounting costs (hikes in interest rates).

We also included as variables the variation in prices for residential properties and in new loans provision. As expected, the three tests estimated indicate that growing housing costs and increased credit availability are positively and significantly correlated to household indebtedness, determining the rise of the debt/household income ratio.

Finally, we added to each of the three tests, in the following order, state-monetary transfers, private health expenditures, and government spending on education.

The first variable is statistically highly significant and registered a positive sign, showing that the expansion of monetary transfers, either as public pensions or welfare benefits, has a clear impact in deepening household debt levels. This finding corroborates our assumption that monetary transfers, because they serve as collateral that facilitates access to credit markets, contribute to raising household debt rather than curtailing family's liabilities. As a result, the role of social policy is upended: instead of advancing decommodification, it now amplifies re-commodification and financialization.

The second variable, that is out of pocket healthcare spending, is also positively and significantly correlated, showing that the more families must counterbalance the decline in the public provision of healthcare, the more they get indebted.

The third variable, which refers to public spending on education, lays out a similar result, but this time the relationship is negative: cutbacks in government spending correspond to surges in household debt.

One may observe that private spending on healthcare, followed by government spending on education display coefficients whose magnitude is greater than the one registered for cash transfers. It is important to mention that the size of the coefficient is explained by the fact that all variables in the model are in growth rates. Thus, taking model 1 as an example, the 1% increase in the GDP growth rate implies an increase of 0.009 in the growth rate of household indebtedness. Similarly, the 1% increase in the growth rate of social transfers implies an increase of 0.006 in the growth rate of household indebtedness.

We conclude emphasizing the empirical validity of the unnoted role of monetary benefits, scarcely appraised as a powerful mechanism to boost the financialization of daily life, a phenomenon that encompasses both advanced and developing economies alike. Monetary benefits fulfill collateral requirements beyond their more conventional role of smoothing consumption and mitigating poverty. On the one hand, they serve as a screening device (Sena, 2007) for replacing creditworthiness if necessary. And on the other, they integrate through debt the circuit of liquidity.

Through debt, profits are extracted from social protection benefits, which make up a relevant share of household income, and transferred to the financial sector. These novel dynamics of financial expropriation, grounded in the warping of welfare regimes, not only aggravate the already appalling levels of dispossession of the neediest and most vulnerable, but they also endanger the very notion of rights and empty out the long-established understanding of social protection systems.

5. BY WAY OF CONCLUSION

In this paper, we have established a positive correlation between fiscal monetary benefits, on the one hand, and debt and borrowing through financial channels on the other. We have also provided evidence that this cause-and-effect relationship manifests itself in both developed and developing countries, where financialized forms of social provision are multiplying though taking variegated shapes and designs.

These findings are important because they indicate the tendency of cash transfers to prevail within the framework of social policies, especially now that numerous and intersecting crises are unfolding as a consequence of a new restructuring stage of global capitalism. During the coronavirus pandemic, the dominant form of protection used by states amid a widespread lockdown was to ensure household liquidity by increasing the value and coverage of welfare and unemployment benefits and furlough mechanisms. It is now known that in countries such as the United States, England, Argentina, South Africa, and Brazil, among others, a large part of the cash payments transferred to families was immediately directed to the financial circuit, to reduce default levels and degrees of indebtedness, instead of ensuring that households' basic needs were met (Lavinas, 2021).

This shows that in times of financialized capitalism, social reproduction effectively and increasingly depends on each person's capacity to take on debt and to manage indebtedness levels, for which new state policies will be developed so as to prevent default risks at levels that could threaten the stability of the financial sector as a whole. This has caused many countries – including Brazil and the United States, to name but a few – to draft temporary programs, underwritten by the States, to address high and chronic household debt, with the aim of reducing the degree of household exposure and vulnerability to financial markets. Would debt relief measures (such as forbearance agreements and repayment plans) and debt renegotiation (redrafting loan terms) be progressively incorporated into comprehensive social protection schemes under a new heading that we would dub for now "debt management policies?"

Indeed, a fresh trend seems to be taking shape that breaks up with the paradigm that prevailed throughout the second half of the 20th century, when social policy was conceived as decommodified provisioning that would prevent families and individuals to resort to the market in the event of a casualty or any other contingency. Social policy is taking on new contours. Beyond being turned into a collateral, it also incorporates new functionalities making it easier for the masses to access financial markets without threatening financial accumulation. If financialization continues to hold sway over the sphere of social reproduction, it is very likely that a repertoire of measures in relation to debt management policies will become prominent within the social protection architecture to the detriment of fundamental citizen's rights, which would imply not living indebted.

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ANNEX

Description of variables used in estimations

Variables	Description	Source
hh_debt	Household debt – loans and securities. Total stock of loans and debt securities issued by households, % GDP.	IMF – Global Debt Database (2019a)
inflation	Consumer price index, annual variation.	BIS (2020)
property	Residential property prices (selected series), real annual variation. The Bank for International Settlements provides a selected series to facilitate cross-country analysis.	BIS (2020)
gdp	Real GDP growth, annual.	IMF – World Economic Outlook (2020)
speed_soc	Government expenditure on social protection, % GDP. Includes Sickness and Disability; Old Age; Survivors; Family and children; Unemployment; Housing; Social Exclusion n.e.c; R&D Social Protection; and Social Protection n.e.c.	IFPRI – Statistics on Public Expenditure for Economic Development (2019)
fas_loans	Outstanding loans from commercial banks, % GDP.	IMF – Financial Access Survey (2019b)
who_oop	Average health expenditure through out-of-pocket payments, in constant (2017) US$ per capita.	WHO – Global Health Observatory (2020)
educ	Government expenditure on education, all levels, % GDP.	UNESCO Institute for Statistics (2020)