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

Jeroen Klink*, Rosana Denaldi [1]

UFABC – Universidade Federal do ABC, Av. Dos Estados, 5001, Bairro Bangú, Santo André, SP CEP 09210-580, Brazil

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ABSTRACT

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

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

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

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

Introduction

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

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

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

* Corresponding author. Tel.: +55 11 4427 6750.
E-mail addresses: jeroen.klink1963@gmail.com, jeroen.klink@ufabc.edu.br (J. Klink), Denaldi.rosana@gmail.com (R. Denaldi).
[1] Tel.: +55 11 4427 6750.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Industrialization and experimentation (1930–1964)

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

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

movement structured around the transformation of an export-oriented agrarian economy through a national project of industrialization and import-substitution (Bielschowsky, 1995).

Before industrial take-off in the 1930s, housing provision was characterized by a central role for commercial and real estate capital that invested in rental and (deteriorated) tenant housing for workers. State intervention was limited in terms of monitoring sanitary conditions through inspection and/or demolition of substandard housing. Industrialization and urbanization was soon to create a dilemma of providing relatively expensive workers' housing without increasing production cost and crowding-out investments that were badly needed to support the growth of national infant industry. Therefore, among industrialists, academics and policy makers organized around a national-developmental project a consensus emerged that housing couldn't be left to the market and required an active state organization and intervention (Bielschowsky, 1995; Bonduki, 1998).

The Institutes for pension and retirement funds *(IAPs)*, which were constituted in strategic sectors such as banking, commerce, industry, shipbuilding and energy, represented a first state-mediated approach,[3] whereby internal savings from a charge on salaries were allocated to finance rental and owner-occupied housing to member or external institutions.[4]

Despite of the architectural quality of some of its housing estates, the scale of intervention of the Institutes was small. More fundamentally, the financial arrangement of corporatist retirement and pension schemes represented a highly selective strategy: while informal workers were excluded altogether, the institute's financing guideline was never able to break away from a cost-recovery principle, marginalizing its officially proclaimed objective of providing social housing to its members. The rapidly increasing inflation required additional rationing of funds, providing even more advantages to members with privileged access to the management of the Institutes.

The creation, in 1946, of the *National Foundation for Low Income Housing*, by many considered to be a laboratory of what would later on become the National Housing Bank (see below), was an attempt of the national administration to move beyond a selective state-driven and corporatist approach. It would centralize the six regional pension institutes, and was to be accompanied by an in-built mechanism for cross-subsidization funded by a 1% surcharge on all real estate transactions.

Not surprisingly, this proposal faced considerable resistance from the six pension funds that were actually operating on an autonomous and profitable basis. Real estate promoters contested the formula for cross-subsidization, considering it to be a threat to their profit margin. The failure of an effective take-off of the National Foundation for Low Income Housing represented something of "a delay of twenty years in terms of housing policy and finance" (Bonduki, 1998). In the meantime, with the urban transition in full swing, the national rent control legislation (1942) was a landmark in the transformation from rental to owner-occupied housing in the sense that it reduced profitability and drained resources and investments from the rental sector.

Late-roll out under the technocratic developmental state (1965–1985)

The internal class pressures within the populist national developmental regime, the economic crisis and the mounting pressure for radical structural reforms, among others regarding the distribution of land in rural and urban areas, ultimately led to enormous tensions and a military coup in 1964. Pressured by escalating housing costs, a rapid growth of urban centres and slums and a shrinking rental sector, one of the first flagship projects of the military during 1964–1967 was a financial-institutional re-engineering of the housing and urban development sector. It was structured around a centralized National Housing Bank and associated capital market institutions.

The objective was to take the experimentation with owner-occupied housing finance through pension funds of the period 1930–1945 much further. The strategy was aimed at increasing the political legitimacy of the developmental state, boosting the building and construction sector and spreading out the housing component of labour costs over a longer time horizon. All of these had become strategic elements of the developmental project and the country's recently acquired international status of a rapidly urbanizing newly industrializing country that was going through its growth miracle.

The first step was to guarantee the indexation of outstanding loan balances and applications, which had proven to be one of the vulnerabilities of the previous system. Moreover, the system introduced what would become a long-standing feature of Brazilian housing finance, i.e. a parallel circuit for market based housing funded by voluntary savings and deposits and social housing that received funding from compulsory service contributions that were built up during the working life of formal sector employees.[5] Although the latter didn't operate on subsidized budgetary state funds, it had -at least in theory- a series of in-built mechanisms for cross subsidization (Eloy, Costa & Rossetto, 2013).

Initially, the Housing Bank also experimented with the creation of a national mortgage program for social housing. At the end of construction period, originating banks would pass mortgages and the associated risk of loan defaults to the national housing bank.

The literature has consolidated a critical evaluation of the experience of the Housing Bank under the developmental state (Bolaffi, 1977; Maricato, 2011; Melo, 1988). The Bank never managed to provide affordable and well-located housing finance to low-income groups on a sustainable and on-going basis. The arrangement to delegate the allocation of finance, as well as the design, construction and location of units to banks, mortgage originators, real-estate developers and builders had proven an outright failure in terms of loan defaults, mismatches between demand and supply and the quality and peripheral location of housing units.

Moreover, considering that its main sources of funding required cost recovery, the Bank effectively accumulated a portfolio of medium-income borrowers and, particularly after the debacle of the Mortgage Program, of investments in urban infrastructure.[6] Escalating inflation and differential indexation of outstanding balances and amortization (based on stagnating salaries) accelerated loan defaults, regressive rescue operations and the institution's ultimate bankruptcy in 1985.

Finally, the housing bank performance became something of a hallmark of the mismatch between housing finance and urban policy, generating isolated housing estates in the outskirts of city regions, without access to urban services and opportunities for income and employment generation.

[3] Autonomous savings and credit schemes without state regulation and intervention had existed since 1910.

[4] Two lines of operations were targeted at rental and/or owner-occupied housing for members while a third introduced mortgages to external clients..

[5] The so-called *Fundo de Garantia de Tempo de Serviço* (FGTS – Guarantee Fund Based on Service Time Contributions) would become the main source of housing finance.

[6] The distant housing estates that had initially been constructed without much infrastructure implied a subsequent rollout of infrastructure finance (Bolaffi, 1977)..

Rolling back, creative destruction and reformist developmental housing finance (1985–)

Rolling-back and creative destruction (1985–2000)

In the 1980s, the pillars of the technoburocratic-authoritarian developmental state became increasingly unsustainable. The macroeconomic crisis triggered a rising inflation rate, stagnation of income and employment and an international debt crisis. Democratization and decentralization set the stage for a complex and contradictory scenario associated with the restructuring and rescaling of the Brazilian developmental state, with direct consequences for housing and urban development finance.

Developmental state restructuring implied a gradual neoliberalization in terms of opening up traditionally sheltered Brazilian markets, privatization of state industries such as telecommunication and steel-metallurgy, and prioritization of inflation stabilization through the so-called *Plano Real.* All of these measures were operationalized through a rollback of compensating industrial, technological and territorial policies.

Developmental state rescaling implied that democratization and decentralization led to the emergence of new actors such as elected mayors and social movements. The latter were all keen to break away from the technocratic-centralist project of the military regime, and to influence an increasingly important and contested local development agenda. As such, contradictory political projects of social-urban reform and the social function of land, the right to affordable housing, urban competitiveness and increasing exchange values of land were simultaneously contested, hollowed out and filled in (Rolnik, 2011).

Developmental state restructuring and rescaling both effected and were moulded by housing finance and urban development policies. In many experiences of state restructuring in the European-North American context (Brenner, 2004), initial rolling back of the state was followed by institutional and regulatory strengthening aimed at compensating some of the contradictions that accompanied the hollowing out of the Fordist-Keynesian institutions and the neoliberalization of spaces. Not completely unlike this trajectory, the bankruptcy of the Brazilian National Housing Bank, the transference of its assets and liabilities to its successor institution *Caixa Econômica Federal* (CEF), the recurrent crises-driven reform of federal housing policies and decentralization by absence of federal responsibility for housing policies to municipalities were characteristic of a "die hard" roll-back phase of state intervention that lasted until 1997 (Arretche, 1996). At the same, however, the initial success of macroeconomic stabilization and inflation control generated a political and academic leadership that was keen to fill-in a project whereby Brazil would unlock its improved business environment in order to connect with international tendencies of liberalization and deepening of financial and capital markets in emerging counties. Thus, the critique on housing finance under the developmental regime lead to the creation of a *National Real Estate Finance System* in 1997 which, according to the official narratives, was to rapidly outpace its out-dated and state-driven predecessor (Royer, 2009). Along the lines of some of the on-going international reform of emerging country housing finance, it introduced a series of innovations such as secondary mortgage markets, securitization, real-estate backed securities and fiduciary alienation, all of which provided additional investor security. The official recognition by federal government of slum upgrading interventions, which, until then, were predominantly financed by cities themselves, was also to be seen within this perspective of unlocking financial resources for economically viable and "bankable" low-income communities.

Despite of this regulatory rollout, the interconnections between real estate, housing finance and capital markets were not deepened much. High yielding/low-risk government bonds still offered a much more favourable and easy opportunity for international investors. Moreover, the innovative financial engineering was surrounded by relatively high risks and uncertainties regarding inflation control, and the mediocre growth of household income and employment. Finally, the system lacked operating experience and government guarantees.[7]

Nevertheless, while recognizing that the Brazilian real estate finance system of 1997 had generated something of a *truncated financialization* (Shimbo, 2012), its regulatory roll-out set the potential stage for the emergence of a real-estate-finance complex. Particularly considering the growing low-to-medium income housing markets that accompanied macroeconomic growth and the renewed social-developmental momentum, the issue would once again be back on the agenda from 2000 onwards.

Reformist urban developmental finance (2000–)

Macroeconomic growth, income distribution and federal cash-transfer programs to poorer families (such as *Bolsa Familia* – the conditional program linked to schooling) and the continued rolling out and institutional strengthening of the state in thematic areas such as technological, industrial and spatial policy has raised a debate on the emergence of a social-developmental state (Fernandes & Novy, 2010; Klink, 2013). It has generated a complex scenario whereby both progressive and market friendly projects of social-urban reform and financialization have been contested at multiple scales and arenas.

The approval of the long awaited federal *City Statute* enabled local government to elaborate participatory and redistributive master plans that, at least in theory, allowed them more leverage over speculative real estate markets through progressive property taxes, development exactions, compulsory use of vacant and low income zoning clauses. The creation of the Ministry for Cities enabled the formulation of a national housing strategy that was based on a fully-fledged national housing plan, fund and participatory council. Once more, it separated market based and social housing, the latter to be funded by budgetary and the earlier mentioned worker's sources (*FGTS*).[8] The strategy recognized that increased liquidity and finance to medium-income segments through market-based finance would be instrumental in unlocking a targeted and state-mediated subsidized flow of funds to low-income housing (Brasil, 2010). Thus, between 2003 and 2008, the federal government introduced more flexibility in the regulatory framework regarding the application of savings into market-based housing finance. Consequently, the amount of savings increased from R$ 8 billion in 2005 to more than R$ 40 billion in 2008, also reinforced by demand-led macroeconomic growth (Shimbo, 2012).

This allocation of additional liquidity through regulatory rollout and macroeconomic growth was nevertheless also strategic within a market friendly project of financialization. The opportunity of a growing low-to-medium income market niche (located in between three to ten minimum salaries)[9] was quickly captured by the real estate industry by filling in the financialization project according to a discourse whereby a traditionally restrained market for low-income housing would be un-locked.[10] Three additional state regulatory strategies were essential to the market-friendly project of

[7] Most of the system's initial operating experience was achieved in the commercial sector where sufficient cash-flow provided a solid basis for project-finance.

[8] See note 5.

[9] In January 2014, a minimum salary is R$ 724.00, that is, US$309.40 (exchange rate R$ 2.34 = US$1.00), 17/1/2014.

[10] The "really existing" low income market is composed of families earning up to three minimum salaries.

financialization, i.e. the incorporation of fiduciary alienation –already regulated in 1997- into the civil code (strengthening housing-finance guarantees), the separation of project-based housing finance from overall company assets (in order to streamline asset recovery in bankruptcy processes) and the regulation of initial public offerings (IPOs) on capital markets of building and construction companies (Royer, 2009). The latter led to a significant growth of IPOs of construction companies during 2006–2009 at the São Paulo stock exchange, and an increased penetration of international investors in a relatively sheltered Brazilian real estate sector. International investors favoured a pro-active approach structured around early acquisition of land and the creation of land banks in order to capture windfall gains in non-metropolitan areas (Fix, 2011; Sanfelici, 2013; Shimbo, 2012). As it turned out, however, the international subprime crisis shook these excessively optimistic projections, and generated a real threat of ending up with illiquid and high risk investments in land and real estate.

Nevertheless, the national government was quick to react to the international crisis when it launched its anti-cyclical MCMV in 2009 that was both labour intensive and based on cheap credit to producers and consumers of housing.

The program My House My Life (*MCMV*)

A primer on the program

MCMV is ambitious, not only by rapidly responding to the international crisis through income and employment generation, but also providing affordable low-income housing through budgetary resources and additional liquidity out of a streamlined National Housing Finance System. Following a well-known Brazilian pattern, the program's main target groups are divided in three segments (respectively 0–3; 3–6 and 6–10 minimum salaries). The so-called target group 1 modality, focussed at families earning up to three minimum salaries, which also concentrate around 91% of the national housing deficit, incorporate more favourable subsidy guidelines and an active role for local governments.

The implementation of the program followed two stages. Until 2011, 1,005,128 units were contracted. Having reached its initial target of 1 million houses, a second phase projected another 2.4 million units, of which 1.6 would be allocated to target group I (Magalhães, 2013). A recent evaluation that considered both stages and all target groups showed that 2,783,275 units have been contracted, while 1,247,859 have been delivered to final beneficiaries, involving R$ 160 billion of grants and subsidized finance (Brasil, 2013).

The institutional and financial engineering of MCMV is aligned with international tendencies aimed at providing targeted and income-related support through lump-sum grants, subsidies and cheap credit to the demand and supply side of the market, all within given price ceilings for finished housing units. Development and construction are delegated to the private sector. Systemic risk of the private sector has been reduced substantially, either through almost complete (Target Group I Projects) and partial subsidization or by the active involvement of local governments in Target Group I projects through the provision of complementary land and infrastructure. A public guarantee fund eliminates the risk of loan defaults during the construction period, while thereafter units are sold to the national housing bank that assumes subsequent risks.

Target Group I projects are implemented through a fund that was originally created in the 1990s in order to stimulate rental to buy options. Its operations are funded by the federal budget and *FGTS*, with the subsidy amount varying between 60% and 90% of the final price (Brasil, 2013). After paying monthly instalments of either 5% of available income or R$ 50,00 during 10 years and properly maintaining their units, families become owner-occupiers.

Target I projects require an active role of local governments, both in terms of registering and organizing beneficiaries and through the provision of land and additional infrastructure in order to generate financially viable projects within the given price and subsidy ceilings.

There is less involvement of local governments and no direct federal budgetary grant money for Target Group II and III projects. Yearly interest rates on loans to families sourced by the FGTS fund also rise proportionally with family income (from 5% to 8.15%). Nevertheless, depending on income and geographical location, a direct subsidy of up to R$ 25.000 is available for Target II projects. During construction period, final beneficiaries sign loan contracts for up to 30 years, while building companies can also finance up to 85% of the development.

Initial evaluations

MCMV has become object of critical evaluations (Cardoso, 2013; Krause, Balbim, & Neto, 2013; LABHAB, 2013; Marques & Rodrigues, 2013). To some extent, these cannot be dissociated from the fact that it was launched when the earlier mentioned National Housing Plan was still in its final stage of elaboration. The argument goes that the latter has been effectively hollowed out by MCMV.

Before fleshing out the main arguments of the critique, however, we recognize that MCMV did follow the Housing Plan's recommendation for targeted and budgetary subsidies for lower income groups, thereby explicitly innovating in relation to the previous housing finance approach. Moreover, as recommended by the National Plan, MCMV also constituted a housing guarantee fund in order to attract private sector interest by reducing risk of loan default during construction.

The critics have raised three arguments to sustain the hollowing out thesis of the National Housing Policy and the emerging contradictions triggered by the program.

First, and despite the significant increase in grants and subsidies, MCMV has yet to reach the traditionally excluded low-income groups of Target I projects. The initial design of the program represented a structural mismatch considering that it only allocated 40% of its production to target I projects, whereas 91% of the national housing deficit is concentrated within this segment. The second phase only partially corrected this distortion by increasing overall allocation to 60%. As it has turned out, because of the smaller profit margins and the challenges to realize projects without local government support, the program actually *overshoots* the already *oversized* targets for low-to-medium income groups II and III, while it underperforms in relation to Target I projects (Table 1).

Second, the available resources within MCMV for cities and regions were not allocated along the lines of the National Housing Plan that followed geographical criteria in terms of the distribution of the housing deficit within Brazil. Consequently, cities with a relatively high deficit ended up receiving few units, while in smaller municipalities housing production actually exceeded deficit, generating additional population growth and operation and maintenance burdens on low local budgets.

Third, the program had no in-built mechanisms to link up with the participatory-collaborative planning aimed at the elaboration of progressive-redistributive local master plans that were the backbone of the National Housing Plan's architecture. As such, the program has proven relatively disconnected from the political project of urban reform that is aimed at increasing leverage of local governments over land and real estate markets through the effective implementation of the National City Statute (Denaldi, 2013).

Table 1
Accumulated Housing deficit and Targets for MCMV per income groups.

	Accumulated deficit (%)	(Units)	MCMV 1			MCMV 2		
			Target (%)	(Units)	% Attended	Target (%)	(Units)	% Attended
Target 1 projects	91%	6,550,000	40%	400,000	6%	60%	1,200,000	18%
Target 2 projects	6%	430,000	40%	400,000	93%	30%	600,000	139%
Target 3 Projects	3%	210,000	20%	200,000	95%	10%	200,000	95%
	100%	7,190,000	100%	1,000,000	14%	100%	2,000,000	28%

Lopes, 2013.

Consequently, within given subsidy guidelines and price ceilings, escalating land prices of overheated real estate markets have challenged the implementation of Target I projects in accessible locations. Particularly in smaller cities outside metropolitan regions, the program has generated peripheral locations with deficient infrastructure. The increased liquidity, housing production and productivity gains through economies of scale triggered by the program have not resulted in lower prices and more quality in the production of urban space. There is increasing evidence that grants, subsidies and tax incentives have been capitalized by oligopolistic players in the real estate-finance complex, effectively reinforcing combinations of land price escalation, higher profit margins and lower quality of increasingly standardized units (Denaldi, 2013; LABHAB, 2013; Mendonça & Sachsida, 2012). As a consequence, subsidy guidelines and price ceilings within the program have already been adjusted twice. At the same time, between 2009 and 2012, only within the Target I projects, subsidies in real terms have increased with 28% (Eloy et al., 2013: 16).

Thus, while the program innovates in terms of recognizing the strategic role of redistributive grants and subsidies for housing and housing finance, it misses important opportunities to link up with the structural agenda of urban and social reform and land markets.

Conclusion. History repeats itself?

We have argued that Brazil has consolidated a truncated financialization in real estate and housing. First, the country has never rolled out a system that includes low-income families, leaving the provision of housing finance either to the state or, more particularly, to people themselves through gradual self-help construction and management of informal settlements and slums (Bonduki, 1998). Second, the contradictory organization and intervention of the state in housing finance has always proven strategic to provide liquidity and risk reduction in order to push an albeit limited penetration of the private sector, and to legitimize a highly selective developmental project.

This hasn't changed significantly after the collapse of the national housing bank in 1985 and the rapidly eroding intellectual prestige of state-driven housing finance that has marked the international post-Bretton Woods scenario.

Despite of the post-1994 institutional and regulatory roll-out that generated a new real-estate finance system (SFI), the incipient Brazilian real estate-finance complex has not effectively linked up with low-income residential housing finance. It has by and large restricted its operations to the commercial and business circuits (Royer, 2009).

From the perspective of a redistributive progressive project, the recent federal grants that underpinned Target I projects in MCMV were an innovation as compared to the traditional Brazilian housing finance trajectory. This move signalled a de-commodification and an explicit recognition of the use value of housing. Nevertheless, the market-friendly filling in of financialization that also underpinned the MCMV emphasized that state resources should be limited and focussed, reduce risks and leverage a private flow of funds to low-income housing. Ironically, MCMV has delivered in terms of injecting additional liquidity and the allocation of "traditional" compulsory workers funds from the FGTS system to finance the private construction of low-to-medium income housing of varying quality and accessibility. However, and contrary to the market friendly narrative, this has not leveraged the contribution of the private real-estate finance complex in the reduction of the national housing deficit (Royer, 2009).

Does all of this mean then that MCMV is replicating the errors of a (technocratic developmental) past? The scenario seems more complex and suggests that historic contradictions are not inscribed in space.

For one, research in the outskirts of Greater São Paulo has pointed out that where local governments, for all sorts of reasons (technical capacity and commitment of local governments, strength and pressure of housing movements etc.) have been able to implement part of the progressive urban reform, as reflected by the effective use of special low income zoning clauses, compulsory utilization of land and progressive taxing, MCMV has indeed generated a significant number of affordable, reasonably located and serviced Target I projects (Lopes, 2013; Marques & Rodrigues, 2013). Thus, active land delivery by local governments in line with "progressive" urban-reform of the City Statute project has proven instrumental in filling in financialization as well as providing affordable and well-located housing for target group I projects. Moreover, while MCMV has in-built incentives to provide cheaper projects in the periphery of city regions, the metropolitan outskirts "as we know it" have also gone through significant changes since the 1980s. More specifically, progressive city-driven projects of upgrading aimed at transforming slums into neighbourhoods, which have been recognized and subsequently supported by national governments, effectively improved many metropolitan suburbs.

Thus, the approach of state-subsidized credit through programs such as MCMV should be analyzed from a perspective of maximizing potentials by linking financial design to structural regulatory reform at multiple scales. While the breakthrough of providing use values and housing rights to low-income households through cheap credit and redistributive grants is real, it has proven difficult to realize the program's transformative potential considering a remaining mismatch with broader social-urban reform aimed at leveraging control over land markets and housing markets.

Finally, and despite of the alarming evidence on escalating real estate prices released by the specialized Brazilian and international financial press,[11] it is highly unlikely that Brazilian style financialization will follow the pattern of industrialized countries in terms of subprime crises, contagion and *ex-post* rescue operations of central and state governments. To be true, while there is evidence

[11] See, for example, the interview with Nobel Laureate Robert Shiller on the threat of real estate bubbles in Brazil: http://www.bloomberg.com/news/2013-09-05/shiller-warns-of-housing-bubble-after-225-surge-brazil-credit.html.

of a real estate boom, a bust is less likely to occur. As we have argued, financialization in Brazil is part of an endogenous process, whereby the state –at multiple scales- has always been selectively involved in mediating finance and housing delivery through the private sector. Therefore, the contradictions and tensions that have indeed been accumulated within MCMV are likely to be alleviated through a relatively *soft landing,* to be articulated by crises-driven and ex-ante restructuring of the state itself (Mendonça & Sachsida, 2012). The requirement to allocate budgetary grants and subsidies on an on-going basis –for both Target I and low-to-medium income projects II and III– is likely to deteriorate fiscal and monetary macroeconomic conditions. More recently, the country is again facing fiscal constraints, deteriorating external credit conditions and higher interest rates, generating evidence of an upcoming roll-back of direct state support and private capital switching away from complex and high risk low-income residential housing into safer/high yielding government bonds.

Once again, then, the responsibility for low-income housing and the reduction of the housing deficit will be pushed to people themselves, within increasingly complex and contested metropolitan areas. At the end, then, MCMV might become another potential innovation that fails to live up to expectations.

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