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Subordinate financialisation in Argentina and Brazil. Different patterns of dependence

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Abstract: This article contributes to the literature on dependency theory and subordinate financialisation in peripheral economies by examining the cases of Argentina and Brazil. Building upon the subordinate financialisation framework (Kaltenbrunner, Alami) and dependency theory (Marini), we analyse these nations' distinct experiences of international subordinate financialisation. Drawing on original evidence from constructed datasets of national and international accounts, we demonstrate that Brazil exhibits conventional drivers of subordinate financialisation—including household indebtedness, financialisation of non-financial corporations, and a developed banking system reliant on high interest rates to attract foreign capital. Conversely, Argentina manifests financial subordination through structural foreign currency illiquidity (at both national and international

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levels), dollarisation of savings, cyclical external indebtedness shaping real business cycles, and persistent capital flight.

Keywords: Subordinate Financialisation; Dependency; Sovereign Debt; Brazil; Argentina

Introduction

The concept of subordinate financialisation has emerged as a critical analytical tool for understanding the distinctive dynamics, characteristics, and consequences of financialisation processes in peripheral economies. This growing body of literature highlights the structural subordination of these nations within global financial markets, a condition that manifests most visibly through recurrent economic crises and chronic external vulnerability (Bonizzi et al., 2020).

Recent scholarly developments have expanded this analysis along several important dimensions, including the examination of currency hierarchies and peripheral positioning within global value chains (GVC), as well as investigations into the environmental consequences of financialisation in developing economies, where asymmetrical power relations generate profound spatial inequalities (Althouse and Svartzman, 2022). These developments have prompted a necessary re-examination of core-periphery relations through the lens of contemporary financialised capitalism and its particular impacts on underdeveloped economies (Alami, 2021).

The cases of Argentina and Brazil, as South America's largest economies, offer valuable insights for this discussion. Both nations share significant historical parallels, having integrated into the world market as agrarian exporters in the late nineteenth century before pursuing industrialisation through import-substitution strategies during the twentieth century. The 1980s marked a turning point for both, as they underwent neoliberal restructuring that ultimately led to severe economic and social crises by the end of the following decade. Today, as primary commodity exporters (Bértola and Ocampo, 2013), their experiences raise crucial questions about how traditionally dependent economies articulate financial subordination within contemporary capitalism.

This study employs a political economy approach that synthesises three key conceptual frameworks: financial subordination, accumulation regimes, and dependency theory. Our central hypothesis maintains that while both Argentina and Brazil are peripheral countries and thus, present a dependent status, they nevertheless exhibit different modalities of integration into the global financial system.

Theoretically, the research combines a review of Marxist theories of financialisation and dependency with the more recent framework of subordinate financialisation.

The study makes some original contributions to the field. First, it provides a systematic characterisation of both cases through the lens of subordinate financialisation while simultaneously demonstrating the limitations of this framework for understanding national specificities. Second, it bridges the gap between dependency theory and regulation theory to better characterise the divergent accumulation regimes observed in these economies. Third, it proposes a set of chosen parameters to test our working hypotheses.

The article proceeds in four main sections. The first establishes the theoretical foundations by examining Marxist perspectives on financialisation and their intersection with dependency theory, with particular attention to three key aspects: financialisation as an analytical category, financial subordination as constitutive of dependency, and the specific mechanisms of subordinate financialisation. The second section offers a comparative political economy analysis, tracing Argentina's distinctive financialisation trajectory alongside Brazil's particular accumulation regime. The third section presents our empirical investigation, employing metrics that include three categories: financialisation of households and firms, financialisation of the State, and conditional financialisation. The final section synthesises these findings, demonstrating how divergent financialisation patterns reflect fundamental differences in the countries' respective accumulation regimes. At the end, we present final remarks.

Financialisation in the literature

The emergence of modern finance constituted a pivotal factor in the consolidation of industrial capitalism during the nineteenth century. As Marx (1992) observed, while financial mechanisms do not themselves generate new value, they perform the essential function of mobilising idle money as active capital. This catalytic role has historically facilitated the acceleration of wealth accumulation through processes of capital centralisation, becoming an indispensable feature of capitalism expansion.

The systematic study of capitalist finance as a distinct phenomenon emerged in the early twentieth century through the work of Hilferding (1981). His analysis revealed how the growing scale of capitalist production fostered monopolistic tendencies, creating an increased reliance on bank credit. This interdependence deepened as financial institutions extended greater loan volumes, for this reason banks and financial corporations become progressively imbricated in the operational performance of large companies. Hilferding conceptualised this structural integration as "finance capital" - the organic fusion of banking and industrial capital.

Contemporary scholarship emphasises the necessity of distinguishing financialisation as a specific historical phenomenon from the general development of financial systems. Drawing on Salama's (2018) metaphor, finance exhibits a Janus-double faced character: one aspect productively facilitates capital accumulation, while its counterpart - particularly under conditions of financial globalisation - manifests destabilising tendencies. Financialisation represents the critical juncture at which the financial sector's superior profitability initiates its semi-autonomous expansion at the direct expense of industrial production.

Delimiting financialisation

Fictitious capital has existed since the emergence of bank credit, public securities, and stock markets. However, the liberalization of finance in the late 1970s has led to the creation of increasingly large financial assets that have a very weak connection to future outcome.

Financialisation, in broader terms, reflects the dynamics of the capitalist system since the mid-1970s. While there is no consensus on its definition in the heterodox literature, it is generally seen as a phenomenon that includes an unprecedented expansion of financial activities, rapid growth of financial profits, the influence of financial relations on the economy and society, and the dominance of financial sector interests in economic policy. It also involves a growing preference for liquidity among real economy large companies (Epstein, 2005; Krippner, 2005; Lapavitsas, 2016; Lazonick and O'Sullivan, 2000).

Van der Zwan (2014) frames financialisation not merely as an economic shift but as a systemic transformation with three core dimensions: accumulation (growing reliance on financial profits), public policies (prioritization of financial stability and the interests of financial actors) and society (through the exacerbation of inequality, as financialisation disproportionately benefits asset-holders over workers). This process is related to the decline of Keynesian industrial capitalism and the rise of a financialised regime, where market logic dictates resource allocation and policy agendas.

Financialisation can be understood as a regime of accumulation wherein profit-seeking activities increasingly shift from the productive sector towards the financial sector. In developed economies, this process has emerged as a driver of structural transformation, marked by several key trends: the growing engagement of non-financial corporations in financial activities, the rising dominance of large investment funds, the evolving role of banks as intermediaries within open financial markets, and the heightened reliance of households and individuals on the financial system for both consumption and savings (Lapavitsas, 2016).

The phenomenon of financialisation has primarily been studied in core countries, particularly the United States and Europe. However, as the global economy became increasingly interconnected, there has been a growing acknowledge of financialisation processes in the capitalist periphery. Some authors have used the concept of subordinate financialisation to explain how this phenomenon manifests in peripheral countries, reinforcing their dependence on the global economy (Bonizzi, 2013; Powell, 2013).

The notion of financialised capitalism aims to develop a theory of structural change that encompasses transformations in trade and production. The notion of financialised capitalism (Bonizzi et al., 2022) refers to a new stage of mature capitalism characterised by two key features: 1) the reorganization of production through global value chains (GVC), controlled by a relatively small number of transnational corporations primarily from core countries, and 2) the transformation of finance into, so far, a globalized US dollar market-based system. This new stage of capitalism is a global phenomenon but not homogeneous: it manifests unevenly across different regions, resulting in various forms of financialisation.

Pursuing a point of view from the periphery, dependency theory developed by Marini (2007) in the 1960s, highlights how Latin American countries have been early integrated into the world market in a subordinate and dependent position. While the specific expressions of dependency have evolved through different accumulation regimes, Latin American countries have consistently maintained their inability to autonomously steer the development of their productive forces according to their national interests.

A new division of labor emerged with globalization: the lower stages of industrial production were transferred to dependent countries, while the most advanced stages and the monopoly of technology remained mainly in core countries. In this scenario, Global Value Chains (GVC) play a key role in channeling surplus value from the periphery (where it is created), to its realization predominantly in the core.

The dependence and domination between the core and periphery can be understood in different ways, including labor exploitation (such as wages differentials) and financial arbitration (where peripheral currencies, due to their subordinate position, offer a higher yield to attract capital). These two aspects result in: a) value transfers from the periphery to core countries (Musthaq, 2021), b) loss of sovereignty for peripheral States due to financial and structural restrictions (leaving less room for fiscal and monetary policies) (Eradze, 2022), and c) intensification of hierarchical divisions in environmental space (known as ecologically unequal exchange) (Althouse and Svartzman, 2022).

As Marini (1997) early warned, the international division of labor under the neoliberal framework takes Latin America back to a situation of dependency similar to the end of the 19th century one. Exports based on comparative advantages and capital-intensive extractive industries limit wage-driven domestic demand. In this context, the subordinate position of these economies in global finance makes the conditions for domestic investment more volatile and dependent on global liquidity cycles.

The structural conditions of the peripheral economies - in particular their truncated class formations with limited middle-class expansion - undermine the viability of stable finance-led accumulation over long periods. This inherent instability is exacerbated when debt-driven regimes generate balance of payments constraints due to debt interest payments and increased consumption of imported goods (Schorr and Wainer, 2024).

This analysis reveals financialisation not merely as an economic phenomenon but as a systemic feature of contemporary capitalism that reinforces and reconfigures core-periphery hierarchies. The challenge for peripheral economies lies in addressing these structural constraints while navigating the contradictions of a global financial system designed to perpetuate their subordinate position.

An approach to subordinate financialisation

The concept of international subordinate financialisation explains how financial channels reinforce global hierarchies and inequalities. Peripheral countries are at a disadvantage in terms of production and monetary hierarchy, as their currencies lack international liquidity compared to the US dollar and the euro. This hierarchical monetary system creates an "international division of finance" where changes in global liquidity can lead to imbalances in the external accounts of developing countries.

Alami (2021) identifies several parameters that characterize the management of international financial administration in peripheral countries. As he points out, there are a set of parameters that can be used to identify the logic assumed by the management of international financial administration in peripheral countries:

- Monetary policies: floating exchange rate regimes, liberalization of the capital and finance account, inflation targeting regimes, and fiscal moderation,

- Financial and monetary regulations: accumulation of foreign exchange reserves, market interventions in order to sterilize monetary expansion, liberalization of capital and banking controls,

- Empowerment of State institutions linked to the financial sector,

- Depoliticisation and “technicalisation” of monetary and fiscal public policies.

The discipline imposed by global money limits the national policy space for controlling aggregate demand in subordinate accumulation regimes. A depreciation of the national currency does not necessarily lead to export growth, as exports are primarily driven by global demand and liquidity. The stability of the exchange rate is crucial for imports of essential goods and servicing foreign debt, further reinforcing the dependence of peripheral economies on global liquidity conditions. This curbs monetary policy to adhere to economic orthodoxy, which protects the interests of lenders at the expense of debtors.

So far, the strengthening of subordinate financialisation involves the State as a key player. This refers to the implementation of public policies that introduce, promote, or intensify the major trends of financialisation at the national level. When the management of sovereign debt prioritizes "market" criteria over development financing, it leads to a process of subordinate financialisation. The financialisation of the State can be understood as the extension of financial logic to the management of public debt. This means the replacement of traditional macroeconomic debt management -which aims to stabilize the economy- with the market criteria in issuing and canceling debt, as well as the adoption of financial ideology as "common sense" (Fastenrath et al., 2017; Wang, 2015).

Of course, the extent of financialisation policies from the State would have different impacts according to the depth of each financial system, as well as they can deepen financialisation trends or, au contraire, contain them. The depth of financial system can be measured by the ratio between financial assets and GDP. Other proper indicators of financialisation trends are the size and direction of financial flows, the credit to non-financial corporations and households and the sovereign debt/GDP ratio (Bonizzi and Karwowski, 2023; Karwowski and Stockhammer, 2017). Considering these indicators is possible to identify varying levels of financialisation in the productive, financial, and State structures. We define conditional financialisation as how foreign exchange flows impact local macroeconomic management and result in a subordinate position of the State. Two elements express this phenomenon very well: dollarisation of portfolios and capital flight.

In the first two and a half decades of the 21st century, the dynamics of financial dependence has been analyzed through different parameters in peripheral countries with high relevance in world GDP, such as Argentina, Brazil, Indonesia, India, Mexico, Poland, Thailand, Turkey, and Russia (De Paula et al., 2024a). In general, there has been an increase in external debt (both in local and foreign currency) and a buildup of forex reserves in the Central Bank, primarily due to massive inflows of foreign direct investment and financial investments (Lane and Milesi Ferretti, 2024).

This is a result of the financial hierarchy, which dictates that peripheral countries must have mechanisms in place to attract capital to their financial markets through higher yields and monetary returns on sovereign debt issues. During boom periods of the economic cycle, this leads to an influx of investments in these financial markets and an increase in the value of their currencies. However, this also comes with two conditions: investors must respond quickly to exchange rate movements (often in response to devaluations or "sudden stops"), and herd effects are easily amplified due to a small group of investors dominating the local markets. In times of economic downturn, the decrease in forex reserves leads to currency devaluations, which negatively impact both actual and expected returns. As a result, countries are forced to offer even higher returns on these investments (De Paula et al., 2024b). This ultimately turns in a wealth transfer to the owners of "world money power".

In this sense, countries that have managed to overcome the "original sin"[3] of financial dependence now face a "return of original sin" due to the vulnerability created by currency devaluations in the periphery (Hoffmann et al., 2020; De Paula et al., 2024b). Argentina and Brazil, the countries of interest in this study, have both

[3] The “original sin” refers to a country's inability to borrow money in its own currency from foreign investors (Eichengreen and Haussman, 1999).

experienced this period with some similarities and differences in their political economies.

Identifying the mechanisms of financial subordination

To grasp the mechanisms of financial subordination, a group of scholars has identified several measurable variables. Broadly, these include external assets, international reserves, portfolio assets, foreign direct investment (FDI), and capital outflows relative to GDP (De Paula et al., 2024a). The literature on subordinate financialisation further highlights credit to non-financial corporations and households, as well as the sovereign debt-to-GDP ratio.

In this article, we analyze a set of variables to examine the mechanisms of subordinate financialisation in Argentina and Brazil, aligning these indicators with our theoretical framework (Table 1). In order to measure financialisation in households and corporations, we employ three key indicators:

- Household debt-to-GDP: this variable reflects declining real wages and the consequent reliance on credit as a driver of consumption. A higher household debt/GDP means a higher penetration of the financialisation on everyday life (Lapavitsas, 2016).

- Non-financial corporate debt-to-GDP: this ratio demonstrates the encroachment of financial logic into firm management, where accumulation strategies increasingly depend on financial revenues (Stockhammer, 2004).

- Pension fund penetration on GDP: this ratio highlights the role of pension funds as catalysts for market financialisation, given their capacity to rapidly acquire and divest assets (De Paula and Meyer, 2019).

Table 1. Indicators of financialisation of households and corporations, financialisation of the State and conditional financialisation.

Financing of families and companies	Financialisation of the State	Conditional financialisation
Household debt	*External debt indicators/original sin*	*Dollarisation of savings*

Debt of non-financial corporations	*Deregulation of capital account*	*Financial flows/capital flight*
Relevance of pension funds	*Reserve accumulation*	
	Inflation targeting	

Source: own elaboration.

Following Karwowski and Centurión (2018), we assess financialisation of the State through public policies that reveal dependence on financialisation processes to achieve policy objectives. Here we include:

- External debt indicators: the ratio of external debt stock to GDP serves as an indicator of the degree of policy autonomy available to peripheral economies in determining their fiscal and monetary policies. Higher levels of external debt relative to GDP, reserves, or exports imply a greater proportion of foreign currency earnings being allocated to debt servicing, thereby constraining economic sovereignty. This phenomenon has long been emphasized by Latin American critical thinkers as a mechanism of dependency (Furtado, 1972; Marini, 2007). Furthermore, the presence (or absence) of "original sin" must also be considered: to the extent that peripheral countries issue debt in foreign currency, their policy flexibility becomes further restricted (Bona and Flores, 2022).

- Deregulation of the capital and financial account: if capital and financial account liberalization occurs —particularly in the absence of regulatory controls—, volatile capital flows can enter and exit the economy easily. This heightens vulnerability in peripheral economies, as sudden foreign exchange movements disrupt exchange rate stability and macroeconomic equilibrium (Toussaint, 2019).

- Foreign exchange reserve accumulation: when peripheral economies engage in the accumulation of dollar reserves, they simultaneously reinforce the dominance of the US currency while adhering to a macroprudential approach. However, hoarding foreign exchange reserves diverts resources away from developmental investments, a strategy that has been criticized for restricting fiscal and monetary autonomy and thus perpetuating financial subordination (Alami, 2021).

- Inflation targeting: the adoption of inflation targeting reflects compliance with economic orthodoxy, which inherently restricts the scope for expansionary fiscal and monetary policies. Meanwhile, high interest rates facilitate income transfers to financial actors (Loureiro and Panceira, 2019).

Finally, we introduce the concept of *conditional financialisation* to describe how public policies in peripheral economies must adapt to volatile capital flows and sectoral dollarisation. Weak currencies exacerbate these pressures and here we examine:

- Capital outflows: high levels of capital flight can trigger currency depreciation and inflation. This exacerbates the dependency on foreign currency for peripheral economies (Bona, 2024).

- Portfolio dollarisation: Portfolio dollarisation can create additional demand for foreign exchange in peripheral economies. This additional demand for foreign exchange contributes to the dollarisation of some local prices, which can subsequently affect the exchange rate. Typically, in many peripheral countries we can find dollarisation of savings (deposits) and some transactions (e.g. real state). (Erazde, 2022).

In section 3 we present evidences of these variables in order to capture the three dimensions of financialisation proposed for Argentina and Brazil.

Social coalitions and new developmentalism in Argentina and Brazil

In the first two decades of the 21st century, the international landscape underwent significant transformation, with administrations of different political orientations in Argentina (progressive governments in 2003-2015 and 2019-2023, and conservative ones in 2015-2019 and since 2023) and Brazil (progressive administrations in 2003-2016 and since 2023, and conservative ones in 2016-2022).

Argentina: between neoliberalism and new developmentalism

During what economic historians term the second phase of import-substitution industrialization (ISI) (mid-1950s to mid-1970s), Argentina's economy experienced characteristic "stop-and-go" cycles of growth and contraction (Braun and Joy, 1981). This pattern of volatile economic performance underwent fundamental transformation following the 1976 civil-military coup, which marked a decisive turning point in the country's developmental trajectory (Canitrot, 1980; Schvarzer, 1986; Villareal, 1985).

The military regime's policies of financial liberalization and extensive foreign borrowing precipitated more severe and prolonged economic crises than those witnessed during the ISI period. The key structural reforms introduced by the dictatorship - particularly those driving deindustrialization– were not reversed in essence during the initial democratic government (1983-1989) and were fully consolidated during the 1990s under President Carlos Menem (1989-1999). The Menem administration's strict adherence to Washington Consensus prescriptions resulted in radical economic opening and deregulation.

The Convertibility Plan of 1991, a currency board regime, created conditions of severe exchange-rate overvaluation when combined with trade liberalization measures. This policy mix generated persistent trade deficits that were sustained through two main channels: foreign direct investment inflows from privatization of state-owned enterprises and massive accumulation of external debt (both public and private).

The consequences of this economic program were profound: exponential growth of foreign debt and rapid foreign domination of key economic sectors marked what Gaggero et al. (2014) have pointed as the "foreignisation" of Argentina's economy. This process fundamentally altered the country's productive structure and inserted it into global markets under conditions of heightened financial vulnerability and industrial decline[4].

The abandonment of the convertibility regime in 2002 under President Eduardo Duhalde's transitional government (2002-2003) marked the beginning of a period of economic recovery that lasted through the first decade of the 21st century. This recovery appeared to benefit all social classes. The neodevelopmentalist government of Néstor Kirchner (2003-2007) achieved significant improvements through foreign debt restructuring and favorable terms of trade that generated a positive trade balance. As Wainer and Belloni (2018) document, this period of relative prosperity, supported by targeted government policies, facilitated preliminary reindustrialization efforts and measurable improvements across multiple social indicators.

This economic expansion was temporarily interrupted by the 2008 global financial crisis during Cristina Fernández de Kirchner's first administration (2007-2011),

[4] The deep social deterioration caused by the application of neoliberal policies and the impact of external crises such as the Asian crisis (1997/98) and, mostly, the Brazilian crisis (1999), exposed the extreme fragility and vulnerability of the neoliberal regime. Argentina's economy ran into a deep economic crisis that ended with the default of most of the public debt and the collapse of the currency board (Cantamutto and Wainer, 2013; Kan, 2009). Massive demonstrations by the end of 2001 forced president's De La Rua resignation (1999-2001) and precipitated the abandon of convertibility plan..

though the downturn proved relatively short-lived, with recovery evident by 2010-2011. Fernández de Kirchner's second term (2011-2015) implemented macroeconomic measures - including import controls and foreign exchange restrictions - to address growing balance of payments constraints. However, these interventions proved insufficient to restore a sustained path for economic growth.

The 2015 election of opposition leader Mauricio Macri ushered in a dramatic policy reversal. His administration swiftly dismantled key Fernández de Kirchner-era measures designed to preserve international reserves, eliminating foreign exchange controls (triggering significant currency devaluation and real wage contraction) and adopting new trade liberalization policies aimed at boosting agricultural exports. Macri's government further relaxed capital controls and pursued aggressive external borrowing, policies that increased Argentina's external vulnerability, created dependence on volatile financial capital inflows and exposed the economy to sudden shifts.

The fragility of this economic program became apparent in early 2018 when Argentina was virtually "expelled" form international financial markets, prompting massive capital flight and currency instability. The subsequent IMF agreement imposed severe fiscal and monetary adjustments that depressed economic activity, constrained policy flexibility, and accelerated declines in wages and employment (Barrera Insua and Pérez, 2019). This crisis transformed Argentina's economic stagnation (characterised by very weak growth since 2012) into a full-blown economic and social collapse.

The economic turmoil proved decisive in Macri's 2019 electoral defeat to the Peronist coalition Frente de Todos, led by Alberto Fernández (former chief of staff to Néstor Kirchner) and Cristina Fernández de Kirchner as vice. The Fernández administration (2019-2023) faced extraordinary challenges, including the COVID-19 pandemic's economic impact, renegotiation of debt obligations and persistent balance of payments constraints.

Despite achieving trade surpluses during its first three years, the government failed to accumulate meaningful foreign reserves due to continuous financial outflows for debt servicing. This reserve scarcity severely limited the administration's ability to manage currency expectations, contributing to high levels of inflation that reached 200% annually. These economic failures ultimately led to the 2023 election of Javier Milei, whose radical libertarian platform promised - and delivered - severe austerity measures with harsh social consequences.

Brazil: Neo/social-developmentalism in a macroeconomic orthodox regime

During the global Fordist accumulation regime, Brazil underwent a rapid industrialization process that culminated in the "Brazilian economic miracle" of the 1960s and 1970s. This period of remarkable growth was primarily driven by the expansion of manufacturing production and the establishment of a stable energy supply. However, following the Latin American debt crisis of the 1980s, Brazil began implementing neoliberal policies that fundamentally shifted the focus of economic accumulation from industrial production to financial activities (Bona and Páez, 2020).

This transformation was facilitated by the growing interdependence between agro-industrial interests and the financial sector, which emerged as dominant players in the new accumulation regime. Mirroring developments in Argentina, Brazil's economic reforms during the 1990s included comprehensive trade liberalization, sectoral deregulation, large-scale privatizations, and the adoption of a temporarily fixed exchange rate regime pegged to the US dollar. The cornerstone of this new economic framework was the so-called "macroeconomic tripod," consisting of: (1) inflation targeting carried by an independent Central Bank, (2) a floating exchange rate system, and (3) contractionary monetary and fiscal policies. While this policy mix succeeded in generating economic growth through expanded agricultural production and foreign trade, it also allowed Brazil to maintain a competitive advantage in manufacturing sectors with varying levels of technological sophistication (Saad Filho, 2019; Filgueiras, 2010).

The neoliberal crisis that affected Brazil in the late 1990s had significant socioeconomic and political consequences. Even this crisis, unlike in Argentina, did not boost large-scale social demonstrations, it allowed a significant political shift: the leftist Workers' Party (PT), founded in the early 1980s, achieved its first presidential election victory in 2002. The two consecutive administrations of PT founder Luiz Inácio Lula da Silva (2003-2011) benefited substantially from favorable external conditions, particularly the growing Chinese demand for raw materials and agricultural products (2003-2012), coupled with technological innovations that boosted agricultural productivity.

Brazil's participation in the BRICS bloc (alongside Russia, India, China, and South Africa) facilitated international policy coordination and contributed to boost economic growth. While the basic framework of the macroeconomic tripod remained unchanged since 1999, the political transformation enabled a new approach to governance characterised as "social developmentalism" or "developmentalist neoliberalism" (Saad Filho, 2019). This approach emphasized social inclusion and the democratization of social welfare through policies such as increased social spending and minimum wage adjustments (Filgueiras et al., 2010; Singer, 2012).

Consequently, the Workers' Party managed to establish a growth model that combined economic expansion with income redistribution, particularly benefiting lower-income population, while simultaneously allowing the continued prosperity of large financial, agribusiness, and certain industrial business sectors (Sader, 2015). Lula's reelection in 2006 marked a policy shift toward Keynesian economics, exemplified by increased public infrastructure investment through the Growth Acceleration Program (Programa de Aceleração do Crescimento), implemented in response to the international financial crisis.

When Lula's political successor, Dilma Rousseff, took office in 2011, she maintained this developmentalist approach, similar to contemporary policies in Argentina, by fostering an alliance between productive capital and the working class within the governing coalition. The favorable global economic environment at the time led to substantial financial investments in developing economies like Brazil, causing appreciation of the Brazilian Real (Serrano and Summa, 2015). In an effort to stimulate productive investment during a period of low interest rates, the government reduced the benchmark SELIC rate, which negatively affected profitability in the banking and financial sectors. However, the resulting depreciation of the Brazilian currency raised inflation concerns (Singer, 2015), prompting a reorientation of government policy.

The administration shifted focus toward promoting private investment through tax incentives, a move that coincided with declining international commodity prices. This combination of factors, together with reduced tax revenues, necessitated the implementation of fiscal austerity measures to comply with budgetary rules. These policies led to decreased aggregate demand and ultimately precipitated an economic recession (Serrano and Summa, 2015), marking the effective end of the developmentalist program as changing international conditions made it increasingly difficult to maintain a mutually beneficial arrangement between labor and capital (Pinto et al., 2019).

Despite Rousseff's reelection in 2014, the economic crisis remained, characterised by stagnant growth, a doubling of unemployment rates, and rising inequality. These economic challenges had significant political repercussions, culminating in what some analysts have characterised as a parliamentary coup in 2016, which resulted in Vice President Michel Temer replacing Rousseff. The Temer administration, followed by that of Jair Bolsonaro, implemented conservative economic policies including fiscal austerity, privatization, and pension reform (Saad-Filho, 2019). These measures aimed to reverse the social progress achieved between 2003 and 2014 and received strong support from Brazil's business community. Bolsonaro's political base consisted primarily of representatives of concentrated capital, including the agribusiness, financial, and manufacturing sectors, along with the military establishment (Cavalcante, 2020).

In summary, between 2002 and 2016, Brazil alternated between orthodox and neo/social-developmentalist approaches in macroeconomic, public investment, and financial policies, while maintaining social developmentalist policies in industrial and social welfare sectors (De Paula et al., 2020). However, from 2016 to 2022, the country implemented exclusively orthodox policies across all economic domains, including monetary policy, exchange rate management, fiscal policy, social policy, financial regulation, industrial policy, and public investment. It was only in 2023 that the Workers' Party returned to power under Lula's renewed leadership, marking a potential shift in Brazil's economic trajectory.

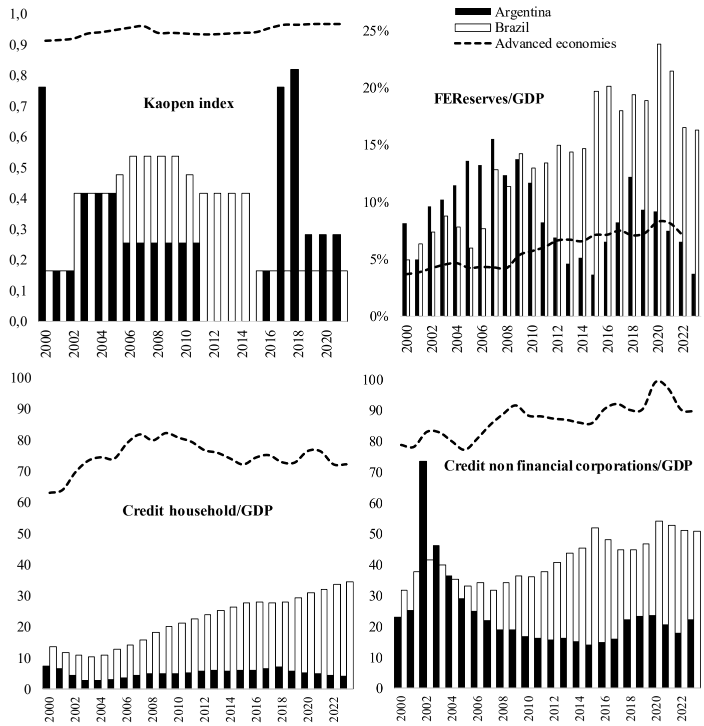
Subordinate financialisation in Argentina and Brazil in the 21st century

Recent studies have proposed frameworks for measuring subordinate financialisation in peripheral economies. As noted, these mechanisms include the depth of the financial system (measured by financial assets relative to GDP), credit extended to non-financial corporations and households, the sovereign debt-to-GDP ratio, and capital flows (Bonizzi and Karwowski, 2023; Karwowski and Stockhammer, 2017). These indicators capture measurable phenomena that reflect varying degrees of financialisation across productive, financial, and state structures.

To better understand the cases of Argentina and Brazil in the 21st century, a set of indicators has been selected to compare these economies with advanced counterparts. These include public policies promoting financial openness, the indebtedness of households and non-financial corporations, foreign exchange reserves accumulation, and foreign-currency-denominated debt. While these indicators - largely drawn from the existing literature - serve as plausible proxies for subordinated financialisation, they may not be sufficient on their own. They must be contextualized within each country's economic history and political economy, as emphasized by Latin American Structuralism and dependency theories.

Figures 1, 2, 3 and 4. Evolution of the KAOPEN index in Argentina, Brazil and Advanced Economies (1 = maximum level of trade openness and balance of payments deregulation),

reserves/GDP, credit to households/GDP and credit to non-financial corporations/GDP. 2000-2022/3



Source: own elaboration based on data from Chin-Itoh Index, Lane and Milesi Ferreti, BIS.

Figure 1 presents evidence on financial openness from 2000 onwards. A decline in the index reflects the existence of capital controls, regulatory measures, and policy interventions aimed at addressing external imbalances without resorting to foreign-currency-denominated debt. The data reveal that peripheral economies have not attained the same degree of openness as advanced economies. In Brazil, financial openness increased between 2002 and 2014 under the Workers' Party government, yet levels remained below those of core countries. Argentina, more susceptible to external shocks, exhibited greater volatility, with high index values only in 2000 and 2017–2018—periods when conservative social alliances promoted financial expansion (Wainer, 2021).

The trajectories of foreign exchange (forex) reserves as a percentage of GDP differ between Argentina and Brazil (figure 2). Brazil consistently accumulated reserves from 2000 to 2020, whereas Argentina's reserves declined following the end of the commodities prices boom in the early 21st century. Both countries generally maintained higher reserve levels than advanced economies (except Argentina in 2013–2015 and 2020–2023), which, owing to their monetary hegemony, face fewer external constraints and do not need to foster reserve accumulation. Notably, Brazil's reserves tripled relative to those of advanced economies after the 2008 financial crisis.

In Brazil, reserve accumulation has primarily mitigated excessive currency appreciation in the face of large inflows of foreign direct investment (FDI) and portfolio investment. Currency overvaluation undermines the competitiveness of domestic production, especially manufacturing, and exacerbates deindustrialisation trends. In contrast, Argentina's reserves depended on trade surpluses - which dwindled due to rising imports and stagnant exports - and rising financial outflows (e.g. external debt payments and capital flight). As a result, Argentina experienced reserve depletion and rising external debt, reflecting greater financial vulnerability than Brazil.

Reserve accumulation not only counters exchange-rate appreciation but also reduces exposure to volatile short-term capital flows. The predominant method —purchasing US Treasury bonds— effectively constitutes an almost interest-free credit from peripheral economies to the US, diverting funds that could otherwise support domestic investment. This dynamic underscores the dollar's hegemonic role and the financial subordination of peripheral economies.

Household credit as a percentage of GDP remains significantly lower in both countries than in developed economies, yet with notable divergence (figure 3). In Argentina, macroeconomic instability and high inflation have constrained bank lending, whereas Brazil has seen a steady rise—from 10% of GDP in 2002 to nearly 40% in 2023 -reflecting the expansion of consumer credit among lower-income groups.

For non-financial corporations, credit levels in Argentina hover around 20-25% of GDP, far below the 100% typical of advanced economies, suggesting heavy reliance on self-financing due to prohibitive borrowing costs amid macroeconomic uncertainty[5]. Brazil, meanwhile, has narrowed the gap, with corporate credit exceeding 50% of GDP, though still lagging behind advanced economies (figure 4).

Argentina's shallow credit markets and underdeveloped capital structures express the marginal role of pension funds—a contrast to other cases of subordinate financialisation (Bonizzi and Karwowski, 2023). The 2008 nationalization of private pension funds (AFJP) stifled this sector's growth (Guzmán, 2020). In Brazil, however, pension funds and FDI play a more substantial role in the financial and exchange-rate systems (Bonizzi and Guevara, 2019). Thus, traditional indicators of financial subordination apply more comprehensively to Brazil (Table 2).

Table 2. Selected financialisation indicators in Argentina and Brazil. 2023.

%	Argentina	Brazil
Pension Funds / GDP	0	13
Foregin currency deposits / deposits	21,6	0
External debt stocks / GDP	42,1	28,8
Debt service / exports	51,4	53,8
Sovereign debt in foreign currency / sovereign debt	75	12
Short-term / external debt stocks	20,6	13,3
Multilateral / external debt stocks	12,5	6,1
Exports / external debt stocks	33,5	69,3
Reserves / external debt stocks	8,7	58,5

Source: own elaboration based on World Bank (debt statistics) and ECLAC.

The debt indicators of Argentina and Brazil reveal fundamentally divergent trajectories that reflect their distinct positions within global financial hierarchies (table 2). Argentina's economic framework demonstrates an accumulation regime structurally incapable of generating adequate foreign exchange reserves, thereby perpetuating its dependence on external debt as a primary mechanism of financial subordination. This persistent reliance underscores the nation's failure to overcome the "original sin" problem in sovereign debt markets - a condition where emerging economies cannot borrow internationally in their own currencies. The empirical evidence shows Argentina's international reserves and export revenues remain

[5] The exceptionally Argentina's high ratio in 2002 is due to the plunge of GDP measured in US dollars because of the deep economic recession and the harsh devaluation of the local currency that took place that year (Cantamutto and Wainer, 2013).

chronically insufficient to meet external payment obligations, creating recurrent balance-of-payments crises.

Moreover, Argentina's financial architecture maintains an institutionalised relationship with multilateral financial institutions, particularly the International Monetary Fund (IMF), which operate as explicit representatives of international financial capital and U.S. geopolitical interests. This structural dependency imposes severe constraints on national policy autonomy, particularly in fiscal and monetary domains, while reinforcing patterns of financial subordination (Bona and Wainer, 2018). The conditionalities attached to multilateral financing consistently prioritize creditor interests over domestic development needs, exemplifying the core-periphery dynamics characteristic of subordinate financialisation.

In contrast, Brazil presents stronger sovereign debt metrics across several dimensions: lower external debt relative to export earnings, greater reserve adequacy, reduced short-term debt exposure, and significantly weaker institutional ties to multilateral creditors. However, Brazil's apparently more robust position masks underlying vulnerabilities. The debt service-to-exports ratio emerges as a particularly revealing indicator, demonstrating that despite its greater policy space, Brazil still fundamentally depends on international financial markets to sustain its capital accumulation regime. This dependence manifests differently than in Argentina - through voluntary market access rather than IMF conditionality - but subordinates domestic economic priorities to financial market imperatives.

The financial sector occupies a structurally dominant position within Brazil's macroeconomic framework, institutionalised through the Central Bank's operational independence from Treasury authority. This institutional configuration systematically privileges financial stability over developmental objectives, ensuring continuous wealth transfers from the productive economy to financial agents as a non-negotiable requirement for market confidence (Monteiro and Feijóo, 2023). The resulting constraints on fiscal policy have diminished the State's capacity to implement redistributive measures or countercyclical interventions, illustrating how even relatively stronger peripheral economies remain bound by the logic of financial subordination.

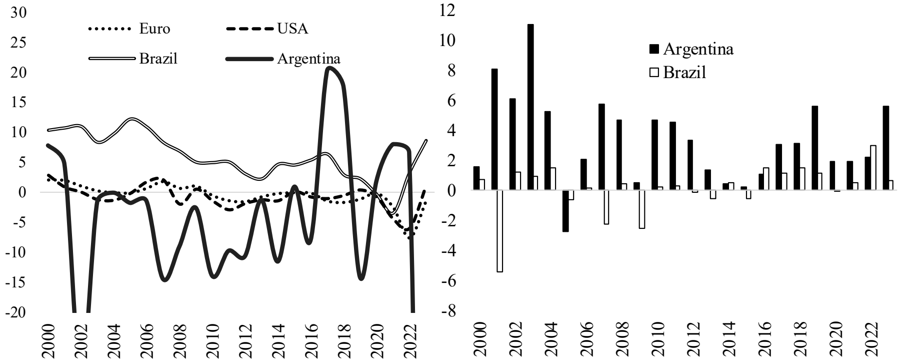
Argentina's experience in the 21st century provides a paradigmatic case of unresolved “original sin” in sovereign debt markets. By 2023, foreign currency-denominated obligations accounted for approximately 75% of Argentina's total public debt stock, with US dollar instruments predominating. This currency mismatch extends into the private financial system, where dollarisation of bank deposits reached 20% of total deposits - compared to Brazil's negligible 0% dollarisation (Table 2). Such extensive liability dollarisation creates acute vulnerability to exchange rate shocks and severely constrains monetary policy effectiveness, particularly during periods of currency depreciation.

Brazil's apparent success in developing domestic currency debt markets represents a significant divergence from Argentina's trajectory. The country has established itself as one of the least externally indebted emerging economies in sovereign terms, with most government securities denominated in Brazilian Reais. However, this achievement does not signify full escape from financial subordination, but rather its transformation into what recent scholarship terms "original sin redux" (De Paula et al., 2024). This reconfigured vulnerability stems from two interrelated developments: the diversification of financial flows to peripheral markets, and the growing participation of foreign investors in local currency debt instruments.

The original sin redux framework reveals how Brazil's financial deepening has created new channels for subordinate integration into global finance. When international investors dominate local currency bond markets, they establish an endogenous linkage between domestic yields and exchange rate volatility. During periods of financial stress that require currency depreciation, monetary authorities face an impossible trilemma: allow uncontrolled capital flight, impose potentially destabilizing capital controls, or raise interest rates to punitive levels to maintain foreign investor participation. Brazil's frequent recourse to the third option, results in substantial wealth transfers to international financial actors through high real interest rates.

This dynamic illustrates the paradox of financial development in peripheral economies: even successful efforts to overcome traditional forms of original sin may simply reconfigure, rather than eliminate, patterns of financial subordination. The Brazilian case demonstrates how deeper financial integration can simultaneously increase policy space in some areas (sovereign debt composition) while creating new vulnerabilities in others (interest rate transmission mechanisms). Argentina's more extreme position reflects both historical policy choices and structural constraints, but both cases ultimately manifest distinct variants of subordinate financialisation within the global monetary hierarchy.

Figures 5 and 6. Real interest rates of reference (USA, Euro Zone, Argentina and Brazil), and Capital flight on GDP (Argentina and Brazil), %. 2000-2023.



Source: own elaboration based on Central Bank (Argentina), Ministry of Finance (Argentina), ECLAC, Balance of Payments (Argentina and Brazil).

An examination of two critical dimensions reveals fundamental contrasts between the Brazilian and Argentine experiences of financial integration (figures 5 and 6). Firstly, regarding external capital attraction, Brazil has established itself as a persistent magnet for international financial capital. This status is upheld through the deliberate maintenance of significantly positive real interest rates - a core component of the country's macroeconomic strategy that prioritizes high financial returns. This approach receives institutional backing from Brazil's politically autonomous central bank, which operates under a strict inflation-targeting regime where interest rate adjustments serve as the primary monetary policy instrument.

In stark contrast, Argentina's 21st century economic trajectory has only been able to offer financial capital periods of high returns sporadically. The country's chronic macroeconomic instability - characterised by volatile inflation, recurrent balance of payments crises, and policy unpredictability - prevents it from functioning as a sustained destination for financial capital flows. The exception to this pattern emerges during cycles of external borrowing, particularly through sovereign debt issuance, when Argentina temporarily attracts capital inflows (see Figure 5). This episodic rather than structural integration into global financial markets reflects Argentina's precarious position within the international financial architecture.

The second dimension of divergence emerges clearly in Figure 6, which illustrates the stark contrast between foreign exchange generation and domestic accumulation in the two economies. Between 2000 and 2023, Argentina experienced average annual capital flight equivalent to 3.4% of GDP - a hemorrhaging of financial resources that represents one of the highest rates among emerging economies. Brazil's capital flight during the same period amounted to merely 0.1% of GDP annually, demonstrating remarkably effective mechanisms for surplus retention.

This differential pattern reflects classic dependency mechanisms operating with varying intensity. In Argentina's case, the inability to retain domestically generated wealth creates a vicious cycle: exported capital cannot be reinvested productively within the national economy, thereby constraining long-term growth potential and perpetuating structural weaknesses. Brazil's scenario presents what might be termed "financial Keynesianism" - the domestic reinvestment of economic surplus is facilitated by the maintenance of high financial returns, though this comes at the cost of substantial transfers to financial capitalists rather than productive investment.

Table 3. Main indicators of subordinate financialisation and their verification in the Argentine and Brazilian case in the 21st century.

Dimensions	Concepts	Indicators	Brazil	Argentina
Financing of families and companies	Household debt	Household debt/GDP	Yes	No
	Debt of non-financial corporations	CNF/GDP debt	Yes	No
	Relevance of pension funds	AFJP Investments	Yes	No
Financialisation of the State	Public external debt	Public debt/GDP	No	Yes
	Original sin	Public debt in foreign currency/Total public debt	No	Yes
	Deregulation of capital/financial account	KAOPEN Index	No	No
	Reserve accumulation	Foreign Exchange Reserves/Public debt	Yes	No
	Inflation targeting	Establishment of the IT regime (real interest rates)	Yes	No
Conditional financialisation	Dollarisation of savings	Transactions executed in foreign currency	No	Yes
	Financial flows	capital flight/volatile capital inflow	Yes	Yes

Source: own elaboration.

This analysis has identified two constitutive elements of what we term "conditional financialisation" (Table 3), which operate with differing severity in the two national contexts. In Argentina, foreign exchange flow dynamics - particularly portfolio dollarisation and capital flight - impose severe constraints on macroeconomic management. These financialisation mechanisms subordinate state capacity to address external imbalances, creating what Latin American Structuralism economists term an "external constraint" on development.

Brazil's situation differs significantly in form though not necessarily in ultimate outcome. The country has avoided Argentina's acute external constraints by consistently maintaining orthodox monetary, exchange rate and financial policies - a commitment sustained even during Workers' Party governments that might have been expected to challenge neoliberal orthodoxies. However, this policy continuity has entailed its own form of subordination to financial sector imperatives, demonstrating that conditional financialisation manifests differently across peripheral economies based on their specific institutional and structural configurations.

The Brazilian model achieves greater stability in managing external accounts and capital flows, but does so through the institutionalised privileging of financial sector returns over other economic priorities. While avoiding Argentina's recurrent crises, Brazil's approach nonetheless exemplifies how even relatively successful peripheral economies remain constrained by the disciplinary logic of global finance. Both cases ultimately represent distinct but complementary manifestations of subordinate financial integration within the contemporary global economic order.

Based on the analysis of financialised subordination in these countries, table 3 presents the dimensions, concepts, and indicators and their compliance for the case under examination. However, the financialisation of companies and families, as measured by household indebtedness, non-financial corporations, and penetration of pension funds in credit market investments, is not significant in Argentina but is in Brazil.

This suggests that Brazil's private sector has a greater integration into the international financial system, but this should not be mistaken for a denial of subordinate financialisation in Argentina. In fact, the financialisation of the State, through cycles of public external debt and deregulation of the capital/financial and current accounts of the balance of payments, has played a decisive role in promoting financialisation during periods of "financial valorization" (2015-2019). It is worth noting that inflation targeting regimes were only briefly in place in Argentina during this period. These processes have led to a conditioned financialisation, resulting in the dollarisation of the Argentine economy, which reinforces the power of global money. Additionally, capital flight has contributed to significant levels of surplus transfer abroad and has exacerbated currency shortages, leading to balance of payments crises. In summary, these factors have created a unique form of subordinate financialisation in Argentina, which has contributed to high levels of inflation and macroeconomic volatility.

Divergent Patterns of Subordinate Financialisation: Accumulation Regimes and Structural Determinants

The contrasting manifestations of subordinate financialisation in Brazil and Argentina derive principally from fundamental differences in economic scale and historically embedded accumulation regimes. These structural determinants have generated markedly distinct pathways of financial integration and systemic vulnerability within the global economic architecture.

Brazil's continental-scale economy endowed with a substantial domestic market and corresponding scale advantages, has consolidated its position as the preeminent receptor of foreign direct investment in South America. The nation consistently attracts foreign direct investment volumes exceeding the aggregate total for the remainder of the region. Argentina's experience presents a stark contrast, characterised by significantly more modest and volatile foreign direct investment inflows, resulting in chronically insufficient foreign exchange generation through this critical channel.

This contemporary divergence finds its origins in their mid-twentieth century industrialization trajectories. While both nations began with import-substitution industrialization strategies during the 1930s-1940s, Argentina's early advances were reversed following the 1976 military coup, which instituted aggressive trade and financial deregulation measures. Brazil's 1964 military regime pursued substantively different economic policies, maintaining and indeed intensifying developmentalist industrialization strategies throughout the 1980s.

Argentina emerged as a global vanguard of neoliberal transformation alongside Chile, with its authoritarian regime instituting financialisation through two pivotal and enduring mechanisms: the exponential expansion of external debt and the systematic normalization of capital flight. These processes, operating in tandem with comprehensive economic deregulation, fundamentally eroded the domestic currency's institutional standing, effectively establishing a bimonetary regime that subsequent administrations would entrench through the 1990s Convertibility system.

The crisis of neoliberalism that swept Latin America during the late 1990s and early 2000s manifested differently across these national contexts. Brazil navigated a controlled devaluation of the Real in 1999, while Argentina's collapse encompassed the abandonment of Convertibility in 2001, sovereign debt default, and profound socioeconomic disintegration. This constellation of crises imposed a kind of forced financial detachment on Argentina, with negligible financial capital inflows until the change of government in 2015. On the other hand, Brazil maintained uninterrupted capital inflows throughout the Workers' Party administrations (2003-2016) through its steadfast adherence to orthodox macroeconomic policies, including sustained high real interest rates, managed exchange rate stability, and an unwavering commitment to financial liberalization.

These historical trajectories have crystallised into contemporary patterns of financialisation that reveal fundamental contrasts. Brazil exemplifies classic financialisation features, with advanced household and corporate financialisation mediated by an expanding financial sector, complemented by state financialisation through orthodox policy frameworks, including inflation targeting and strategic reserve accumulation. As documented by Arantes and Lopreato (2017), the Brazilian case demonstrates a remarkable consensus among the ruling classes on neoliberal macroeconomic management, with conditional financialisation expressed primarily through capital flow dependencies.

Argentina shows a qualitatively distinct financialisation profile, marked by underdeveloped private financialisation due to its constrained banking sector, recurrent financial crises, and limited appeal to international investors. State financialisation operates mainly through chronic IMF dependence and restricted access to international capital markets. The Argentine experience demonstrates extreme conditional financialisation, characterised by structural currency instability, partial dollarisation, persistent capital flight (Wainer, 2021), and recurrent balance of payments crises. These configurations illustrate how historically constituted accumulation regimes generate path-dependent varieties of financial subordination, even within comparable regional contexts, with Brazil exhibiting relative institutional stability against Argentina's paradigm of chronic macroeconomic turbulence and structural vulnerability.

Final remarks

This study has examined the mechanisms of financial subordination in Argentina and Brazil during the first two decades of the 21st century, revealing both shared patterns and critical divergences in how these peripheral economies articulate with global financial systems. Several key conclusions emerge from this comparative analysis.

The dependency paradigm remains essential for understanding contemporary economic dynamics in peripheral economies. It illuminates how structural positions within global production chains, combined with domestic class configurations, perpetuate subordinate integration into the world economy. The neoliberal era has intensified these patterns through financialisation processes that reinforce peripheral economies' disadvantaged position within international monetary hierarchies. This structural condition manifests through two interrelated mechanisms: the superexploitation of labour in productive sectors, and the constrained policy autonomy resulting from monetary vulnerability. These constraints systematically shape fiscal, monetary and financial policies to meet the demands of global finance capital.

Brazil and Argentina demonstrate contrasting political-economic trajectories under financial subordination. Brazil has maintained remarkable continuity in its financialisation patterns across different political administrations, including both Workers' Party (PT) and right-wing governments. This consistency reflects the entrenched structural power of finance, institutionalised through inflation targeting regimes, high interest rate policies, and central bank independence. Argentina, on the other hand, shows stronger cyclical fluctuations, with conservative governments typically accelerating financial subordination through policies favouring financial valorisation.

The two economies have developed distinct modalities of financial integration. Brazil's pathway features deepening private sector financialisation, evidenced by rising household and corporate debt ratios, alongside significant progress in overcoming the "original sin" of foreign-currency denominated sovereign debt. However, this achievement has generated new contradictions encapsulated in the concept of "original sin redux" - the emergence of exchange rate and monetary policy tensions arising from foreign participation in domestic currency debt markets. Argentina presents a more extreme case of monetary subordination, characterised by chronic currency instability, dollarisation of pricing structures, and recurrent balance of payments crises. The Argentine state's financialisation occurs primarily through volatile cycles of external borrowing and debt crises, reflecting domestic elites' strategies of financial valorisation during periods of exchange-rate appreciation.

Despite these differences, both economies share fundamental vulnerabilities that reproduce their peripheral status, such as: structural tendencies towards economic reprimarisation, acute sensitivity to global financial volatility, persistent technological and productivity gaps, chronically low growth trajectories, and labour market structures that facilitate worker superexploitation.

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