

Brazil⁺

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In a paper prepared for the 1st Meeting of the *Brazilian Keynesian Association* (AKB), Fernando Carvalho (2008: 569) wrote: “For many years it has been noted, with some surprise, that the thinking of Keynes and his followers exerts a strong influence on Brazilian economic thought. Even in the gloomy 1980s when, especially in North American academic circles, the so-called New Classics School emerged with a force as intense as it was ephemeral, the community of academic economists in Brazil continued to cultivate the legacy of great economists such as, but not only, Keynes, Kalecki and Schumpeter, to name just a few”.

The relationship between the application of heterodox anti-cyclic economic policies, and the Brazilian economy’s performance is a matter of fact: in the period when Brazil’s economy enjoyed vigorous growth (averaging around 7.0% per year in 1947-1980), there was active State intervention in the economy and heterodox economic policies predominated. As a result, in that same period, Brazil’s economy underwent important structural changes, although maintaining high levels of social inequality. Since the early 1980s, meanwhile, the Brazilian economy has been conspicuous for its stop-and-go performance and relatively slow growth (averaging 2.5% per year from 1980-2008). That period is identified, on the one hand, with strongly accelerating inflation in the 1980s and failed heterodox stabilisation plans and, on the other, in the 1990s, by the introduction of neoliberal stabilisation policies – trade liberalisation, market deregulation, privatisation of State enterprises, and financial liberalisation – a set of policy recommendations of what came to be known as the Washington Consensus. However, the vulnerability of the Brazilian economy (and other Latin American economies) to contagion by external crises, with adverse effects on product and

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employment, meant that by the late 1990s and the 2000s the policies advocated by the Washington Consensus were being called into question (Stiglitz, 1999).

Brazil's economy after World War II can be considered broadly in two phases: the years 1950-1980 when the national-developmental model predominated; and, following the interregnum of the 1980s, the neoliberal model of the 1990s and 2000s, associated both with the policies inspired in the Washington Consensus.

The national-developmental model, based on tariff protectionism to stimulate the import substitution industrialisation process and on the State's playing an active role in planning, financing and directly producing in favour of industrialisation as the basis for developing Brazil's heavy industry, was inspired strongly by the Economic Commission for Latin America and the Caribbean (ECLAC).

ECLAC was inspired by structuralism and it was greatly influenced by economists identified with Keynesian ideas, such as Raul Prebisch, Anibal Pinto and Celso Furtado. Raul Prebisch introduced Keynes into Latin America, while Anibal Pinto and Celso Furtado were great exponents of Keynes' ideas in Chile and Brazil, respectively. The Furtado classic book, *Formação Econômica do Brasil* (Furtado 1965), is a brilliant application of Keynes' macroeconomic approach to the process of change in Brazil from the primary-exporting model to the domestic market-oriented industrial model. Furtado showed that in the 1930s – even before Keynes' *General Theory* was published – the Brazilian government used a Keynesian anti-cyclic policy of major proportions to protect the coffee-exporting sector from losses, thus enabling Brazil's economy to weather the crisis of the 1930s.

After a period of strong growth between 1950 and 1970, the Brazilian economy, like others in Latin America, suffered the effects of the foreign debt crisis. That crisis eventually led the Brazilian State into serious fiscal crisis and caused inflation to accelerate extraordinarily. In the early 1980s, in response to the failure of monetarist policies to reduce inflation in Brazil, a structuralist-inspired theory of inertial inflation was formulated, explaining inflationary inertia in terms of the existence of formal and informal mechanisms of price and contract indexation, which rendered conventional stabilisation policies ineffectual. Various policies were suggested in this regard, such as heterodox stabilisation plans (basically, price freezes).

The failure of heterodox stabilisation plans – as a result of difficulties stemming from the foreign debt problem in the 1980s environment – led in a way to a “failure” of heterodox and developmentalist policies in Brazil. Developmentalist policies came to be seen as outdated, and often pejoratively. In that regard, since the start of the 1990s, a process of trade and financial liberalisation began in Brazil, accompanied by a strong reduction in the State’s role in the economy. In 1994-95 the success of the Real Plan in stabilising the economy using orthodox and heterodox policy ingredients, such as de-indexation, an exchange anchor, monetary reform, financial deregulation and others, created fertile ground for neoliberal policies to become established in Brazil, with an attendant retraction in Keynesian policies.

In 1999, after the collapse of the semi-fixed foreign exchange regime, Brazil adopted a tripartite economic policy strongly inspired in the “New Consensus in Macroeconomics”: floating exchange rate, inflation targeting regime and pursuit of a primary fiscal surplus. Whether or not this new economic policy arrangement has been successful is a subject of controversy; in any case, from 2004 on, the commodity boom drove the Brazilian economy, making for economic growth without balance of payments constraints, a problem typical of developing countries that do not follow the export-led growth model.

The first Lula da Silva government (2003-2006), partly as a reaction to the foreign exchange crisis of late 2002 and early 2003, was notable for its conventional orthodox economic policies. However, at the end of the first administration and in the second Lula da Silva government (2007-2010), economic policy – and particularly fiscal policy – became relatively more flexible, with the launch of a program of public spending on economic and social infrastructure: “Growth Acceleration Programme”. The floating exchange rate policy was maintained intact, however, although the Central Bank of Brazil went on to implement a foreign reserve accumulation policy, which was later to be important in fending off the financial crisis of 2008.

In 2008-09, Brazil’s was one of the economies that have recovered most rapidly from the effects of the world financial crisis. This was achieved by means of both traditional Keynesian anti-cyclic instruments – monetary policy providing liquidity to the bank sector and expansionist fiscal policy – along with non-conventional policies, such as using federal public banks in anti-cyclic credit measures. For these purposes, the

presence of developmentalist economists in the Finance Ministry and on the boards of federal public banks was fundamentally important for the formulation of anti-cyclic policies to address the crisis in Brazil.

One important area of concern to heterodox and Keynesian economists has been the discussion of the development model for Brazil and the role the State should play in that model. Their argument is that the national-developmental model has, to some extent, now played its part in Brazil's economic development, but that in order to meet the present-day challenges facing a semi-mature economy like Brazil's another development strategy should be designed as an alternative to the neoliberal strategy. They thus stress the need to reconcile sustained economic growth with social equity and macroeconomic stability. To that end, the State has a fundamental role to play as the promoter of growth, by creating a suitable, stable institutional environment to encourage private investment and by reducing social inequalities, not just through growth, but also through both comprehensive and focussed social policies. Also, the Keynesian-Structuralists economists who advocate this new-developmentalism underline the need to use a competitive exchange rate to overcome external constraints on growth and the risk of de-industrialisation of Brazil's economy caused by currency appreciation (see Bresser-Pereira, 2010; Sicsú *et al*, 2007).

Focusing in the spread of the Keynesianism in the universities in Brazil, ECLAC was an important influence in the social sciences in Brazil in the 1960s and 1970s. As part of that tradition, a postgraduate programme in Economics was founded at Campinas State University (UNICAMP) in the 1970s. Its faculty included a number of economists who has served at the ECLAC. At the UNICAMP, the Marxist critique of ECLAC ideas of the 1970s led to Kalecki and his version of the effective demand principle, which was appropriate to understanding the dynamism of the Brazilian economy driven by capitalist consumption. That is to say, they endeavoured to show that, contrary to Furtado's stagnationist view, growth was possible, even with income concentration. In the 1980s and 1990s, the UNICAMP was moving towards a broader heterodox outlook that was not purely Marxist, but included Keynes and his followers. Luiz Beluzzo, Maria Tavares and Mario Possas all made particularly important contributions in this regard. At present, a number of professors at the UNICAMP pursue their research from a (Post)Keynesian perspective.

Another school that was important in spreading heterodox and Keynesian thinking in Brazil was Federal University of Rio de Janeiro (UFRJ), which was strongly linked, first in the 1980s, to the UNICAMP and, later in the 1990s, to a Post-Keynesian approach significantly influenced by North American authors, such as Paul Davidson and Hyman Minsky. At the UFRJ a *Money and Financial System Study Group* was set up in 1997 under the coordination of Professor Fernando Cardim de Carvalho, with participation by professors from the UFRJ itself and from other universities, such as Federal University of Rio Grande do Sul (UFRGS) and State University of Rio de Janeiro (UERJ). An important milestone in the work of this group was the 1997 International Keynesian Conference at the UFRJ, with the participation of Philip Arestis, Gary Dimski, Steven Fazzari, Jan Kregel and Nina Shapiro.

In the course of the 1990s and 2000s, besides UFRJ, UFRGS and UERJ, other academic centres took on Keynesian researchers and many became important centres of heterodox thought, among them Federal University of Minas Gerais (UFMG), Federal University of Paraná (UFPR) and Fluminense Federal University (UFF), along with other equally important centres at State University of São Paulo (USP), University of Brasília (UnB), Getúlio Vargas Foundation (FGV-SP) and Catholic University of São Paulo (PUC-SP). One important aspect of the spread of Keynesianism in Brazilian academic circles was that not only were researchers being trained with a Keynesian/heterodox outlook at important academic centres in several states in Brazil, but that from the mid-1990s onwards, a growing number of Keynesian economists were producing a large volume of academic papers in leading Brazilian and international heterodox journals.

In April 2008, the Brazilian Keynesian Association (AKB), a not-for-profit, “civil society”, was set up on the occasion of its 1st Meeting, held at the UNICAMP. The founding of the AKB was made possible by the joint efforts of two groups that had been important in developing Keynesianism in Brazil: the *Money and Financial System Study Group* and the UNICAMP’s Economics Institute. However, since its founding the Association has endeavoured for its board to include researchers from various leading universities in Brazil. One important aspect of its founding principles is that it was established at the outset that Keynesianism should be understood with sufficient breadth to encompass different theoretical colourings and not only the Post-Keynesian approach

properly speaking. In that connection, the patrons of the AKB include Keynesian economists who are heterodox economists that mix Keynesian economics with other heterodox approaches. The AKB is a mainly academic forum for discussion of key issues of Keynesianism in Brazil and is also political, in the sense of contributing new ideas to Brazilian political discussions, especially as regards the directions set for Brazilian economy and society.

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