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**Article**

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## The spread of Keynesianism in Brazil: The origins and experience of the Brazilian Keynesian Association

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### *Introduction*

In a paper presented at the 8<sup>th</sup> Annual Conference of the *Brazilian Society for Political Economy*, in June 2003, Victoria Chick (2004: 3) wrote:

»There are many pleasures attached to being in Brazil, but one of the chief intellectual pleasures is that Brazil is still a centre of heterodox economic thought. Perhaps this is for an unfortunate reason, namely that Brazil is beset with economic problems, and serious problems require practical solutions«.

Pointing in the same direction, in a paper prepared for the 1<sup>st</sup> Meeting of the *Brazilian Keynesian Association (Associação Keynesiana Brasileira – AKB)*, Fernando Cardim de Carvalho (2008: 569, translated by the authors) 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 counter-cyclical economic policies, identified with Brazilian economic thinking, 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), i.e., from after World War II to the end of the 1970s, there was active state intervention into 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

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plans and, on the other hand, by the introduction, in both Brazil and Latin America more widely, of neoliberal policies in the 1990s. This included trade liberalisation, market deregulation, privatisation of state enterprises, financial liberalisation (capital account deregulation and more flexible rules on foreign bank operations in Brazil) and so on – in the context of the economic policy recommendations of what came to be known as the Washington Consensus (Williamson 1990). However, the vulnerability of the Brazilian economy (and other Latin American economies) to contagion by external crises, with adverse effects on production and employment, meant that by the late 1990s and the 2000s the policies advocated by the Washington Consensus were called into question.<sup>1</sup>

The purpose of this article is to examine the spread of Keynesian thinking in Brazil, so as to contextualise the motivations behind the founding of the AKB in 2008. Section 2 examines the origins of heterodox and Keynesian thinking in Brazil, while Section 3 examines the founding of the AKB, its origins and motivations. Section 4 concludes the article with some challenges for Keynesian thinking in Brazil.

*Political and economic context:*

*From the national-developmental model to neoliberalism*

As suggested in the previous section, for Brazil's economic development after World War II two phases can be broadly considered: the period 1950–1980 when the national-developmental model predominated and, following the interregnum of the 1980s (the 'lost decade'), the neoliberal model of the 1990s and 2000s, associated both with the policies inspired by the Washington Consensus and, from 1999, by the 'New Consensus in Macroeconomics'.

The national-developmental model was strongly inspired by the Economic Commission for Latin America and the Caribbean (ECLAC).<sup>2</sup> The model was based on tariff protectionism to stimulate the import substitution industrialisation (ISI) process and on the state playing an active role in planning, financing and directly producing (raw materials and infrastructure) in favour of industrialisation as the basis for developing Brazil's heavy industry.

The approach of the ECLAC was inspired by structuralism and it was greatly influenced by Keynesian ideas. In fact it was Raul Prebisch, the first ECLAC's Executive Secretary, who introduced Keynes's theory to Latin America. Celso Furtado was another great exponent of Keynes's ideas in Brazil and in Latin America. His classic book, *The Economic Growth of Brazil* (in Portuguese *A Formação Econômica do Brasil*) (Furtado 1965), originally published in 1959, is a brilliant application of Keynes's macroeconomic approach to the process of change in Brazil from the primary goods-exporting model to the domestic market-oriented industrial model. Furtado showed that in the 1930s – and thus even before Keynes's

1 See, for instance, Stiglitz (1999).

2 The Economic Commission for Latin America and the Caribbean, with head offices in Santiago, Chile, had a strong influence on industrialisation policies in Latin America in the 1950s and 1960s. Leading ECLAC economists include Raul Prebisch, Celso Furtado and Aníbal Pinto.

*The General Theory of Employment, Interest and Money* was published – the Brazilian government used (although not deliberately with that name) a Keynesian anti-cyclical policy of major size 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 from 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. Accordingly, what was needed was another set of policies addressing, among other things, the problem of inflationary inertia. Various policies were suggested in this regard, such as heterodox stabilisation plans (price freezes and wage conversion by prior-year averages) and other de-indexation measures, including introducing a super-indexer into the economy, which after a period of time would become the legal currency.<sup>3</sup>

The failure of heterodox stabilisation plans (particularly the Cruzado Plan in 1986) – as a result of difficulties stemming from the foreign debt problem in the 1980s environment where foreign capital flows to emerging economies were reversed – led in a way to a 'failure' of heterodox and developmentalist policies in Brazil. As a result, in the early 1990s this gave room for the emergence and adoption of neoliberal policies inspired by the Washington Consensus. Developmentalist policies came to be seen as outdated, and were often treated 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 – 1995 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 of Keynesian policies.<sup>4</sup>

In 1999, after the collapse of the semi-fixed foreign exchange regime, Brazil adopted a tripartite economic policy strongly inspired by the 'New Consensus in Macroeconomics': floating exchange rate, inflation targeting regime and pursuit of a primary fiscal surplus (in order to guarantee the sustainability of the public debt in a context of high interest rate policies).<sup>5</sup> Whether or not this new economic policy arrangement has been successful is a

3 These policies were suggested by Lopes (1985) and Resende (1985), who were neo-structuralist economists at that time. Since the 1990s, however, they have become more orthodox economists, advocating ideas closer to the Washington Consensus view.

4 According to Arestis and Sawyer (1998: 181), Keynesian policies can be defined as follows: »Policy implications arise from the perception of the role of aggregate demand in setting the level of economic activity and the lack of automatic forces leading a market economy to full employment«. So, a *laissez-faire* market economy normally displays elements of instability and, importantly, does not create a level of aggregate demand consistent with full employment.

5 The primary fiscal surplus is the fiscal surplus before payment of interest on the public debt.

subject of controversy. In any case, from 2004 onwards, the commodity boom drove the Brazilian economy, making for economic growth without balance of payments constraints, which typically arises as a problem for 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 (2006) 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 (the 'Growth Acceleration Programme' – *Programa de Aceleração do Crescimento*, PAC). The floating exchange rate policy remained intact, however, though the central bank went on to implement a foreign reserve accumulation policy, which was later to be important in fending off the financial crisis of 2008.

Recently, Brazil has been 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-cyclical instruments – monetary policy providing liquidity to the bank sector and expansionist fiscal policy (reduction of the primary fiscal surplus and introduction of tax reductions on various consumer durables, including motor vehicles) – along with non-conventional policies, such as using federal public banks in anti-cyclical credit measures. The presence of developmentalist economists<sup>6</sup> in the finance ministry and on the boards of federal public banks was fundamentally important for the formulation of anti-cyclical 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 (the 'old' developmentalism) played in the past 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 ('not the minimum state, but the necessary 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 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.<sup>7</sup>

6 In Brazil, developmentalist economists are those who favour the adoption of economic policies directed to economic growth, as opposed to orthodox economists who prioritise price stability.

7 See, for instance, Bresser-Pereira (2007) and Sicsú et al (2007).

*Spread of Keynesianism in the universities*

The ECLAC was an important influence in the social sciences in Brazil in the 1960s and 1970s. As part of that tradition, but with a Marxist theoretical outlook, a postgraduate programme in Economics was founded at Campinas State University (UNICAMP) in the 1970s. Its faculty included a number of economists who have served at the ECLAC, including Maria da Conceição Tavares. 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 understand 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 the ideas by Keynes and his followers. Luiz G. Beluzzo, Maria C. Tavares and Mario Possas all made particularly important contributions in this regard. The postgraduate programme at the UNICAMP's Economics Institute was fundamentally important in training new generations of heterodox economists in Brazil. 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 the Federal University of Rio de Janeiro (*Universidade Federal do 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 University of the State of Rio de Janeiro (UERJ).<sup>8</sup> 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 Dymnsky, Steven Fazzari, Jan Kregel and Nina Shapiro.<sup>9</sup>

In the course of the 1990s and 2000s other academic centres took on Keynesian researchers and many became important centres of heterodox thought, among them Federal University of Minas Gerais (UFMG), UFRGS, Federal University of Paraná (UFPR), Federal University of Uberlândia (UFU) 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), UERJ and Catholic University of São Paulo (PUC-SP). In 1996, the *Brazilian Political Economy Society* (*Sociedade Brasileira de Economia Política*, SEP) was set up. Although Marxist in origin, it is open to the various schools of heterodox thought in Brazil.

One important aspect of the spread of Keynesianism in Brazilian academic circles was that not only were researchers trained with a Keynesian/heterodox outlook at impor-

8 The authors are members of this Group.

9 Arestis, Dymnsky and Kregel went on to participate in the development of Keynesianism in Brazil, taking part in congresses and meetings and even co-authoring papers with Brazilian economists.

tant academic centres in several states in Brazil, but 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 (*Journal of Post Keynesian Economics*, *Cambridge Journal of Economics*, *Economic Issues* etc.). An important landmark in Keynesian academic output in Brazil was the publication, in 1999, of the book *Modern Macroeconomics: Keynes and the Contemporary Economy* (in Portuguese *Macroeconomia Moderna: Keynes e a Economia Contemporânea*) (Lima et al. 1999), which brought together, perhaps for the first time in book form, the papers of several leading Brazilian Keynesian academics. Lastly, a large number of heterodox and more open journals, both domestic and international, are at the top of the *Qualis* ranking of academic journals in Economics by CAPES, the governmental agency that evaluates the postgraduate programmes in Brazil. Two heterodox journals in particular – *Brazilian Journal of Political Economy* and *Economia e Sociedade* – are ranked among the top domestic journals.

### *Founding of the AKB*

The AKB was set up in April 2008 on the occasion of its 1<sup>st</sup> meeting held at the UNICAMP. Whether or not it was appropriate to set up an association that would bring together academics and policy-makers who shared a Keynesian worldview had been discussed for a long time, including through email lists. The founding of the AKB was made possible by the joint efforts of two groups that had been important in developing Keynesianism in Brazil, as seen in the previous section: the *Money and Financial System Study Group* and the UNICAMP's Economics Institute. However, since its founding the association has endeavoured to include researchers from various leading universities in Brazil in its board: USP, UFMG, UFU, UFRGS, UnB, FGV-SP and others. 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, although the ›core‹ of the AKB is made up of post-Keynesian economists. In that connection, the patrons of the AKB include Brazilian Keynesian economists such as Fernando Cardim de Carvalho, but also others, such as Luiz G. Belluzzo, Luiz C. Bresser-Pereira, Maria de Lourdes Mollo, Mario Possas, and Silvia Schor, who are heterodox economists that mix Keynesian economics with other heterodox approaches (Structuralism, Marxism and/or Schumpeterian ones).

The AKB is a not-for-profit ›society‹, open to individual and institutional membership, whose purpose is to develop knowledge about Keynesian theory and economics, understood as a social science, by: (i) creating a national forum for the discussion of issues of Keynesian economics; (ii) promoting, expanding and strengthening exchanges among students of Keynesian theory and economics and related disciplines, such as philosophy, politics, history and sociology; (iii) promoting meetings, congresses, conferences, courses and continuing professional development activities; and (iv) publishing books and periodicals related to Keynesian subjects.

Keynesian theory and economics is taken to mean the understanding of the dynamics of contemporary monetary economies whose intrinsic systemic faults often lead to situa-



tions of income concentration and unemployment. State intervention, complementary to private markets, is regarded as indispensable to creating an institutional environment favourable to private spending (consumption and investment) decisions, thus impacting effective demand. The AKB is mainly an academic forum for discussion of key issues of Keynesianism in Brazil, but it is also political, in the sense of contributing new ideas to Brazilian political discussions, especially as regards the directions set for the Brazilian economy and society. In this regard, in addition to its annual meetings, the AKB has taken the initiative of publishing 'Crisis Dossier' (*Dossiê da Crise*), a collection of texts written by members of the AKB, whose purpose is to explain the origins and developments of the international financial crisis of 2007 – 2008. The first Crisis Dossier, published in 2008, was well received by the Brazilian press; and we are right now preparing the second one, which will include not only an assessment of the impacts of the crisis on Brazil, but also Keynesian economic policy proposals with a view to the presidential elections to be held in 2010.

### *Challenges facing Keynesianism in Brazil*

There are a number of challenges to be met by Keynesian thinking in Brazil. Here, we briefly highlight three: the first is an issue of particular importance to developing countries: how to formulate autonomous economic policies in a context of financial globalisation;<sup>10</sup> the second is how to reconcile sustained economic growth with reducing poverty and social inequalities in Brazil; lastly, the third, related challenge is how to overcome the constraints on growth imposed by economic policy inspired by the 'New Consensus in Macroeconomics', i.e., what type of alternative model could be implemented in Brazil? In conclusion, this is a broad agenda that needs to be addressed and to which the AKB can make important contributions.

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10 Ferrari-Filho and Paula (2008 – 09), for instance, discuss which exchange rate regime is most appropriate to assuring the autonomy of exchange rate and monetary policies for emerging countries.



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## Special Forum on »Macroeconomic Theory and Macroeconomic Pedagogy«

### The New Consensus in macroeconomics and non-mainstream approaches

*Claudio Sardonì\**

#### *Introduction*

Giuseppe Fontana and Mark Setterfield have edited an interesting book on the relationship between recent developments in macroeconomics and the teaching of the discipline at the undergraduate and intermediate levels (Fontana/Setterfield 2009).<sup>1</sup> The editors have chosen to focus the book on the »New Consensus« in macroeconomics, on criticisms of such an approach and alternatives to it. The »New Consensus« is presented in its simplest version as it is presented when teaching macroeconomics at the introductory and intermediate level. The »New Consensus« is characterized by a three-equation model. In this model, the quantity of money is endogenously determined and the »old Keynesian« LM curve is

1 In their words, the primary concern of the book is »with the development of simple macroeconomic teaching models in light of recent developments in macroeconomic theory« (Fontana/Setterfield 2009: 1).

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