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New Consensus Macroeconomics, economic stagnation and an economic agenda: The Brazilian case

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Nuevo Consenso Macroeconómico, estancamiento y agenda económicos: el caso brasileño

Resumen. Desde la implementación del marco teórico de la Macroeconomía del Nuevo Consenso (MNC) en Brasil, durante 1999 y 2000, la política fiscal se ha operacionalizado, principalmente, según una meta fiscal en términos de superávit presupuestario primario para apuntar a estabilizar la deuda en relación con el PIB. La tasa de interés parece tener un solo objetivo económico, es decir, llevar la tasa de inflación a sus intervalos de tolerancia, y el tipo de cambio se ha caracterizado por un régimen de flexibilidad cambiaria, administrado por el Banco Central de Brasil. A pesar de los objetivos esperados, las políticas económicas antes mencionadas, en el período 1999-2022, no lograron reducir la deuda pública –por el contrario, la relación entre deuda pública y PIB creció significativamente–, para mantener la inflación bajo control en niveles adecuados para países que adoptó un régimen de meta de inflación y el tipo de cambio fue volátil y apreciado durante la mayor parte del período. Además, en lo que respecta a la actividad económica, durante este período, el desempeño del PIB fue pobre, siendo el sector industrial el segmento productivo que perdió la mayor participación relativa en la composición del PIB brasileño. Teniendo esto en cuenta, el objetivo del artículo es mostrar en qué medida las políticas económicas de la MNC no sólo fueron responsables de una dinámica de estancamiento económico y crecimiento al estilo detente y sigue de la economía brasileña entre 1999 y 2022, sino que también contribuyeron al proceso de desindustrialización del país. Además, presenta una Agenda Económica para superar el estancamiento económico.

Palabras clave: Macroeconomía del Nuevo Consenso, Estancamiento Económico, Agenda Económica, Economía brasileña.
Clasificación JEL: E6, O11, O54

New Consensus Macroeconomics, economic stagnation and an economic agenda: The Brazilian case

Abstract. Since the implementation of the New Consensus Macroeconomics (NCM) theoretical framework in Brazil, in 1999 and 2000, fiscal policy has been operationalized, mainly, according to a fiscal target in terms of a primary budget surplus to aim at stabilizing the debt-to-GDP ratio, the interest rate seems to have only one economic objective, that is, to bring the inflation rate to its target or to its tolerance intervals, and the exchange rate has been characterized by a regime of exchange rate flexibility, but managed by the Central Bank of Brazil. Despite the expected objectives, the aforementioned economic policies, in the period 1999-2022, failed to reduce the public debt – on the contrary, the relation between public debt and GDP grew significantly –, to keep inflation under control at levels suitable for countries that adopt an Inflation Targeting Regime, and the exchange rate was volatile and appreciated for most of the period. Furthermore, with regard to economic activity, during this period, the GDP performance was poor, with the industrial sector being the productive segment that lost the most relative share in the composition of Brazilian GDP. Given that, the objective of the article is to show how much the NCM's economic policies were not only responsible for a dynamic of economic stagnation and growth à la stop-and-go of the Brazilian economy between 1999 and 2022, but also contributed for the country's deindustrialization process. Moreover, it presents an Economic Agenda to overcome the economic stagnation.

Keywords: New Consensus Macroeconomics, Economic stagnation, Economic Agenda, Brazilian economy.
JEL codes: E6, O11, O54

1. Introduction

Since Brazil's economy stabilised, first in the early 1990s, under the Real Plan (1994), then in 1999 and 2000 with the economic policy implemented as part of the New Consensus Macroeconomics (NCM), fiscal and monetary policy have been operationalised with a view to balancing public accounts and thus assuring the flow of public debt rollover and controlling inflation, preferably close to mid-range of the inflation targeting regime (ITR), respectively, and exchange flexibility has been managed by the Central Bank of Brazil (CBB) so as, on the one hand, to avert the exchange rate pass-through effect on price levels and, on the other, to stimulate the net exports and equilibrate the current account of balance of payments.

However, the management of these economic policies in the period 1999-2022 failed to stabilise inflation at levels appropriate to countries adhering to the ITR, GDP performed rather lamely, and public debt was not only volatile, but grew in relation to GDP. More specifically, Brazil's official inflation index, IPCA, rose an average of 6.4% per year, GDP growth averaged 2.1% per year and net public debt-to GDP swelled from 44.5% in 1999 to 57.5% in 2022. Moreover, the exchange rate was volatile and appreciated for most of the period.

This article endeavours to show to what extent fiscal, monetary and exchange rate policies, since adoption of the NCM model, were responsible for both an economic stagnation and stop-and-go growth in Brazil's economy and, as a result, contributed to the de-industrialization process between 1999 and 2022.

To that end, it is structured into three sections, plus this brief Introduction. Section 2 describes and analyses fiscal, monetary and exchange rate policy management in the period 1999-2022. Section 3 draws on Keynesian and Institutionalist theories to propose an Economic Agenda to assure macroeconomic stabilisation – that is, sustainable growth, controlled inflation and fiscal and external equilibrium – with social development. Lastly, Section 4 sums up and concludes.

2. Economic policy from 1999 to 2022

After 1999, Brazilian governments of different political and ideological inspirations are known to have operationalised their economic policies based on the NCM model: that is, ITR, the Fiscal Responsibility Law – replaced in 2016 by the New Fiscal Regime (NFR) – and a system of flexible exchange rate[3.] More specifically and chronologically:

- The second Fernando Henrique Cardoso (FHC) government (1999-2002) implemented the NCM economic policy tripod.
- The first Lula da Silva mandate (from 2003 to 2006) most notably continued and, in some respects, radicalised the NCM model.
- During the second Lula da Silva government, 2007-2010, largely due to the 2007-2008 international financial crisis, economic policy shifted course slightly. Fiscal policy became more flexible in order to assure implementation of the Programa de Aceleração do Crescimento (Acceleration Growth Programme), that is, an ambitious programme of public and private investments in infrastructure and social projects. Moreover, the base interest rate, SELIC rate, was stabilised and, at a given point, reduced.

[3]The NCM framework is based on three equations: the IS curve, Phillips curve and Taylor rule equation. For additional details see, for instance, Carlin and Soskice (2006).

- In the first Dilma Rousseff government (2011-2014), the economic policy tripod was more flexible relatively to the previous cabinets.
- From 2015 to 2018, first in the second Rousseff government and then, following Rousseff's impeachment, during the government of Michel Temer (August 2016 to December 2018), the economic authorities restored the traditional economic policy logic of the NCM.
- Under the government of Jair Bolsonaro (2019-2022), initially the economic authorities continued to implement austere fiscal and monetary policies, but, later and surprisingly, in response to the COVID-19 pandemic, the economic authorities decided to adopt countercyclical fiscal and monetary policies. As a result of these countercyclical economic policies, the ratio of the primary fiscal balance to GDP posted a 9.5% deficit in 2020 and the SELIC rate hit an all-time low of 2.0% per year in August 2020. However, in 2022, they were reframed within the principles of austerity recommended by the NCM.

Below, it follows a concise description and analysis of fiscal, monetary and exchange rate policies management and outcomes over the period 1999-2022.

2.1. The second FHC government

FHC took office for a second mandate during a severe exchange rate crisis, the effect of which was a substantial change in economic policy management, as counterpart to a loan by the International Monetary Fund (IMF) to mitigate Brazil's external financial fragility. Accordingly, in January 1999, the Government replaced the exchange rate anchor, the chief foundation of the Real Plan, with a flexible exchange rate regime. In June 1999, the Government implemented the ITR, and, lastly, in May 2000, the Fiscal Responsibility Law entered into force. In short, the NCM model came to determine the course of Brazilian economic policy.

Faced with this scenario of short-term shifts in Brazil's economic policy, economic agents began to grow pessimistic about the directions of the economy: inflation would accelerate, there would be unprecedented recession and the exchange rate would suffer recurrent currency overshooting and so on. In summary, implementation of the NCM caused a breakdown in economic expectations.

Nonetheless, once the period of turbulence following the change in economic policy had passed, Brazil's economy, surprisingly, showed signs of stabilisation and recovery in the second half of 1999, which were confirmed in 2000: GDP grew positively by 0.8% in 1999 and 4.2% in 2000, inflation was reduced to 8.94% in 1999 and 5.97% in 2000, the exchange rate steadied at under R$ 2.00/US$ 1.00, the negative balance of trade diminished significantly, disequilibrium in current transactions was damped and exchange reserves grew more robust as capital inflows were re-established.

However, in the following years, 2001 and 2002, the economy once again performed negligibly. This was largely due to orthodox fiscal and monetary policy: annual GDP growth averaged 2.3% and inflation rates were 7.67% and 12.53% in 2001 and 2002, respectively.

Focussing here on fiscal and monetary policies performance in the period 1999- 2002, primary fiscal balance to GDP and average interest rate were as follows: fiscal surpluses continued more than 3.0% of GDP, while the SELIC rate averaged nearly 20.0% per year and, in late 2002, rose to an annual 25.0%.

Now, the outcome of fiscal and monetary austerity was to cause adverse effects on gross fixed capital formation, that is, on investment: from 1999 to 2002, annual growth in investment averaged -2.1% and, as a proportion of GDP, investment remained at about 16.5% per year[4]. In short, this derisory investment performance probably and ultimately contributed to the industrial sector's decreasing in the economic activity; in other words, the deindustrialization process was accelerated.

2.2. The first Lula da Silva government

As mentioned earlier, from 2003 to 2006, Lula da Silva's economic policy was framed by the NCM, which was even somewhat radicalised in the period.

As regards fiscal policy, targets for primary surplus to GDP were set high – averaging around 3.5% per year over the period – in order to assure conditions for fiscal solvency and stable net public debt. Incidentally, the ratio of net public debt to GDP fell from 53.5% in 2003 to 43.9% in 2006 (IPEADATA, 2024).

In terms of monetary policy, the CBB was extremely conservative and, accordingly, the SELIC rate rose between 2003 and 2005, with a view to bringing the inflation rate to within the ITR range. In 2006, towards the end of that administration, the SELIC rate dropped to 13.25% per year.

Although fiscal and monetary policy management discouraged economic activity, a favourable external scenario of both growing international liquidity and rising commodity prices not only meant that Brazil's economy absorbed capital flows, but – and most importantly – was decisive to a dynamics of export-led economic growth[5.] Moreover, capital inflows and swelling reserves pressured the exchange rate upward from R$ 2.89/US$ 1.00 at fiscal year-end 2003 to close at R$ 2.14/US$ 1.00 in December 2006.

Importantly, another sector that was decisive to the dynamics of the economy in the first Lula da Silva government was consumption, primarily of wage goods, as a result both of social policies, especially the Bolsa Família (Family Allowance, that is, a federal financial assistance programme to poor Brazilian families), and of the policy of restoring the purchasing power of the minimum wage in real terms.

In that context, the most significant economic outcomes of economic activity were as follows: GDP grew at an average 3.5% per year, the yearly average ratio of gross capital formation to GDP was of the order of 15.9% – 0.6 percentage points less than the average during the period 1999-2002 – and the manufacturing industry's share in GDP declined to 14.4% in 2006 (IPEADATA, 2024).

However, orthodox fiscal and monetary policies and the exchange rate appreciation contributed to the diminishing investment and industrial sector participation in GDP. Therefore, implicitly, the de-industrialisation did in fact occur in the first Lula da Silva government.

2.3. The second Lula da Silva government

At the start of the second Lula da Silva government, fiscal policy shifted course slightly to expand social protection and income transfer programmes, raise the minimum wage and expand public investment, especially through implementation of the PAC in 2007. The fiscal

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[4] This rate was calculated by the authors from IPEADATA (2024).

[5] To show how the external sector was the driver of the Brazilian economy in the period 2003-2006, Brazil's trade balance accumulated a surplus of almost US$ 150.0 billion, the current account was in surplus in all years of the period and foreign reserves increased from US$ 49.3 billion in 2023, to US$ 85.8 billion in 2006 (IPEADATA, 2024).

measures, investments by the PAC and the continuing favourable external environment made the Brazilian economy grow by an average 5.7% annually in 2007 and 2008.

The CBB, nonetheless, continued to operate monetary policy in such a way as to meet inflation targets.

In that context, the economic authorities underestimated the possible consequences of the international financial crisis that were to shake the global economy in September 2008. However, when 2008 fourth-quarter GDP was announced at -3.6%, that outcome cast doubt on the notion that Brazil was immune to the effects of the international financial crisis, as president Lula da Silva had claimed at the time, that "in Brazil, the international crisis would be a ripple".

When the international financial crisis did in fact affect Brazil, the Government's response, although tardy, marked an important change from previous endogenous or exogenous crisis episodes. The economic authorities' response to contagion by the systemic crisis was a broad set of countercyclical fiscal, financial and monetary measures.

As the early effects of the international financial crisis made themselves felt in Brazil's financial system, the CBB took on the role of first responder. Accordingly, monetary policy was relaxed by lowering the SELIC rate by 5 percentage points (in December 2008 the annual SELIC rate was 13.75%, whereas by December 2009 it stood at 8.75%) and the CBB also decided to boost liquidity on the interbank market.

Together with the monetary policy measures, the Government decided to use the three leading federal public banks – Banco do Brasil (BB), Caixa Econômica Federal (CEF) and Banco Nacional de Desenvolvimento Econômico e Social (BNDES) – to expand credit and play a countercyclical role in a context where private banks were tightening credit conditions.

On the one hand, its countercyclical fiscal policy included fiscal incentives and subsidies – chiefly reduced taxes on industrial products and incentives for the agriculture sector – to mitigate the adverse effects of the international financial crisis on economic activity and the labour market (which incidentally ultimately accounted for a total of about 1.3% of GDP). On the other hand, the Government decided to increase public funding for the Bolsa Família and the PAC and, also, implemented a low-cost housing programme, called Minha Casa, Minha Vida (My Home, My Life).

As a result of these measures, Brazil's GDP had decreased only 0.1% at year-end 2009, while the country experienced robust economic recovery in 2010 – GDP grew by 7.5% and unemployment fell to 6.7% (Table 1, annex). Brazil's economy thus displayed remarkable resilience and became one of the world's economies least affected by the international financial crisis.

Meanwhile, thanks to the more flexible fiscal and monetary policies and increased public investments, the ratio of gross fixed capital formation to GDP averaged 18.5% in the period 2007-2010, with the rate of investment growing at an annual average of 9.9%[6].

2.4. The Dilma Rousseff government

At the start of the Rousseff government, as economic conditions were deteriorating internationally (the Euro crisis broke in September 2011 and significant growth downturns happened in emerging economies, including China), important changes were made to the economic policy modus operandi. These included the CBB's adopting a more gradualist strategy to control inflationary process, meaning that in August 2011 the SELIC rate began a

[6] Rates calculated by the authors from IPEADATA (2024).

downward trajectory, to reach a plateau of 7.25% per year in December 2012. Meanwhile, the Government continued to expand fiscal policy (by the end of Rousseff's first mandate, primary fiscal balance to GDP was -0.6%).

The economic authorities' intention was to commit to the possibility of maintaining substantial economic growth, similar to that achieved in 2010, despite the adverse international scenario. However, as the inflation rates that the CBB began to signal in 2012 and 2013 were at the upper limit of the ITR range, around 6.0% per year, and GDP grew at an annual average of 2.9%, economic agents, particularly those operating on the financial market, began to demand course changes in fiscal and monetary policies, in line with the NCM model.

On this point, Arestis, Ferrari Filho, Resende and Terra (2019: 191-195) argued that at least three 'past mistakes' cost the government economic and political credibility: (i) the way fiscal expansion was carried out lacked credibility and made use of artifices (among them 'creative accounting', that is, artificial means of balancing public accounts) that inspired mistrust; (ii) efforts to communicate fiscal policy measures to public opinion were particularly weak and limited, while the government insisted on announcing unrealistic government revenue and primary surplus targets; and (iii) in operationalising its monetary policy, it failed to perceive that, in a context of high inflation (and the consequent risk of economic and financial wealth pulverising), any waiving of liquidity would call for higher premiums, that is, higher interest rates, decoupled from the SELIC rate.

In 2013, and more particularly in 2014, an exogenous political factor – 'Operation Carwash' – posed difficulties for the situation of Brazil's economy and the Rousseff government. This operation to investigate corrupt goings-on in the national oil company, Petrobras, and other major corporations responsible for building up investments in infrastructure, ultimately had drastic effects on gross capital formation in Brazil, to the point where the average rate of investment between 2011 and 2014 was a scant 1.2% per year. In that context, by the end of Rousseff's first mandate, GDP had grown only 0.5%[7] and the manufacturing industry's share in GDP had fallen to 14.5%.

2.5. The Rousseff and Temer governments

In October 2014, Rousseff was re-elected president of Brazil in a closely fought election. After taking office in January 2015, her administration's first year was notable for two factors that contributed to the economic crisis and stagnation in Brazil. The first, mentioned above, was 'Operation Carwash', which revealed the structural corruption in Brazil's political and economic system. The second was Rousseff's abandoning her promise that economic policy would continue flexible in her second mandate and subsequently applying austere fiscal and monetary policies with a view to gaining trust among economic agents, which she had lost towards the end of her first mandate.

Now, in that context, Rousseff decided that her government would make economic changes to address the impending stagflation crisis. To that end, it signalled a more restrictive monetary policy designed to reduce aggregate demand and thus contain inflation, as well as introducing fiscal austerity measures to mitigate the primary fiscal deficit and guarantee public debt service. That is, short-term economic policy turned to its NCM roots.

Fiscal policy was thus dominated by the following measures: public spending cutbacks; increased taxes, such as on financial loans, financial revenues and manufactured and exported

[7] From 2011 to 2014, GDP growth averaged 2.2%. This rate was calculated by the authors from Table 1 (Annex).

goods; elimination and/or reduction of subsidies to businesses; cuts in social benefits (unemployment insurance, health insurance and others); and substantial administered price and public tariff hikes. The impact of these fiscal measures was that funding for public investment and social benefits was redirected to pay public debt rollover and, thus, financial revenues to rentiers.

Monetary policy, meanwhile, also came to be explicitly contractionary, as the SELIC rate was raised to control and reduce inflation. At the same time, the CBB presented additional measures designed to liberalise the capital account.

This economic policy course change did nothing, however, to improve the economic situation in 2015, as was believed at first sight. On the contrary, the real weakened considerably (the exchange rate was R$ 2.36/US$ 1.00 at year-end 2014, but had risen to R$ 3.33/US$ 1.00 by December 2015) and inflation closed at 10.7% (fundamentally as a result of the pass-through effect), while GDP declined by 3.5% (Table 1, annex). More specifically, economic policy based on fiscal austerity and restrictive monetary measures not only failed to solve Brazil's economic problems, but it worsened them. Accordingly, Rousseff replaced Finance Minister Joaquim Levy and decided, once again, that economic policy would change course.

In this further shift in economic policy direction, monetary policy remained restrictive, with a view to reducing inflation, while fiscal policy was made more flexible to stimulate aggregate demand. Nonetheless, over the course of 2016, not only were Brazil's economic problems not alleviated, but they worsened, both because the fiscal contraction of 2015 came to take its toll in 2016, and because of the political and institutional turmoil that led to Rousseff's suspension on 17 April and her removal from office on August 31, after being found guilty of infringing Brazil's budget laws.

Vice-president Temer took office as president to serve out Rousseff's mandate to December 2018. He appointed Henrique Meirelles, former CBB chairman during the Lula da Silva government, as finance minister. As expected, Meirelles implemented a liberal proposal based on fiscal austerity and structural reforms.

Short-term fiscal austerity measures were introduced as part of a sweeping programme to curb public expenditures. Later, in December 2016, however, the Government submitted a constitutional amendment, enacted by the National Congress, introducing the New Fiscal Regime. The amendment stipulated that, from 2016 to 2036, public expenditures were to be corrected nominally by the prior year's inflation index, IPCA, with a view thus to assure fiscal consolidation. At the same time, the CBB continued to operationalise a restrictive monetary policy, so as to bring the inflation rate within the ITR range.

The return to economic austerity restored 'confidence' among economic agents, multilateral institutions, including the IMF, and international financial investors. Despite economic optimism, particularly because inflation slowed to 6.29% by the end of 2016, austerity came at a high price: GDP fell 3.3% and unemployment rose to 11.5%.

In 2017, the Government submitted a labour reform bill to congress which radically altered the 1943 Consolidated Labour Laws. The bill was designed to deregulate and liberalise the labour market to raise the level of employment[8].

[8] Incidentally, despite the labour reform, unemployment rates rose throughout the period from 2016 to 2022, except in 2022. The official statistics bureau, IBGE (2024), recorded unemployment rates as follows: 11.5% (2016), 12.7% (2017), 12.3% (2018), 11.9% (2019), 13.5% (2020), 13.2% (2021) and 9.6% (2022).

In 2017 and 2018, the fiscal austerity continued, while monetary policy became more flexible, because the inflation rate had been brought down, considerably, to 2.95% in 2017 and 3.75% in 2018. Accordingly, the SELIC rate diminished markedly, closing 2017 and 2018 at 7.0% and 6.5% per year, respectively.

Although economic outcomes improved over the two years, 2017 and 2018, GDP growth from 2015 to 2018 was of the order of -1.1% per year, while gross fixed capital formation-to-GDP declined to 15.5%. As a result, manufacturing industry participation in GDP shrank to 11.8%.

2.6. The Bolsonaro government

In October 2018, Bolsonaro, a minor politician of the radical right, was elected president. At his investiture in January 2019, he promised to apply a radical liberal agenda based on structural reforms, privatisations and cutbacks in government spending. In that same direction, 2019 saw a social security reform implemented and an Economic Freedom Law enacted, while fiscal policy continued to be operated on the logic of 'expansionist fiscal austerity' – that is, the idea that a balanced budget stimulates sustainable long-term economic growth, because balanced public accounts build 'confidence' and, as a result, families and entrepreneurs decide, respectively, to consume and to invest. The CBB, meanwhile, continued to reduce the SELIC rate.

However, even with more flexible monetary policy, the tighter fiscal policy continued to wreak havoc with economic activity: in 2019 the GDP grew by only 1.2%.

Early in 2020, the COVID-19 pandemic caused double shocks to both supply and demand. On the supply side, lockdown measures prevented companies from offering their goods and services, while workers found it impossible to work. Demand was jeopardised, as decisions to consume or to invest were postponed, thus increasing uncertainty, as to both economic conditions and the restrictions on movement imposed by local authorities. As a result, the federal government was forced to deviate temporarily from its liberal agenda. In April 2020, the economic authorities introduced countercyclical economic policies to mitigate the impact of COVID-19 on Brazil's economy.

Fiscal policy was framed by a constitutional amendment known as the 'War Budget', the main measures of which were directed to (i) social protection, (ii) maintaining levels of employment, (iii) alleviating business costs, (iv) combating the pandemic directly and (v) assisting states and municipalities.

The main monetary policy measures were designed to foster liquidity in Brazil's financial system by permanent credit lines. The intention was to offset possible blockages to credit for businesses and consumers, that is, the liquidity pooling typical of periods of uncertainty, such as the pandemic. In addition, the SELIC rate was cut substantially, reaching its lowest historical level of 2.0% per year.

The total amount of the fiscal and monetary measures implemented was of the order of 8.0% of GDP and their impacts on the economy were important in buffering recession in Brazil: in 2020, GDP fell 3.9%, considerably less than the 9.1% forecast by the IMF World Economic Outlook of June 2020 (2020). With the pandemic, the unemployment rate worsened, though, rising from 11.9% in 2019 to 13.5% in 2020.

In 2021, the economic authorities reinstated the policy of economic austerity. Thus, the Government obtained fiscal surpluses of 0.8% of GDP in 2021 and 1.3% in 2022, while the SELIC rate rose again, closing the years 2021 and 2022 at 9.25% and 13.75% per year, respectively. In turn, 2022 was a year of fiscal populism, because of the presidential elections.

Thus, Bolsonaro's administration changed fiscal laws (i) in order to forcefully reduce taxes charged on fuels, mainly to mitigate the final fuel prices, which were high because of both the post-pandemic commodities shock and the Russian war against Ukraine, and (ii) to ease money to the population before the election, by rising the monthly stipend of the Bolsa Família at the eve of the ballot boxes opening. Notwithstanding all this populist fiscal expansion, there was a fiscal surplus in 2022, equal to 1.3% of GDP, which was due to the great increase in tax gathering, caused by to consumer inflation making bigger nominal tax collection and the good outcomes, in terms of taxes, of the commodities rising prices, which are the main goods that Brazil exports.

To conclude, it can be speculated that, despite the countercyclical measures taken during the COVID-19 pandemic, both the economic austerity policy operationalised by the Bolsonaro government in 2019 and 2021, and the populism economic policy, in 2022, without any long-term goal, contributed to the decline in public and private investments in the period 2019-2022 and a consequent reduction in industrial sector participation in GDP formation.

2.7. The NCM period in summary

From the foregoing, the main economic outcomes in Brazil's economy during the period when the NCM model was in place (1999-2022), based on the statistics in Table 1 (annex), were as follows:

- The annual inflation, as measured by the IPCA, was 6.4%, a relatively high rate compared with other countries that adopt an ITR. Also, inflation seldom remained at the centre of the target, while annual inflation surpassed the upper limit of the target range on nine occasions;
- GDP grew at a mean annual rate of 2.1%, with Brazil's economy growing on a characteristically stop-and-go dynamic. For some time now, economic activity has been relatively stagnant.
- Over the past 24 years, the ratio of primary fiscal balance to GDP has averaged 1.2% and in only seven years (2014-2020) was it negative. Moreover, only in a few years, like 2009, 2010 and 2020 fiscal policy was conducted countercyclically.
- The SELIC rate was nominally 12.4% per year, while in real terms it stood at around 5.6% per year. At these levels, SELIC rates, whether nominal or real, are associated with the idea that the CBB's monetary policy has been captured by Brazilian rentiers, as argued by Ferrari Filho and Milan (2018);
- The nominal exchange rate appreciated over nearly the whole period.Only during 2014 and 2015 and the Bolsonaro government the exchange rate suffered a process of strong devaluation;
- Industrial sector participation in GDP formation downsized, because investment was highly volatile over the period. The mean ratio of gross capital formation/GDP was about 16.8%[9].

3. An economic agenda to assure Brazil's macroeconomic stabilisation[10]

In Chapter 24 of The General Theory, of Employment, Interest and Money (GT), Keynes suggested some economic policies designed to mitigate or remedy "[t]he outstanding faults

[9]Average rate calculated by the authors from IPEADATA (2024).

[10] This section is based on Ferrari Filho and Terra (2023).

of the economic society [... that] are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and income" (Keynes, [1936] 2007: 372). The focus of Keynes's suggestions was the power that the State should wield to steer the economic system. If left to the free workings of the market, the economic system and liberal economic policies themselves (unless there was coordination among them) would contribute not to solving, but to aggravating the major problems of monetary economies.

To Keynes, the role of the State was thus fundamental to ensure macroeconomic stability and social development. For that purpose, Keynesian macroeconomic policies should be coordinated in such a way as to: (i) manage fiscal policies designed to expand effective demand and reduce social inequalities; (ii) make use of more flexible monetary policy, to galvanise better levels of consumption and investment; and (iii) coordinate and regulate the financial and foreign exchange markets to stabilise capital flows and exchange rates.

In turn, the 'old' American Institutionalists, such as John Commons (1931) and Thorstein Veblen ([1889] 1973), tried to understand the role of the evolutionary process and the institutions in shaping the habits and rules of both individuals and society as a whole. Hodgson (2002: 113), for instance, defined institutions as "durable systems of established and embedded social rules that structure social interactions. Language, money, law [...] firms (and other organisations) are all institutions". So, the Institutionalist Theory considers institutions to be not only those formally constituted, such as central banks, states, territories, laws, but also human activity in general and the evolutionary nature of economic processes. In this context, to Institutionalists, the economic system is a 'continuous process' of change that implies an ongoing restructuring of the capitalist economy rather than acquiescence to the automatic mechanisms of the market.

In the light of these Keynesian and Institutionalist views on economic dynamics, this section presents an economic agenda to restore macroeconomic stability and social development in Brazil. This Agenda must contemplate both short-term macroeconomic policies and long-period structural and institutional changes.

Short-term macroeconomic policies are needed to foster favourable conditions to liven entrepreneurs' animal spirits and stimulate investments, which are key to long-term growth in the Brazilian economy. For that purpose, fiscal policy must prioritize public investment and social programmes that transfer income and wealth, monetary policy must explicitly consider the goal of employment stability together with price stability and exchange rate policy must be designed to maintain balance of payments equilibrium. More specifically:

- Fiscal policy should be implemented in such a way as to expand expenditure on both social programmes and public investments, especially in infrastructure, so as to boost economic activity. Here, it should be stressed that public-private partnerships have to be encouraged. Moreover, the government should always seek fiscal responsibility, as recommended by Keynes (1980). This should not be an end in itself, but on the criterion of countercyclical fiscal policy management – that is, fiscal policy should be expansionary in periods of crisis and recession, but neutral or even contractionary in times of prosperity or economic growth above productive capacity, so as to avert inflation.
- Monetary policy should be guided not only by inflation targets, but, also, by employment goals. For this purpose, discretionary monetary policy is indispensable. Also, macroprudential measures should be taken to mitigate financial risks and manage liquidity. Lastly, as regards the financial system, the CBB should (a) continue to stimulate a more competitive banking system in Brazil, as it has been doing since

the 2010s, with a view to reducing bank spreads and democratising access to credit and (b) underscore the importance of public banks, such as the BB, CEF and BNDES and regional development banks, which furnish long-term funding for productive investment.

- The CBB should administer the exchange rate so as to maintain a competitive real effective exchange rate, in order that any speculative actions on the foreign currency market are contained. To achieve this goal, the CBB should buy and sell foreign currency to support exchange rate stability and counter disorderly conditions on the foreign exchange market. In other words, the exchange rate regime must be a kind of ‘managed floating system’, which aims to preserve some flexibility in the short-term nominal exchange rate, while at the same time maintaining a stable and competitive real effective exchange rate. In addition, capital controls should be used to enhance the CBB’s autonomy in setting the nominal interest rate to support domestic objectives, such as preventing appreciation of the real effective interest rate and averting external crises. Moreover, the proposal of a real effective exchange rate is intended not only to maintain balance of payments equilibrium, thus mitigating external constraints, but also to establish an exchange rate that is not so overvalued as to create disincentives to industry, but at same time not so weak as to reduce wage purchasing power.

In terms of structural and institutional changes, which are so important to expanding supply capacity and potential GDP, the government should, among other things:

- To implement a progressive tax reform (i.e., higher rates of taxation on income and wealth);
- To increase the real minimum wage and expand funding for social programmes, such as the Bolsa Família, so as to improve standards of living among the poor and expand domestic consumption.
- To create an institutional environment able to galvanise the capital market and, particularly, the private corporate debt market.
- To adopt income policies to regulate wages and prices in line with productivity gains in the economy.
- To expand industrial and technology policy programmes to coordinate public and private efforts and mitigate the process of de-industrialisation. At the same time, these policies should secure the Brazilian economy a place in the international market in conditions where the country can absorb structural and technological changes occurring in the world economy.
- To negotiate trade agreements with other emerging countries, such as those of Latin America, Asia and Africa.
- To invest in research, development and innovation in pursuit of productivity gains in productive sectors, for which investments in education are essential.
- To stimulate cooperative arrangements between the public and private sectors, that is, public-private partnerships, with a view to expanding infrastructure projects, such as transport, water and sewerage systems, and education and health systems.
- To take advantage of the green economy paradigm to boost technological development and increase the competitiveness of Brazilian industry on external markets. It is also important to shift Brazil’s energy matrix, to reduce dependence on oil and enhance its use of renewable sources.

Finally, it is important to emphasize that structural and institutional changes cannot disregard the State's role in the economy. This must be redefined by rebuilding the coordination mechanisms that were dismantled during the 1990s and more recently, from 2015 on. In other words, on the one hand, following Keynes ([1936] 2007: 378), the State has to "exercise a [...] comprehensive socialization of investment". This, in our view, means that the State should exercise its function as the regulator, coordinator and inducer of economic activity. On the other hand, as argued by the 'old' American Institutionalists, the State has to shape the economic and social behaviour of modern economies.

4. Final remarks

This article began by presenting and analysing economic policy in Brazil since adoption of the NCM model. This was done to show that fiscal, monetary and exchange rate policies operationalised on the logic of the NCM model not only contributed to the Brazilian economy's having grown on a stop-and-go basis for the past 24 years, but that it was also a determinant of the country's economic stagnation in the period 2014-2022.

Secondly, based on Keynesian and Institutionalist theories, an economic agenda was proposed for Brazil, with a view to both macroeconomic stabilisation and social development.

To conclude, we know that formulating that Agenda will be the major challenge for coming years, mainly because, since the second Rousseff government, Brazilian economic authorities have believed faithfully that only an economic agenda based on a minimum State and free market system will solve all Brazil's economic problems.

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Annexes

Table 1. Main macroeconomic indicators of the Brazilian economy

Year	GDP growth (%)	Inflation rate (%)	Fiscal balance/GDP (%)	Year-end SELIC rate (%)	Year-end exchange rate (R$/US$)
1999	0.5	8.94	3.2	19.0	1.79
2000	4.4	5.97	3.2	15.75	1.96
2001	1.4	7.67	3.3	19.0	2.32
2002	3.1	12.53	3.2	25.0	3.53
2003	1.1	9.3	3.3	16.5	2.89
2004	5.8	7.6	3.5	17.75	2.65
2005	3.2	5.69	3.8	18.0	2.34
2006	4.0	3.14	3.2	13.25	2.14
2007	6.1	4.46	3.3	11,25	1,77
2008	5.1	5.9	3.4	13.75	2.34
2009	-0.1	4.31	2.0	8.75	1.74
2010	7.5	5.91	2.7	10.75	1.67
2011	4.0	6.5	3.1	11.0	1.87
2012	1.9	5.84	2.4	7.25	2.05
2013	3.0	5.91	1.9	10.0	2.36
2014	0.5	6.41	-0.6	11.75	2.65
2015	-3.5	10.67	-1.9	14.25	3.95
2016	-3.3	6.29	-2.5	13.75	3.26
2017	1.3	2.95	-1.7	7.0	3.31
2018	1.3	3.75	-1.6	6.5	3.88
2019	1.1	4.31	-1.2	4.5	4.02
2020	-4.1	4.52	-9.5	2.0	5.19
2021	4.6	10.06	0.8	9.25	5.39
2022	2.9	5.79	1.3	13.75	5.14

Source: Ipeadata (2024).
https://urldefense.com/v3/__http://www.ipeadata.gov.br__;!!D9dNQwwGXtA!QaWK3GDiy_7NFyvmTIJZw_HdgsD2t5JYubx29W6Rgj9--LhGoavyylkZz4TNCTu1wqYEhS96zm6xD9L5ZXozdMJUTg$