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A critical analysis of the Brazilian 'expansionary fiscal austerity': why did it fail to ensure economic growth and structural development?

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ABSTRACT

This paper discusses the Brazilian economy since 2015. After an economic boom from 2005 to 2011, Brazil entered a downturn, which resulted in a strong recession in 2015 and 2016. The Economic Authorities understood that the cause of the crisis was due to an expansionary economic policy undertaken over the period 2009–2014; thereby the solution for the recession would be quite the opposite: fiscal austerity and tight monetary policy. However, the restrictive economic policies did not grant growth: Brazil grew a little bit more than 1.0% on average over 2017–2019. It was this stagnated Brazil that the Covid-19 pandemic met, turning it worse than what had already been bad. In view of that, we explain why the 'expansionary fiscal austerity' failed to furnish growth and debate what should be undertaken to ensure a sustainable economic activity and structural development.

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1. Introduction

In 2009, the Lula da Silva's government responded to the recession contagion effect of the Great Financial Crisis with a broad variety of countercyclical economic measures, including fiscal, monetary, credit, macroprudential and social policies. As a result, after a minor recession in 2009 (-0.2% of GDP), in 2010, the last year of the second term of Lula da Silva's government, economic activity recovered sharply: GDP increased by 7.6% and the unemployment rate was at 6.7%. Moreover, from 2010 to 2014, when during 2011–2014 Dilma Rousseff served her first term, the annual average growth rate was 3.4%[1] and the unemployment rate decreased every year and reached 4.8%, at the end of 2014.

The figures in 2009–2010 are largely the result of an economic policy option: the New Consensus Macroeconomics (NCM) tripod (Inflation Targeting Regime, fiscal regime, and flexible exchange rate regime) model implemented in Brazil in 1999, which was put aside right after the Great Financial Crisis, in 2009–2010 years. After the economic

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recovery in 2010, the NCM policies were not totally resumed and more expansionary fiscal and monetary policies and greater intervention in the foreign exchange market were adopted. Therefore, it was this modified set of macroeconomic policies and not the NCM tripod per se, responsible for the 2009–2011 era.

However, contrary to the 2010–2014 period, from 2015 to 2019 the Brazilian economy collapsed: in 2015 and 2016 the GDP fell, respectively, 3.5% and 3.3%, while over 2017–2019 economic activity stagnated around 1.2%. The main reasons for the Brazilian economic recession and stagnation in the 2015–2019 period are the following: on the one hand, the misleading manner by which Rousseff guided her economic policy – and not because the nature of those policies. As Lula da Silva's countercyclical economic policies after the recession of the Great Financial Crisis, in her first term (2011–2014), Rousseff continued to change the NCM tripod. These modifications were tried to intensify the flexibility of the tripod, with a less tight fiscal target, a more depreciated Brazilian *Real* in relation to the US dollar; and the Central Bank of Brazil (CBB) was more conniving with inflation, leaving it at the upper bound of the target and keeping a rather low base interest rate compared to what should be set to suppress inflation.

However, although these were reasonable measures as an attempt to maintain economic activity, Rousseff made several mistakes in the way she conducted those policies. She and her economic team unconventional fiscal measures to balance the national budget, introduced tax allowances without strategy, and following lobbying changed contracts unilaterally; in addition, she failed to pursue political negotiations. The outcome was a complete disarray in terms of expectations, and, as a result, the investment rate was stagnant from 2010 to 2013 and fell from 2014 onwards. Thus, the roots of the Brazilian recession of 2015–2016 were clear.[2]

On the other hand, since 2015 Brazil has been a lab for conventional economic policy measures, based on the 'expansionary fiscal austerity'[3] – that is, the idea that fiscal adjustment stimulates a sustainable economic growth in the long run – and the idea of a minimal state, both of these policies showing that the NCM was resumed in Brazil. Hence, the economic problems of 2015–2019 relate to the orthodox and explicitly recessive economic policies, adopted by the second term of Rousseff (from January 2015 to August 2016) and the governments of Michel Temer (from September 2016 to 2018)[4] and the first year of the Jair Bolsonaro government (2019–2022).

In view of these developments in Brazil, this article has two aims: first, it describes and analyses the reasons why the Brazilian economy stagnated. Second, it outlines an economic agenda capable of restoring macroeconomic stability and structural development, which contains sustainable economic growth, inflation under control, fiscal and external equilibria, and proper income distribution.

Following this introduction, Section 2 presents and discusses the orthodox economic policies of the 2015–2019 period, as well as briefly considering the impact of Covid-19 crisis on the Brazilian economy during 2020. Section 3, based on Keynesian and institutionalist approaches, proposes an economic agenda for Brazil. Section 4 summarises and concludes.

2. Why did 'expansionary fiscal austerity' fail to ensure growth?

After taking office in January 2015, Rousseff administration's first year had two shocks that contributed to Brazil's economic crisis and stagnation. The first was 'Car Wash

Lawsuit' (*Operação Lava Jato* in Portuguese),[5] a political factor that not only worsened economic agents' expectations, but also partly explained the deep Brazilian recession in 2015 and 2016 as it hit some of the biggest Brazilian companies. The latter included the greatest, Petrobras, and the biggest contractor firms of the country, responsible for building infrastructure investments. The second shock emerged when the government, instead of only changing the manner it was conducting its policies over 2012–2014, decided to give up the countercyclical macroeconomic policies implemented following the recession of the 2008 Great Financial Crisis and introduced neoliberal fiscal and monetary policies.

During 2014 the Brazilian economy was showing signs of an upcoming crisis – GDP increased by only 0.5%, inflation was at 6.4%, close to its 6.5% target limit, primary fiscal balance reached -0.6% of GDP,[6] trade balance was, in terms of the US Dollar 3.9 billion, and the Emerging Markets Bond Index (EMBI) increased to 265 basis points. Because of that, in her January 2015 inauguration, Rousseff announced that her government would introduce economic policy changes to tackle the crisis. The idea was to have a tighter macroeconomic policy to reduce aggregate demand, curb inflation, and bolster market confidence. The latter was related to the stability of the public debt to GDP ratio by means of (i) augmenting the CBB's base interest rate (SELIC), even in a context of an upcoming recession; and (ii) introducing fiscal austerity measures to mitigate the public deficit and balance the servicing of outstanding public debt. Behind all these measures was the idea of 'expansionary fiscal austerity'; thereby, the theoretical thrust of Rousseff's macroeconomic policies was to bring back a tighter version of the NCM tripod implemented in the Brazilian economy in 1999.

Believing the economic problems were due to the overly flexible nature of the economic policy approach, Rousseff made a sharp turn. Thus, she appointed as her Minister of Finance the notable orthodox economist Joaquim Levy to achieve a fiscal adjustment to reorder expectations. This was the practical start of the 'expansionary fiscal austerity' in Brazil. It started at the federal level, but went through all other subnational stances, which were suffering a fiscal deterioration because of the loss of tax revenues due to the macroeconomic crises.

So, fiscal policy in all government levels was dominated by the following measures: public expenditure was reduced,[7] and some taxes (on financial loans, company financial revenues, manufactured goods and automotive exports) were increased. In addition, subsidies for companies were reduced, social benefits (unemployment and sickness insurances, for instance) were cut and the access to them became tighter; and public and administered prices were raised dramatically, largely explaining the high consumer inflation of 2015 (10.7%). The impact of this fiscal policy on the economy was negative, as SEP (SECRETARIA DE POLÍTICA ECONÔMICA 2018) showed: it had a -1.2% impact on GDP. Notwithstanding the fiscal austerity, monetary policy followed orthodox guidelines and was explicitly negative. The SELIC base rate set by the CBB increased to control inflation, reaching 14.2% in December 2015 while GDP fell by 3.5%.

It is important to appreciate the main consequences of high interest rates in Brazil. High interest rates squeeze micro and small firms, which account for 30% of the country's GDP and 52% of formally hired workers (SEBRAE (SERVIÇO BRASILEIRO DE APOIO À MICRO E PEQUENA EMPRESA) 2020). They need credit to operate and have small profit margins, so are directly affected by rising interest rates. Second, higher credit costs also affects workers and households in general, whose consumption of household appliances and even clothes are often acquired through monthly payments. Finally, a higher base interest rate pushes up the public debt yield curve and increases the federal government interest bill, causing additional fiscal problems.[8]

Rousseff thus went in a path completely contrary to what she had undertaken in her first term, and quite the opposite of what she promised during her re-election campaign.

The consequences of these orthodox economic policies were (i) the *real*, weakened dramatically, from an average exchange rate of R$ 2.36 per US dollar in 2014 to R$ 3.33 in 2015 (that is, around 42% depreciation). Inflation rose to 10.7%, mainly due to the exchange rate depreciation along with public and administered price shocks; GDP fell by 3.5% and the unemployment rate rose from 4.8% in 2014 to 6.8% by the end of 2015. This economic policy strategy based on fiscal austerity and tight monetary measures not only failed to solve Brazil's economic problems, but made them worse. As a result, at the end of 2015 Rousseff decided to dismiss Joaquim Levy and introduced some economic policy flexibility. Under the new strategy, monetary policy remained tight, aiming to mitigate inflation, but fiscal policy became more flexible, an attempt to stimulate aggregate demand.

However, the economic problems did not improve. On the contrary, they worsened. The reason was the disarray of expectations created by her drastic cabinet changes, with the lack of credibility leading into the 'Car Wash Lawsuit', and in April 2016 to Rousseff's suspension and finally, in August of that same year to her removal from office.[9]

On 31 August 2016, Vice-President Temer became president in her place for the remainder of the term (2016–2018). As Minister of Finance, he appointed Henrique Meirelles, a former chair of the CBB during Lula da Silva's administration, who implemented a neoliberal agenda based on stronger fiscal austerity than Rousseff's administration, and structural reforms.

Some short-term fiscal austerity measures were taken through a sweeping programme to reduce public spending. From the start, Temer's cabinet submitted a bill, approved by Congress in December 2016, establishing a constitutional amendment that created the 'New Fiscal Regime' (NFR). It was designed to achieve a tight fiscal consolidation. Under the NFR, the primary expenses of the federal budget from 2017 to 2037 could only grow in as much as the annual variation of the consumer price index, that is, the prior year's inflation. The idea was that fiscal consolidation could be reached since government's revenues would grow *pari passu* with GDP growth whereas government expenditure would be fixed in real terms. It thus constrained public spending, committing the government's endeavour to deliver fiscal consolidation austerely, following the mantra of 'expansionary fiscal austerity'.

At the same time, tight monetary policy continued to be applied to converge the inflation rate within the range of the inflation target. In 2016, inflation fell to 6.3%, while in the real economy the results were poor: GDP fell 3.3% and unemployment rose to 11.5%. Thus, inflation was controlled, but at a high cost in relation to GDP and employment.

In 2017, the government proposed, and Congress approved, a labour law reform to change radically Brazil's 1943 Consolidated Labour Laws (*Consolidação das Leis do Trabalho* in Portuguese). The goal of the labour reform was the flexibilization of the labour market to raise employment by easing the setting of work contracts. Pursuing the enlargement of its liberal agenda, the Temer government also proposed a social security reform, but was unable to secure congressional approval.[10]

During 2017 and 2018, while fiscal austerity policies continued to be in place, the monetary policy operated by the CBB became more flexible, mainly because inflation fell substantially, to 2.95% in 2017 and 3.75% in 2018. Accordingly, SELIC was 7.0% and 6.5% at the end of 2017 and 2018, respectively.

In a brief assessment, the main cause of the depth of the Brazilian recession in 2015–2016 was the short-term fiscal shock seeking immediate adjustment of public accounts. It impaired the state's ability to galvanise the economy, because the fiscal adjustment resulted in strong compression of public investment, which are the discretionary public outgoings able to be handled to accomplish the mandatory fiscal consolidation under the NFR. This fiscal policy worsened the already bad expectations that agents had, not only regarding the impact of fiscal policy on aggregate demand, but also concerning the federal government's ability to lead recovery from the recession that began in 2015.[11] In addition, the labour reform failed to reduce unemployment, which was 12.7% and 12.3% in 2017 and 2018, respectively. Thus, in 2017 and 2018 the economy recovered from the deep recession only in a stagnated mood, not growing above 1.3%.

In October 2018, Bolsonaro, from a far-right-wing party, was elected President. On his inauguration, in January 2019, he promised to implement a radical liberal agenda, based on structural reforms, privatization and government expenditure cuts, as the only way to restore economic growth. In 2019, his government implemented a social security reform, an '*Economic Freedom Law*' was adopted, and there were further public expenditure cuts. Fiscal policy was operated according to 'expansionary fiscal contraction', while the CBB continued to reduce the base interest rate: at the end of 2019, SELIC dropped to 4.5%, its lowest level until then. As result of the tight fiscal policy, even with a more flexible monetary policy, in 2019 the GDP growth rate slowed, compared to 2017 and 2018, to only 1.1% and the unemployment rate barely improved, finishing the year at 11.9%.[12] In the face of stagnant economic activity, the inflation rate continued at 4.3%, slightly higher than the prior two years, mainly due to a shock in meat prices in the last quarter of the year.

Recession and stagnation from 2015 to 2019 was caused by (i) a restrictive economic policy (which was contractionary in 2015, 2017, 2018 and 2019); (ii) pro-cyclical fiscal and monetary policies, that is, during the recession the economic authorities raised interest rates and tightened fiscal spending[13]; (iii) the 'Operation Car Wash', and the political and institutional crises; and (iv) a process of deindustrialisation and commodity-dominated exports.[14] Moreover, notwithstanding the stimulus of a low SELIC rate, controlled inflation, competitive exchange rate (it was at R$ 3.31, 3.38 and 4.05 per US dollar in December 2017, 2018, and 2019 respectively), and a favourable international scenario from 2016 onwards, the Brazilian economy did not achieve sustainable growth. In 2020 the economic malaise was exacerbated by the Covid-19 pandemic. However, the orthodox mindset did not change. In the beginning of March 2020, the Minister of Finance, Paulo Guedes, declared that the main policies to mitigate the economic impact of the Covid-19 crisis were boosting structural reforms and maintaining austerity policies. It is important to mention that since February 2020, the economic impact of the pandemic could be foreseen because South America was the last part of the world where coronavirus arrived; yet the Brazilian policy makers did not move until the end of March.

Only the CBB acted rapidly, implementing measures of capital and liquidity assistance to ensure financial stability and expand credit supply to the economy. More specifically, CBB (CENTRAL BANK OF BRASIL 2020) acted: (i) first, the regulatory requirements of capital provisions for the financial institutions were temporarily reduced, with the aim of providing better conditions for them to continue offering credit to companies and families; and (ii) in order to preserve the regular operations of the financial institutions, CBB provided additional liquidity to the financial system to attend to credit demands from families and companies. The proponents of 'expansionary fiscal austerity' believed these measures would keep the economy going. The argument was that CBB was releasing R$ 1.2 trillion through the measures of capital and liquidity assistance to tackle the pandemic's economic impacts. However, the fiscal and monetary measures to tackle the Covid-19 crisis were modest when compared to the magnitude of the recession towards which the Brazilian economy was moving. Federal Government actions represent an aid of only 4.0% of GDP. The IMF were warning of a decrease of GDP in 2020 of around 9.0% (IMF (INTERNATIONAL MONETARY FUND) 2020).

The main fiscal measures were: (i) a package to help states and municipalities that was only partially sufficient to offset their tax revenues losses; (ii) the urgent auxiliary income, paid to around 63 million people – a monthly payment of R$ 600 (in July 2020 Brazilian *Real*/US Dollar exchange rate, was approximately US$ 120); and (iii) the creation of the 'Emergency Employment Support Programme' (*Programa Emergencial de Suporte a Empregos*), to help firms to maintain their workers, that it only reached 15 million jobs out of the aimed 29 million (IFI (INSTITUTO FISCAL INDEPENDENTE) 2020). Moreover, the public expenditures to tackle the health-economic crisis were not effectively used by the Government – only R$ 237 billion out of R$ 506 billion budgeted to confront the crisis was spent hitherto.[15]

In view of all these problems, Brazil may be facing its worst economic scenario in decades – if not ever. The situation is different from the country's 1970s and 1980s external crisis and the hyperinflation of mid-1980s and early-1990s. The reason for the difference between the previous crises and the current Covid-19 one is that the country grew strongly in the 1970s and even in the first half of the 1980s, while the 2020 crisis has hit the Brazilian economy which in the last 35 years only had a sustainable growth between 2005 and 2010. The country was in a recession in 2015 and 2016, and over 2017–2019 its GDP grew by 1.2% on average. Hence, Brazil needs a not only a countercyclical plan, but a long-term plan of recovery. The next section explores this suggestion.

3. How to ensure macroeconomic stability and structural development

In Chapter 24 of *The General Theory, of Employment, Interest and Money* (GT), Keynes suggested that economic policies should be designed to mitigate or remedy '[t]he outstanding faults of the economic society in which we live [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' suggestions was the power the state should wield to steer the economy. If left to the free forces of markets, the economic system would aggravate its major problems.

The role of the state, for Keynes, was thus fundamental to ensuring macroeconomic stability and structural development. For that purpose, Keynesian macroeconomic policies should be coordinated in such a way as to: (i) undertake fiscal policies designed to expand effective demand and reduce social inequalities, (ii) practice a more flexible monetary policy, to galvanise levels of consumption and investment, and (iii) coordinate and regulate the financial and foreign exchange markets in order to stabilise capital flows and exchange rates.

Moreover, the 'old' American institutionalists, such as Commons (1931) and Veblen ([1889] 1973), tried to understand the role of both the evolutionary process, and institutions in shaping the habits and rules of individuals and society as a whole. Hodgson (2002) defines institutions as 'durable systems of established and embedded social rules that structure social interactions. Language, money, law, [. . .] firms (and other organisations) are all institutions' (113). Thus, the economic theory of institutions considers not only institutions, but also human activity and the evolutionary nature of economic processes. In this context, to institutionalists, the economic system represents a continuous process of change that restructures the economy repeatedly rather than the acquiescence to the automatic mechanisms of market.

This perspective is close to that of Keynes and Post-Keynesians. The conventional behaviour analyzed by Keynes presents an institutional characteristic since it is based on a belief shared by individuals that, in turn, reduces uncertainties by allowing them to anticipate the behavior of other agents sharing the same belief. Following these lines, Carvalho (2015) suggested that '[s]ome authors follow Keynes's lead in this point to postulate that institutions evolve in modern economies precisely to help controlling this inherent instability, either by socializing its negative consequences or to channel its deleterious effects to less important areas of the economy' (50).

In the light of these insights, an economic agenda to restore macroeconomic stability and promote social development is proposed, with short-term macroeconomic policies to face off the economic crisis, and structural-institutional changes, needed to sustain growth over time. The short-term policies need to afford favourable conditions to raise entrepreneurs' animal spirits. Monetary policy must consider employment stability together with price stability. Fiscal policy needs to prioritise public investment and social programmes. Exchange rate policy needs to maintain balance of payments equilibrium.

Fiscal policy should focus on expanding expenditures in both social programmes and public investments, especially in infrastructure because Brazil lacks it, and this is important to boost economic activity. Here, it should be stressed that public–private partnerships are encouraged, as well as concessions of public goods to the private initiative whenever investments are the counterpart of exploring the public good. Moreover, the government should seek fiscal responsibility, as Keynes (1980) recommended,[16] although this should not be pursued as an end in itself, but on the criterion of countercyclical fiscal policy management. Fiscal policy needs to be expansionist in periods of crisis and recession, and neutral in times of economic growth. Nonetheless, any fiscal equilibrium should be attempted gradually over time.

An employment goal, and not only inflation targets, should guide monetary policy.[17] For this purpose, discretionary monetary policy is indispensable. In addition, macro-prudential measures should be taken to mitigate financial risk and expand liquidity in the economy. Lastly, regarding the financial system, the CBB and economic authorities should (i) indicate measures to improve competition in the system, with a view to reducing bank spreads and democratising access to credit, and (ii) underscore the importance of the public banks, such as the BNDES, Banco do Brasil, Caixa Econômica Federal, and the regional and state development banks, as long as they are the lenders of long-term financing for productive investment in the country.

The CBB should administer the exchange rate seeking to keep the real effective exchange rate (REER) competitive, so any speculative actions on the foreign currency market should be contained. To achieve this goal, the CBB needs to negotiate foreign currency to support exchange rate stability and counter disorderly conditions on the foreign exchange market. Thus, the exchange rate regime must be similar to a managed floating exchange system, which would aim to preserve some flexibility/volatility in the short-term nominal exchange rate, but at the same time maintain a stable and competitive REER. In addition, capital controls should be introduced to enhance the CBB's autonomy in setting the nominal interest rate to pursue domestic goals, prevent the Brazilian *real* from appreciating and avert financial and exchange crises.

Moreover, the REER proposal is intended not only to sustain balance of payments equilibrium and mitigating external constraints. It should also establish an exchange rate that is not so overvalued that creates disincentives to the manufacturing sector, nor so weak to reduce wage purchasing power, as a result of pass-through from exchange rate devaluation to inflation.[18]

In terms of structural-institutional changes, which are so important in expanding supply capacity and potential GDP, and create the conditions for sustainable growth, the government should implement, among other things, the following:

(i) Implement a progressive income tax reform (*i.e.* progressive higher taxes on high income and wealth);
(ii) raise, in reasonable terms and taking care of the costs of producers, the real minimum wage;
(iii) increase the value of monthly payments in social programmes, especially the Family Allowance Programme (*Programa Bolsa Família*), so as to improve standards of living among poor people and expand domestic consumption[19];
(iv) encourage an institutional environment to galvanise the stock market and, particularly, private corporate debt[20];
(v) adopt income policies to regulate wages and prices in line with productivity gains and the dynamics of market competition;
(vi) expand industrial policy programmes to coordinate public and private efforts to mitigate the deindustrialisation process and enable the country's industrial structure to catching up with that in the advanced economies, securing a place for the Brazilian economy internationally;
(vii) implement trade agreements with other emerging markets in Latin America, Asia, and Africa;
(viii) invest in innovation, research and development, education and health, that are key for productivity gains; and
(ix) stimulate a cooperative arrangement between public and private sectors, that is, public–private partnerships, to expand infrastructure projects, such as transport, water and sewerage systems, education and health systems.

It is important to emphasise that structural-institutional changes cannot disregard the state's role in the economy, which must be redefined by rebuilding the coordination mechanisms that were dismantled during the 1990s, and, more recently, from 2015 to 2019. The state should once again exercise its function of being the coordinator and inducer of economic activity, with the state's power to build a real Welfare State reasserted.

Finally, measures are needed to confront the effects of the pandemic crisis in the Brazilian economy, both to smooth the depth of the recession and to engage Brazil in a recovery. It might be time to think of the CBB issuing money to finance the National Treasury outgoings, mainly those related to furnishing income to unemployed workers, as well as to help micro and small firms, including the government assuming their wage bill for a while. If they fail, Brazil will have a loss of capital never seen before, and the recovery from the crisis will take much longer and will be costlier. Furthermore, CBB must take its base interest rate to zero. Brazil is quickly entering a deflationary process that will affect wealth. A zero base interest rate diminishes the cost of financing the government through public debt, reduces the yield curve of the financial system and the cost of funding investment plans. It has also distributional effects, once those who buy SELIC base rate indexed bonds do not gain a positive interest rate.

4. Conclusion

This paper has argued, firstly, that the recession and stagnation in Brazil from 2015 to 2019, a period when the cumulative GDP growth rate was nearly -4.0%, were caused by the neoliberal economic policies implemented (most importantly, by the fiscal austerity shock of 2015 and then the 2016 NFR), as well as by the political and institutional crises, which resulted in the impeachment of President Rousseff.

Fiscal austerity, tight monetary policy, and the impeachment process affected agents' expectations and, consequently, investment decisions. Following Keynes' (Keynes [1936] 2007) idea, in a context of fundamental uncertainty, entrepreneurs, households and bankers decided to hold money, instead of spending it: the recession and stagnation occurred because liquidity preference inhibited agents' decisions to spend. Applying Keynes' metaphor to the Brazilian economy:

> "unemployment develops, that is to say, because people want the moon [financial assets, mainly public bonds – no risk and high premium and liquidity]; – men cannot be employed when the object of desire (*i.e.* money) is something which cannot be produced and the demand for which cannot be readily choked off. There is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (*i.e.* a central bank) under public control" (Keynes [1936] 2007, 235).

Secondly, an economic agenda for Brazil is presented. Based on Keynesian and institutionalist approaches, the economic policy framework is proposed to ensure macroeconomic stability and structural development. It focuses on both short-term macroeconomic policies able to create an institutional environment to influence and stimulate economic decisions, and on structural-institutional changes to expand aggregate supply. To conclude, we know that to elaborate this economic agenda takes time.

Paraphrasing Keynes [1923] 1971, 65, original italics), considering that '[*i*]*n the long run* we are all dead', we hope that Brazil survives the current government's view that only a minimalist state – and the market – can solve all of Brazil's economic problems.

Notes

1. The data referred to in this paper are summarized in the Annex's Tables A1 and A2.
2. For additional details, see Arestis et al. (2019).
3. On the expansionary fiscal austerity, see for instance Alesina, Ardagna, and Trebbi (2006), Reinhart and Rogoff (2010) and Reinhart, Reinhart, and Rogoff (2012). According to Reinhart and Rogoff (2010, 22) 'Our main finding is that across both advanced countries and emerging markets, high debt/GDP levels (90% and above) are associated with lower growth outcomes.' Reinhart, Reinhart, and Rogoff (2012, 83) point out that '(. . .) the weight of the evidence suggests that a public debt overhang does slow down the annual rate of economic growth (. . .)'. Concerning the critics on the expansionary fiscal austerity view, Panizza and Presbitero (2012) reject the hypothesis that the causality runs from debt levels to economic growth, Irons and Bivens (2010) found the opposite causal relation, while Herndon, Ash, and Pollin (2013) showed that the database carried out by Reinhart and Rogoff was misleading. Arestis (2012) presents the expansionary fiscal austerity view, which is based on the New Consensus Macroeconomics (NCM) theoretical framework and shows that relaxing the assumptions of the theoretical model of the NCM produces favourable results for fiscal policy. Moreover, recent theoretical and empirical developments on the fiscal policy front are examined and Arestis (2012) concludes that fiscal policy is a key component of any macroeconomic framework alongside monetary/financial policy.
4. At the start of the second term of Rousseff government in 2015, the administration was paralysed by its orthodox economic policies and by a political crisis that resulted in her impeachment.
5. A criminal investigation by the Federal Police, public prosecutors and Justice to investigate money laundering and corruption in public enterprises, such as Petrobras (Brazil's largest corporation) was undertaken. The investigation grew into a major scandal, and implicated politicians and leading entrepreneurs in important private companies. In sum, it revealed structural corruption in the political and economic system.
6. This was the first time the primary fiscal target had not been met since fiscal targeting and the Fiscal Responsibility Law were introduced in 1998 and 2000, respectively, providing rules to establish fiscal equilibrium at the three levels (federal, state and municipal) of government and in the three branches (Executive, Legislative and Judiciary). For additional details, see Tribunal de Contas da União (2020).
7. In January 2015, Rousseff's administration announced an adjustment in public accounts of R$ 80.0 billion (1.4% of GDP), based mainly on cuts to government expenditures. The cut in public expenses turned out less than intended because Congress, amid the political crisis, did not approve all the measures.
8. By the end of 2015, the ratio of financial deficit to GDP had increased to 7.2%.
9. The process to impeach Rousseff began in 2015, when she was charged with violating the Brazilian Fiscal Responsibility Law.
10. The social security reform was introduced in 2019, in the first year of Bolsonaro's administration (2019–2022).
11. Government expenditure would be the only channel able to boost economic growth, because aggregate consumption and private investment were depressed due to the recessionary environment, and there was no stimulus for economic growth from the external sector, since in 2015 and 2016 commodity prices fell, and, as a result, Brazilian exports decreased.
12. As Keynes [1936] 2007 noted, an expansionary monetary policy is necessary but not sufficient for achieving full employment, and as Arestis et al. (2019) argue, 'This intention,

however, should align with other economic policies, because monetary policy alone is unable to accomplish it, and coordination of policies is very important (190)'.

13. Exploring this point, Arestis et al. (2019) argue that during 2011–2014 the economic authorities repeated 'mistakes of the past', in terms of monetary and exchange rate policies, while, from 2015 to 2017, the management of fiscal policy represented a 'waste of future opportunities'.
14. This latter point is not explored here because we want to develop a more conjunctural analysis; but it has been an important cause of Brazil's stagnation since the 1990s – see, for instance, Nassif, Bresser-Pereira, and Feijó (2018).
15. For additional details, see Tesouro Tranparante (2020).
16. In 1942, after analysing *The Beveridge Report* on the United Kingdom's social security budget, Keynes proposed introducing a budget split in 'ordinary' and 'capital'. He wrote, 'the ordinary Budget should be balanced at all times [while] [. . .] the capital Budget [. . .] should fluctuate with the demand for employment' (Keynes 1980, 225).
17. This does not mean that the CBB would have an inflationary bias. The point is that, considering that inflation in Brazil is connected with supply bottlenecks, inertial behaviour and exchange rate pass-through, it makes no sense to raise base rate to contract demand whenever there is any signal of inflation. Therefore, we propose a less-sensitive-to-inflation base rate. For a critical analysis of inflation targeting in Brazil, see Araujo, Araujo & Ferrari Filho (2018).
18. For additional details, see Modenesi and Araujo (2013) and Nassif, Feijó, and Araujo (2017). The latter estimated the level of the real exchange rate that contributes to speed up and sustain the economic development process for the Brazilian case.
19. An alternative to the Family Allowance Programme is the Permanent Basic Income Programme, which has been debated in Brazil after the Covid-19 crisis, though informally. The discussion about the Permanent Basic Income Programme is based on the following aspects: (i) its cost could be financed by a progressive tax reform; (ii) more than 122 million Brazilians could benefit, directly and indirectly; and (iii) it would make Brazil's poverty rate fall dramatically.
20. To achieve these aims, it is necessary to introduce, for instance, investor protection, exposure limits for financial institutions and risk limits for institutional investors, as well as appropriate taxation on risk profiles.

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Annex

Table A1. Some macroeconomic indicators of the Brazilian economy.

Year	GDP Growth Rate (%)	Unemployment Rate (%)	Inflation Rate (%)	Primary Fiscal Result/GDP (%)	Nominal Fiscal Result/GDP (%)	Base Interest Rate, end of period (%)
2010	7.6	6.7	5.91	2.6	− 2.4	10.75
2011	4.0	6.0	6.5	2.9	− 2.5	11.0
2012	1.9	5.5	5.84	2.2	− 2.3	7.25
2013	3.0	5.4	5.91	1.7	− 3.0	10.0
2014	0.5	4.8	6.41	− 0.6	− 6.0	11.75
2015	− 3.5	6.8	10.67	− 1.9	− 10.2	14.25
2016	− 3.3	11.5	6.29	− 2.5	− 9.0	13.75
2017	1.3	12.7	2.95	− 1.7	− 7.8	7.0
2018	1.3	12.3	3.75	− 1.6	− 7.1	6.5
2019	1.1	11.9	4.31	− 0.9	− 5.9	4.5

Source: Ipeadata (2020) and IBGE (2020).

Table A2. Some macroeconomic indicators of the Brazilian economy.

Year	Trade Balance (US Dollar Billion)	Risk Country (EMBI, %)	Average Exchange Rate, end of Period (Brazilian *Real*/US Dollar)	Investment Rate
2010	20.3	189	1.67	20,5
2011	29.8	223	1.87	20,6
2012	19.4	142	2.05	20,7
2013	2.6	224	2.36	20,9
2014	− 3.9	260	2.65	19,9
2015	19.7	523	3.95	17,8
2016	47.7	328	3.26	15,5
2017	67.0	240	3.31	14,6
2018	58.7	276	3.88	15,1
2019	48.0	241	4.02	15,4

Source: Ipeadata (2020) and IBGE (2020).