Brazilian Journal of Political Economy, vol. 43, nº 1, pp. 96-109, January-March/2023

The Brazilian ‘secular stagnation’: Its causes and an agenda to overcome it

A “estagnação secular” brasileira: Suas causas e uma agenda para superá-la

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RESUMO: O artigo tem dois objetivos. Primeiro, ele descreve e analisa as razões para a “estagnação secular” brasileira entre 2015 e 2021. Segundo, propõe-se uma agenda de políticas que assegure a estabilidade macroeconômica brasileira e o desenvolvimento social, definido como crescimento econômico sustentável, inflação controlada, equilíbrios fiscal e externo e distribuição de renda.
PALAVRAS-CHAVE: ‘Secular stagnation’; economia brasileira; Keynes; institucionalismo.

ABSTRACT: The article has two goals. First, it describes and analyses the reasons for the Brazilian ‘secular stagnation’ between 2015 and 2021. Second, it outlines an agenda to assure the Brazilian macroeconomic stability and social development, defined as sustainable economic growth, inflation under control, fiscal and external equilibria and income distribution.
KEYWORDS: ‘Secular stagnation’; Brazilian economy; Keynesian and Institutionalist approaches.
JEL Classification: E12; E14; E52; E62; N16.

1. INTRODUCTION

The idea of ‘secular stagnation’ refers to a situation in which the economy presents a chronic lack of aggregate demand – such as low household consumption,

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 http://dx.doi.org/10.1590/0101-31572023-3492

private investment and government expenditures. In short, a secular stagnated economy operates below its potential capacity for a long period and do not overcome this condition overtime.

Taking for instance the performance of the world economy after the 2007-2008 global financial crisis (GFC), and the 2009 'great recession', Summers (2016) argues that, despite the monetary policy was in its lower limit, and even in a such too low level it was not able to stimulate household consumption and private investments, only an expansionary fiscal policy could expand the economic activity.

Looking at the Brazilian economy, during the period 2015-2021 it has undoubtedly been in a process of 'secular stagnation'. Why is that? Mainly because from 2010 to 2014, the Brazilian economy moved from a situation of reasonable economic growth,[1] low unemployment and inflation rates and good macroeconomic indicators to another, from 2015 onwards, of recession and stagnation, high unemployment rates, volatile inflation rates and fiscal vulnerability.[2] In 2020 and 2021 the pandemic played a role in deteriorating the already stagnated economic conditions of Brazil. It is important to mention that the Brazilian Economic Authorities (BEAs) implemented countercyclical fiscal, monetary, and social policies especially in 2020, with some remainder lasting through 2021. These helped to mitigate the impact of the pandemic crisis on the economy. However, in 2021 and at the beginning of 2022 the mistaken formula undertaken since 2015 strongly returned to Brazil.

The reasons for Brazil's economic success in the 2010-2014 period were Lula da Silva's response to the 2007-2008 GFC, which contaminated Brazil and caused a recession by 0.2% in the country's GDP in 2009. His government implemented countercyclical fiscal and monetary policies. These economic policies continued during half of the first term of the Dilma Rousseff government, but she went further and also slightly altered the course of the macroeconomic tripod.[3] It is open to question if Rousseff has gone too far with her changes in the macroeconomic policies. However, there is no doubt that the policies implemented in the first year of her second term, 2015, and especially after she stepped down, in 2016, are related to the Brazilian 'secular stagnation'. The economic problems of the period 2015-2021 are related to the orthodox economic policies, mainly with the explicitly contractionary fiscal policy adopted by the second term of Rousseff (January 2015-August 2016), Michel Temer (September 2016-December 2018) and Jair Bolsonaro, from January 2019 on.

In this sense, this article has two goals. First, it describes and analyses the reasons

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[1] The annual average economic growth rate, calculated by the authors based on Table 1, located at the end of section 2, was 3.4%.

[2] Based on the figures of Table 1, from 2015 to 2021 the annual average GDP growth was – 0.6%, the annual average inflation rate was 6.0%, and the unemployment rate, end of period, increased from 6.8% to 12.6%. The average rates were calculated by the authors.

[3] Implemented in 1999, the Brazilian macroeconomic tripod (i.e., inflation targeting regime, fiscal surplus and flexible exchange rate) is based on the New Macroeconomic Consensus (NCM) framework.

for the Brazilian 'secular stagnation' between 2015 and 2021. Second, it outlines an agenda to restore the Brazilian macroeconomic stability and social development, defined as sustainable economic growth, inflation under control, fiscal and external equilibria and income distribution.

Besides this introduction, the article has three further sections. Section 2 presents the economic policies and performances of the governments of Rousseff, Temer and Bolsonaro. Section 3 proposes an Agenda for the Brazilian economy to ensure its macroeconomic stability based on Keynesian and Institutionalist approaches. Section 4 concludes.

2. A CHRONICLE OF A FORETOLD STAGNATION

In October 2014, in a very close-run election, Rousseff was re-elected President of Brazil. After taking office in January 2015, the first year of her administration was marked by two factors that contributed to Brazil'seconomic crisis and stagnation. The first was 'Operation Car Wash' (Operação Lava Jato in Portuguese). It was a criminal sue to investigate money laundering and corruption in public enterprises, such as Petrobras, Brazil's largest corporation. The investigation grew into a major scandal because it implicated politicians and leading entrepreneurs in important private companies. In sum, it revealed structural corruption in the political and economic system. This political factor not only worsened economic agents' decision-making expectations but also somewhat helped explaining the abrupt and deep recession that engulfed Brazil in 2015 and 2016.

The second arose when her government, abandoning the countercyclical macroeconomic policies largely implemented after the GFC, decided to introduce some orthodox fiscal and monetary policies, intending to gain the market confidence lost because of her troubled government. By the end of 2014, the Brazilian economy was beginning to show signs of an impending crisis: GDP increased only 0.5%, inflation rose to 6.41%, the primary fiscal result over GDP was – 0.6%,[4] the trade balance surplus decreased to US$ 2.6 billion, the Brazil risk (as measured by Emerging Markets Bond Index – EMBI) increased to 260 basis points and capital outflows intensified. Table 1 summarizes all data brought in this section.

In this context, Rousseff decided that her government would introduce economic changes to tackle the approaching economic crisis. The idea was twofold. First, it was adopted a tighter macroeconomic policy aiming at reducing aggregate demand and thus curbing and de-accelerating the inflation rate. Second, fiscal austerity measures were introduced to mitigate the primary fiscal deficit and guarantee

[4] Incidentally, this was the first time the primary fiscal target had not been met since fiscal discipline and the Fiscal Responsibility Law were introduced in 2000, 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 (2021).

the service of outstanding public debt. The theoretical thrust of Rousseff's macroeconomic policies was thus given by the roots of the NCM.

As her Minister of Finance, Rousseff appointed Joaquim Levy, whose task was to achieve a huge short-term fiscal adjustment. Fiscal policy was dominated by the following measures: public expenditures were cut; some taxes, like on financial loans, financial revenues, manufactured goods and automotive exports, were increased; subsidies for companies were reduced; social benefits (unemployment and sickness insurance, for instance) were cut; and public tariffs and administered prices were raised dramatically. The impact of this fiscal policy on the economy was contractionary, because it replaced public investment and social benefits by payments to rentiers.

Monetary policy followed orthodox guidelines too and also became explicitly recessive, as the base interest rate (Selic), set by the Central Bank of Brazil (CBB), was raised to control and reduce inflation.[5] It is important to mention that in Brazil, in general, arising interest rate punishes both firms, which need credit to operate, and workers, who not only need credit to buy goods, but also lose jobs when firms face difficulties. Moreover, high interest rates cause additional fiscal problems, because the financial deficit increases.[6] At the same time, some liberalising reforms were enacted, such as social security reform and additional capital account liberalisation.

To sum up, when Rousseff decided to apply orthodox fiscal and monetary policies and implement liberal reforms, completely contrary to what had been done in her first term and promised during her re-election campaign, she turned radically to orthodox economics.

Nevertheless, this orthodox economic policy did not make Brazil improve as fast as believed in the first sight. Brazil's currency, the real, weakened dramatically from an average exchange rate of R$ 2.36 per US dollar in 2014 to R$ 3.33 per US dollar in 2015 (that is, around 42.0% depreciation). As a result, annual inflation rose to 10.7%, due mainly to this impressive exchange rate depreciation (that is, the pass-through mechanism from exchange rate to the domestic prices) and public and administered price realignment shocks. In addition, GDP fell 3.5 per cent, while the average unemployment rate increased from 4.8% (2014) to 6.8% (2015).

The economic policy strategy based on fiscal austerity and tight monetary measures not only failed to solve Brazil's economic problems, but it also deepened them. Thus, Rousseff decided to dismiss Levy, as well as she was in pursuit of introducing some economic policy 'flexibilities'.

Under the new strategy, the monetary policy remained tight, aiming to mitigate inflation, while fiscal policy became more 'flexible', so as to stimulate aggregate demand. Still, throughout 2016 the economic problems had not been reduced. Contrariwise, they worsened, both because the 2015 fiscal contraction was charging its

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[5] At end of 2014, the Selic rate was 11.75%, while in December 2015 it was 14.25%, as Table 1 shows.

[6] At the end of 2015, the ratio of financial deficit to GDP had increased to 7.2% as Table 1 reports.

price over 2016, and owning to the political and institutional crisis, which disturbed the business atmosphere in the country and finally led, in April 17, to Rousseff's suspension and, in August 31, her removal from office.[7] She was considered guilty of breaking the Brazilian fiscal laws.

As a result, the Vice-President Temer became president in her place for the remainder of the original term (2015-2018). As Minister of Finance, Temer appointed Henrique Meirelles, a former chairman of the CBB during Lula da Silva government. He implemented a liberal proposal based on fiscal austerity and structural reforms.

Some short-term fiscal austerity measures were taken through a sweeping programme to reduce public spending. Later though, in December 2016, the Government submitted, and the Brazilian National Congress approved, a constitutional amendment establishing the New Fiscal Regime, designed to achieve tight fiscal consolidation. Under this regime, over 2016-2036, the current annual variation of federal expenditures has to be pegged to the prior-year official consumer price index of Brazil, that is, the IPCA, in line with the idea of assuring fiscal consolidation forcibly. At the same time, a tight monetary policy continued to be applied in order to bring the inflation rate within the range of the inflation targeting regime.

This economic strategy restored 'confidence' among economic agents, mainly the International Monetary Fund (IMF) and international financial investors, because the inflation rate had fallen to 6.29% by December 2016. Nonetheless the cost of that for the real economic side was high: GDP fell 3.3% and unemployment rose to 11.5%.

In 2017, the Government proposed, and the Brazilian National Congress approved, a labour law reform that radically changed Brazil's 1943 Labour Laws (Consolidação das Leis do Trabalho in Portuguese). The goal of the act was to deregulate, and so liberalize the labour market in a creed that it would raise the level of employment. However, at least almost until the end of 2022, five years after the law approval, the labour reform has been unsuccessful.[8] In line with its liberal orientation, the Temer government also proposed a social security reform, but was unable to secure congressional approval.

During 2017 and 2018, while fiscal austerity policies were in place, the monetary policy operated by the CBB became more flexible. This was caused by a substantial fall of inflation, which reached 2.95% in 2017 and 3.75% in 2018. Accordingly, the Selic rate followed down and was brought to 7.0% and 6.5% by the end of 2017 and 2018, respectively.

In the last quarter of 2017, Brazil was able to stabilize its public debt, although fiscal deficits continued running. Even with lower interest rates, less attractive to

[7] The process to impeach Rousseff began in 2015, when she was accused of violating Brazilian fiscal rules.

[8] Based on Table 1, the average unemployment rate, from 2017 to 2021, was 12.6% per year. The average rate was calculated by the authors.

foreign lenders, the international scenario was favourable, without any strong shock happening. Thus, a more appreciated exchange rate aroused, by R$ 3.31 per US dollar and R$ 3.38 per US dollar at year end 2017 and 2018, respectively, what helped bridling inflation. However, even with the betterment of all macroeconomic indicators, the Brazilian GDP stagnated at an increase of 1.3% in both 2017 and 2018.

In October 2018 Bolsonaro, a radical right-wing politician, 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. Going in this direction, in 2019 a social security reform was implemented, an 'Economic Freedom Law' was created and fiscal policy continued to operate according to 'expansionary fiscal austerity', that is, the idea that fiscal adjustment stimulates a sustainable economic growth in the long run because fiscal equilibrium brings confidence and, as a result, households and entrepreneurs, respectively, decide to consume and invest. The CBB continued to reduce the Selic rate: at the end of 2019, it dropped to 4.5%, its lowest level until then.

Nevertheless, even with a more flexible monetary policy, the tightness of the fiscal policy was still charging a tough price over the economic activity. In 2019 the GDP growth rate was still stagnated, but in a slower performance when compared to 2017 and 2018, 1.1%. Without an improving economic activity, the unemployment rate barely improved, finishing the year at 11.9%.

At the beginning of 2020, with the COVID-19 pandemic crisis, that made a supply and demand double adverse shock – on the supply side, due to the partial lockdown measures, firms could not offer their goods and services and workers were unable to work; on the demand side, consumption and investment decisions were postponed and amplified, increasing the already high uncertainty, due both to the fear of economic conditions or to restrictions on the movement of people imposed by local authorities. In such an environment, the Government was forced to change, momentarily, its liberal agenda. Thus, the BEAs implemented, from April 2020 onwards, countercyclical economic policies to mitigate the impact of the COVID-19 crisis on the Brazilian economy.

In terms of fiscal policy, it was approved on May 7, 2020, a Constitutional Amendment Project, called the 'War Budget'. The scope of this fiscal counterbalancing policy was organized around five main axes: (a) social protection measures, (b) employment protection measures, (c) company relief measures, (d) measures to directly combat the pandemic, and (e) sub-national entities assistance (states and municipalities). It was also authorized the CBB to buy, only in the secondary markets, national treasury bonds and private bonds to avoid spikes in the interest rates charged on public bonds, as well as to refrain deflation in the private bonds.

In turn, the main actions of the monetary policy aimed at providing liquidity to the Brazilian financial system by means of standing facilities. The intention was to offset eventual hinders blocking credit to reach firms and consumers, that is, the typical 'liquidity pooling' of uncertain periods like the pandemic one. Moreover, there was a significant cut in the base interest rate, which reached its lowest historical level, 2.0% per year. It is important to mention that the stagnated pre-pandemic scenario allowed the Selic rate to go through a relatively long cycle of reductions. After remaining 15 months at 6.5% per year, in July 2019 it started a steady downward trend, reaching 4.5% per year in December 2019. Thus, when the pandemic started, the pace of decline intensified and, after nine consecutive falls, Selic reached the annual 2.0% by the beginning of August 2020. This scenario emerged from both the deflationary context brought about by the crisis and the stagnated growth that had already come from previous years.

Moreover, monetary policy measures were implemented for releasing liquidity, as well as capital, to financial institutions. Included in the first group was a reduction in the rate on mandatory reserves of term deposits – they went from 31.0% to 25.0% and then to 17.0% –, and the creation of the Term Deposit with Special Guarantees, allowing financial institutions to access deposits guaranteed by the Credit Guarantee Fund. In the field of capital provision, the reduction of the capital requirement for credit operations to small and medium-sized companies was allowed, in addition to the implementation of a specific credit line for financing the floating capital of micro, small and medium-sized companies.

The total amount of all fiscal and monetary measures implemented was by 8.0% of the Brazilian GDP. The impact of these measures mitigated the Brazilian recession caused by the COVID-19 crisis. In 2020 the GDP dropped 4.1%, rather better than the expected growth rate of – 9.1%, as it was estimated by the IMF's World Economic Outlook June 2020 (IMF, 2022). The unemployment rate, however, worsened with the pandemic: it increased from 11.9% in 2019 to 13.5% in 2020.

To sum up, the 'secular stagnation' in the Brazilian economy from 2015 to 2021 was caused by the following factors: (i) a restrictive economic policy, which was essentially contractionary in all years from 2015 to 2021– the exception was 2020 because of the pandemic crisis, but it does not change the contractionary trend of the overall economic policy; (ii) pro-cyclical fiscal and monetary policies – for instance, during the recession of 2015-2016 the BEAs raised interest rates and tightened fiscal spending;[9] (iii) the 'Operation Car Wash' and the political and institutional crises; and (iv) a process of de-industrialization and commodity-dominated exports.[10]

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[9] Exploring this point, Arestis, Ferrari Filho, Resende & Terra (2019) argue that during the period 2011-2014 the BEAs presented some 'mistakes of the past', in terms of monetary and exchange rate policies, while, from 2015 to 2017, the management of fiscal policy was a 'waste of future opportunities'.

[10] We do not explore this latter point in this article, but it has been important to Brazil's stagnation since the 1990s. The topic's leading researcher is Bresser-Pereira, who forged the name 'quasi-stagnation' to explain why Brazil has not grown since the 1980s. In his view, three reasons determine the Brazil's 'quasi-stagnation' in the last four decades: (i) the abandonment of a nationalist and developmentalist growth project (an argument that the economists affiliated with the Post-keynesian perspective also share); (ii) the fiscal crisis that ravaged Brazil in the 1980s, which withdrew public savings and deteriorated State's capacity to invest; and (iii) private investment also decreased in the country due to a lack of resources. To funding private investment, the BEAs stimulated the economy to absorb external savings, the operation of which terminated the neutralization of the Dutch disease. The huge inflow of

Factors (i) and (ii), however, can be seen as the short-term most important conditioning factors of the 'secular stagnation' in Brazil. As long as other factors, such as the circumstantial element 'Operation Car Wash' and the political, and the structural one de-industrialization, are occurring, the economic policy should try to offset them. Nevertheless, they need also to focus on other short-term shocks that may appear, like exchange-rate overshooting and rising unemployment.

However, the option in Brazil has been the use of economic policy in a contractionary fashion as if this was the necessary requirement to push the private initiative up. Instead of setting economic policies to help the private initiative to mitigate its economic losses – by the way, the private economic losses have been occurring since 2014 –, all governments from 2015 on kept dismissing the aid that expansionist monetary and fiscal policies could give to Brazilian business.

The governmental choice understood the retrieve of confidence as emerging from the downgrading of government actions, but this choice misunderstood that de confidence crisis was resulting from a downgrading of business sales and, in turn, revenues. Whenever this is the case, only the government can engage in policies to balance private losses. On the one hand, perhaps 2020 is the best example of this. Although late and somewhat disarrayed, there was a wide economic policy counteraction to confront Brazilian the economic crisis coming along with the pandemic crisis. The Government increased its spending to an un-precedent scale, ensuing its biggest deficit ever and a strong raise in the public debt. Notwithstanding these worsened indicators, growth in 2020 was not as bad as first expected and, none the less, in 2021 fiscal indicators were all better than expected and improved in relation to 2020. The public sector in Brazil even reached primary surplus in 2021, the first since 2014. The 2020 countercyclical economics policies explain this outstanding betterment. On the other hand, there is another factual indicator, which shows the failure of contractionary policies. Even with the stimulus of a low Selic rate, controlled inflation, competitive exchange rate and a favorable international scenario from late-2016 onwards, the Brazilian economy did not achieve sustainable growth. It remained stagnated, growing no more than 1.3% from 2017 to 2019.

Table 1, below, synthesizes all macroeconomic data reported above. It displays the economic downturns that Brazil passed through in the 2010s. It can be seen that the data go well until 2014, when the recession started and culminated in an accumulated growth rate of – 6.9% in 2015 and 2016. After that, with the orthodox economic policies, Brazil stagnated, and in this situation the country is still.

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external capital since the 1990s has over appreciated the exchange rate and not only did it stop the country's industrialization, but did it also cause Brazil's de-industrialization. Nassif, Bresser-Pereira & Feijó (2018) discuss 'quasi-stagnation'. Bresser-Pereira (2022) is the newest reference discussing this topic.

Table 1: Main Macroeconomic Indicators of the Brazilian Economy

Year	GDP Growth Rate (%)	Unemployment Rate (%)	Inflation rate (%)	Primary Fiscal Result/GDP (%)	Nominal Fiscal Deficit/GDP	Basic Interest Rate, end of period (%)	Trade Balance (US$ Billion)	Risk Country (EMBI, %)	Average Exchange Rate, end of Period (R$/US$)
2010	7.6	6.7	5.91	2.7	2.6	10.75	20.2	189	1.67
2011	4.0	6.0	6.5	3.1	2.6	11.0	29.8	223	1.87
2012	1.9	5.5	5.84	2.4	2.4	7.25	19.4	142	2.05
2013	3.0	5.4	5.91	1.9	1.4	10.0	2.6	224	2.36
2014	0.5	4.8	6.41	- 0.6	- 6.7	11.75	- 3.9	260	2.65
2015	- 3.5	6.8	10.67	- 1.9	- 9.1	14.25	19.6	523	3.95
2016	- 3.3	11.5	6.29	- 2.5	- 9.0	13.75	47.7	328	3.26
2017	1.3	12.7	2.95	- 1.7	- 7.8	7.0	67.0	240	3.31
2018	1.3	12.3	3.75	- 1.6	- 7.1	6.5	58.3	276	3.88
2019	1.1	11.9	4.31	- 1.2	- 4.3	4.5	46.7	214	4.02
2020	- 4.1	13.5	4.52	- 9.5	- 4.2	2.0	50.9	260	5.19
2021	4.0*	12.6	10.06	0.75	-4.42	9.25	61.0	326	5.39

Source: IPEADATA (2021) and IBGE (2021).
Note: * It is estimated by the FOCUS Report (CBB, 2022).

3. AN AGENDA FOR THE BRAZILIAN ECONOMY

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 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'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 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 stabilize 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 role of institutions in shaping the habits and rules of both individuals and the whole society. 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 ‘economic theory of institutions’ considers institutionsnot only those formally constituted, 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 the acquiescence to the automatic mechanisms of the market.

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

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

(i) Fiscal policy should be implemented to expand expenditures in both social programmes and public investments, especially in infrastructure, 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 Keynes (1980) recommended.[11] 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, while in times of prosperity or economic growth above productive capacity it should be neutral or even contractionary, avoiding inflation.

(ii) Monetary policyshould be guided by employment goals and not only inflation targets.[12] For this purpose a 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) stimulate a more competitive banking system in Brazil, with a view to reducing bank

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[11] In 1942, after analysing The Beveridge Report on the United Kingdom’s social security budget, Keynes proposed introducing ‘ordinary’ and ‘capital’ budgets. 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).

[12] This does not mean that the CBB would have an inflationary bias. The point is that, considering that inflation in Brazil is connected to supply bottlenecks, inertial behaviour and exchange rate pass-through, then it makes no sense to raise interest rates to contract demand and, in that way, to control inflation. For a critical analysis of inflation targeting regime in Brazil, see Araujo, Araujo & Ferrari Filho (2018).

spreads and democratising access to credit, and (b) underscore the importance of the public banks, such as the BNDES, Banco do Brasil and Caixa Econômica Federal, and the regional and state (provincial) development banks, which furnishlong-term funding for productive investment.

(iii) The CBB should administer the exchange rate aiming to keep the real effective exchange rate[13] competitive, so that any speculative actions on the foreign currency market must be contained. To achieve this goal, the CBB should buy and sell foreign currency to support the exchange rate stability and counter disorderly conditions on the foreign exchange market. In other words, the exchange rate regime must be like a managed floating exchange system, which would aim to preserve some flexibility/volatility in the short-term nominal exchange rate, while at the same time it would maintain a stable and competitive real effective exchange rate. Going in the same direction, as suggested by Bresser-Pereira (2022), Brazil must take care of the negative impacts caused in the country's manufacturing industry by the ongoing over appreciated exchange-rate. According to him, on the one hand, internal sources of funding need to shift external savings as the strategy to funding private investment, and, on the other hand, there must be created mechanisms to offset the persistent Dutch disease that has been ravaging the country for so long.[14] 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 the appreciation of the real and averting external crises. Moreover, the real effective exchange rate proposal 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 nor so weak as to reduce wage purchasing power.

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

(i) Implement a progressive tax reform (i.e., higher rates of taxation on income and wealth, as well as lesser the great set of consumption taxes, substituting the several ones that exist today for only onevalue-added tax).

(ii) Increase the real minimum wage and make greater the funding for social programmes, such as Family Allowance Programme (Programa Bolsa Família in Portuguese), so as to improve standards of living among poor people and expand domestic consumption.

(iii) Encourage an institutional environment to galvanise the capital market and, particularly, private corporate debt market;[15]

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[13] Real effective exchange rate is the weighted and deflated average of a country's currency relative to an index or basket of the country's major trade partners' currencies.

[14] Bresser-Pereira (2022) argues that it is necessary to introduce a levy tax on the country's commodity exports as a possible solution to mitigate this issue. Subsidizing manufacturing industry's exports could also tackle this problem.

[15] To achieve these aims, it is necessary to introduce macroprudential financial measures, for instance,

(iv) Adopt income policies to regulate wages and prices in line with productivity gains in the economy.

(v) Expand industrial and technological policies programmes to coordinate public and private efforts and mitigate the de-industrialisation process. At the same time, these policies secure the Brazilian economy a place in the international market in a context where the country can absorb structural and technological changes occurring in the world economy.

(vi) Implement trade agreements with other emerging countries, such as Latin American, Asian, and African countries.

(vii) Invest in research, development and innovation in pursuit of productivity gains in productive sectors, to which investments in education are essential.

(viii) Stimulate a cooperative arrangement between public and private sectors, that is, public-private partnerships, aiming at expanding infrastructure projects, such as transport, water and sewerage systems, and education and health systems.

(ix) Take advantage of the green economy paradigm to boost the development of technology and increase the industrial Brazilian competitiveness in the external market. This is also important to shift the energy matrix of Brazil, reducing the dependence on oil and enhancing the use of renewable sources.

Finally, it is important to emphasize that structural-institutional changes cannot disregard the State's role on the economy, which must be redefined by rebuilding the coordination mechanisms that were dismantled during the 1990s, and, more recently, from 2015 on. The necessity of recovering the State's presence in the Brazilian economy was proved in 2020. The State intervention, through economic policies implemented to mitigate the impact of the COVID-19 on the Brazilian economy, was the only factor helpingto minimize the economic recession in that year.

In other words, the State, according to Keynes ([1936] 2007: 378), has to "exercise a [...] comprehensive socialization of investment" and, following the 'old' American Institutionalists' arguments, has to shape the economic and social behaviour of the modern economies. Therefore, the State should exercise its function as the regulator, coordinator and inducer of economic activity. Only it and not economic policies indented to limit its power can establish a real and very much needed Welfare State in Brazil.

4. CONCLUSION

This article argued, first, that there has been happening 'secular stagnation' in Brazil from 2015 to 2021. 'Secular stagnation' means a GDP that does not grow for a period of time and over 2015-2021 the cumulative Brazilian GDP growth rate was -3.6%. As such, jobs staggered and the unemployment rate within this period

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investor protection, exposure limits for financial institutions and risk limits for institutional investors, as well as taxation appropriate to risk profile.

was always above 10.0%. This secular stagnation was chiefly caused by the orthodox economic policies implemented after 2015, as well as by the political and institutional crisis which resulted in the impeachment of Rousseff and the COVID-19 crisis. The actual Government, led by Bolsonaro, is also guilty, because it has been eroding the business atmosphere of Brazil, keeping the country in a constant political and institutional crisis.

These facts, fiscal austerity, tight monetary policy and the ongoing political and institutional crisis, affected economic agents' decision processes. Following Keynes' idea ([1936] 2007), living among these facts, in a context of fundamental uncertainty, entrepreneurs, households and bankers decided to retain money. So, the recession and stagnation occurred because liquidity preference inhibited economic agents' decisions to spend and, as a result, to stimulate effective demand. Expansionary, and not contractionary, economic policies were needed to change agents' mood, pushing up their expenditures by greater and planned (and surely, responsible and accountable) public outgoings, especially in social programs that distribute wealth and infrastructural investments, which builds social capital so needed in Brazil. 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, it was proposed an Agenda for the Brazilian economy, based on Keynesian and Institutionalist approaches. This Agenda was designed to ensure macroeconomic stability and social development. It focused 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 Agenda will be, paraphrasing Lennon & McCartney, a "long and winding road", mainly because the BEAs, since the second term of Rousseff government, faithfully believe that only an economic agenda based on minimum State and free market system are able to solve all the Brazilian economic problems. Proposing this Agenda is the challenge for the next government, to be elected by the end of 2022.

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