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Title of paper: Which developmentalism? A Keynesian-institutionalist proposal

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Abstract:
Academic discussion of Brazil's economic growth is currently framed in terms of export-led growth and wage-led growth, identified, respectively, with the new-developmentalism and the social-developmentalism approaches. This article presents wage-led Keynesian-Institutionalism, a new approach able to ensure macroeconomic stability in the Brazilian economy.

Keywords: New-developmentalism, Social-developmentalism, Keynesian-Institutionalism, Wage-led.

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1. Introduction

After the priority given to monetary stability during the 1980s and 90s, since the 2000s economic growth has gradually returned both to theoretical economic debate and to economic policy discussions in Brazil. This has been due partly, on the one hand, to the election of various governments critical of neoliberalism in Latin America and, on the other hand, to the 2007-2008 crisis that restored interventionism to the agenda, not only for discussion, but as economic policy applied in several countries. Although it seems fair to say that initially the Brazilian economy showed signs of being less affected by the crisis than other (especially European) countries,[1] prior to 2007-2008 it had already been posting relatively high growth rates as compared with the recent historical pattern.[2]

The ensuing climate of optimism was not restricted to government circles, but also shared by a number of analysts (BELLUZZO, 2009; NOVY, 2009a, 2009b; CERVO, 2009; NAKANO, 2010). Was developmentalism back as a guiding ideology for policy makers? If so, it seems that this phenomenon could be interpreted, on an Institutionalist approach, as not just temporary or conjunctural, but embedded in local culture or, in the expression coined by Castro (1997), as a "growth convention" – a certain consensus that growth was a priority, which formed part of the mindset of Brazil's elites during the 20th century. The optimistic scenario was further sustained by the peculiarity of more recent growth that – unlike the "old developmentalism" – was accompanied by redistribution of income, or at least with a declining Gini index.[3] This was hailed as a typical case of wage-led growth, as supported by Kaldorian models (DUTT, 1992; KALDOR, 1960, 1978; McCOMBIE & THIRLWALL, 1994). Actually, although the gross capital formation rate was low (see Table 1), household consumption led this growth under the influence of various factors: (a) inflation rates were kept relatively low, putting an end to the erosion of real wages, which general price and wage indexation had not been able to contain;[4] (b) the purchasing power of the minimum wage was restored, increasing 522% from 1995 to 2012, against an

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[1] As shown in Table 1, GDP fell 0.3% in 2009, recovering significantly in 2010, growing 7.5%.
[2] From 2000 to 2008, GDP grew by an average 3.7% a year (authors' calculation based on information on Table 1).
[3] From 2000 to 2010 the Gini Index fell from 0.589 to 0.541.
[4] For example, from 1995 to 2012 annual inflation averaged about 7.2%. From 1999-2012, the period the inflation targeting regime was in effect, average annual inflation was about 6.7% (authors' calculations based on information on Table 1).

accumulated inflation rate of 251.3% in the same period (the minimum wage grew 77% in real terms); and (c) government cash transfer programs directed to low-income families, such as the *Programa Bolsa Família* (Family Allowance Program), were expanded.[5]

Criticism of this style of growth came not only from orthodox circles, which traditionally associate it with "economic populism",[6] but also from economists who pointed to the impermanence of growth based on consumption, while domestic industry's share of GDP was shrinking, even though this was an international phenomenon (see, among others SICSÚ, PAULA & MICHEL, 2005; BRESSER-PEREIRA, 2006, 2010, 2012; BRESSER-PEREIRA & GALA, 2010; OREIRO, 2012). Bresser-Pereira, one of the leading formulators of this approach called it new-developmentalism. For these *new*-developmentalists, a single variable explained both growing consumption and "deindustrialization", that is, exchange rate appreciation during the period after the Real Plan, and especially during the 2000s. Consumption-led growth was only possible in a context where: (a) historically, wages had been rising less than productivity, so that there was "room to grow"; and (b) the external conjuncture was atypically favorable, owing to autonomous inflows in both the capital account and current transactions led by Chinese demand for commodities, which affected the prices and quantities of Brazilian exports. This increase in import capacity favored exceptional growth in consumption without affecting the balance of payments, but that would be unreliable as a long-term model of development. The alternative they proposed points to an export-led pattern of growth, where currency devaluation becomes a key economic policy variable, because the constraints on growth result both from the "Dutch disease" and from excessive capital inflows, which cause the real rate of exchange to appreciate, leading to balance of payments disequilibrium and a disincentive on increasing production capacity. In that strategy, fiscal policy space is restricted, because the public budget must be strictly balanced, and monetary policy needs to be aligned with the inflation-targeting regime, although with some flexibility (BRESSER-PEREIRA, OREIRO & MARCONI, 2012; OREIRO, 2012).

On the other hand, some authors (CARNEIRO, 2012; BASTOS, 2012) believe that economic growth should be galvanized by consumption of wage goods (mass

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[5] At the end of 2012, about 13.6 million families benefited from the *Programa Bolsa Família*. For details, see: http://www.mds.gov.br.

[6] On theories of economic populism, see Díaz-Alejandro (1981), Dornbusch & Edwards (1989, 1990), Sachs (1989) and Bresser-Pereira (1991).

consumption), encouraged both by rising levels of employment and by income distribution through government social policies, real wage (especially the minimum wage) increases, and actions by the State to improve supply of basic public services, including healthcare, education and transport. Meanwhile, it is fundamental that credit expand to sustain the expansion of mass consumption. Credit, in turn, should be directed not only to the short term, but also to long-term financing for industry, which cannot dispense with the State financial system. Accordingly, this proposal, which has been called social-developmentalism, advocates active fiscal and monetary policies. Unlike new-developmentalism, it argues that the exchange rate should be held at appreciated levels, on the one hand, facilitating the capital goods imports essential for domestic capital to absorb ongoing technological progress and reduce final production costs and, on the other hand, preventing wages from deteriorating.

In other words, current debate in Brazil – other nuances aside – seems to suggest a polarity between two, at first sight opposed, models of growth (wage-led and export-led). Our goal in this article is to deconstruct this trade-off, at least in part. We therefore begin on the assumption – similar to that underlying social-developmentalism – that growth with more equitable income distribution is desirable and that a reversal of this trend would be a significant loss in social terms. However, the macroeconomic and institutional policies that can make this feasible and sustainable as a *growth pattern* over the long term have to be stated explicitly. Our hypothesis is that the wage-led path to growth, if accompanied by economic policy measures to meet the need for balance of payments equilibrium, can be a preferable to the export-led path. As a corollary to this hypothesis, we argue that the latter not only fails to guarantee the long-term growth trajectory its advocates claim, but also creates a situation where it is much harder to maintain and expand economic growth with income distribution.

This article is divided in four sections in addition to this brief introduction. The second presents a historical account of Brazilian developmentalist theory in the 1950s and 1960s. The aim is to compare and contrast it with new-developmentalist theory, which forms the essence of the third section. Section four offers a set of Keynesian-Institutionalist proposals for the Brazilian economy, seeking to ensure macroeconomic stability, defined as inflation under control, fiscal and trade equilibrium and sustainable economic growth. Lastly, the conclusions are presented.

2. The economic growth regimes

Firstly, it is important to clarify that both wage-led and export-led regimes, as understood here, are alternatives compatible with a predominantly Keynesian-Kaleckian approach, since they have to do with which aggregate demand variable is primarily responsible for expanding growth: household consumption or exports. It is thus implicit to both views that economic policy, by influencing aggregate demand, can alter both real and nominal product. These two alternatives contrast with the profit-led approach, which is closer to the neoclassical tradition and stresses the supply side of the economy, placing less emphasis on the State presence and more on the role of market mechanisms, on the need for prior savings and on variables such as human capital and education as strongly associated with, or prerequisites for, balanced long-term economic growth trajectories. This, it is quite safe to say, was the alternative that has been called neoliberal since the late 20th century and showed visible signs of crisis internationally in the 2000s, whether as a path to boosting growth in GDP and employment or as a means to achieving more equitable distribution of income.[7]

In general, the main variable leveraging growth (wage and/or export) – here termed the *trigger variable* – should not be regarded as the only factor responsible: it must interact with the other components of aggregate demand, especially investment. The interaction between the *trigger variable* and the other variables shapes what is called a *growth pattern*. However, even though a *growth pattern* may appear in embryo with being policy makers' clear intention, it is normally not automatic nor does it reproduce spontaneously: it is made possible by deliberate economic policy. Here, economic policy is understood as not just policies to secure stabilization or obtain desired growth and inflation rates over the cycle (such as monetary, exchange rate, and fiscal policies), but also ends-policies (that intervene horizontally or vertically in segments or sectors, such as industrial, agricultural, and technological policies and others) and institutional policies. These comprise changes of greater scope, generally with longer-term impact, to laws, civil codes, regulations, the "rules of the game" and delimitation of property rights, as well as the creation of State-owned (or even private or non-governmental) enterprises, agencies, and bodies. In addition, such changes influence and are influenced by habits, preferences and conventions, current or even culturally embedded in each society.

[7] Palley (2012) takes a critical view of export-led growth: "As a result of (…) export-led growth the global economy confronts an extended period of asymmetric stagnation marked by slower growth in EM [emerging market] economies, stagnation in developed economies, and increased economic tensions between EM and developed economies" (PALLEY, 2012: 142).

That said, it is clear that a *growth pattern* does not entail only choosing the *trigger variable*, which will be effective in boosting growth only if it can ensure interaction with the other variables. In this regard, Keynes (2007) made a fundamental contribution to highlighting the importance of investment to determining aggregate demand. If it is capable of responding positively to wage increases, it then becomes possible to reproduce a successful wage-led trajectory. This is the difference between this pattern and the underconsumption theses, from the classic formulations of Sismondi and Malthus to the most recent ones.[8] Normally, the former argue that consumption is central to determining income level, in a sense disregarding or underestimating investment as a crucial variable. However, the hypothesis underlying the remarks below is that, whether the pattern be wage-led, export-led or profit-led, *it can only be reproduced and constitute a successful trajectory if the increase in, respectively, wages, exports or profits is able to induce a higher level of investment*.

On this point, following Keynes (2007, Chapter 12), in a context where investment decisions rest on uncertain expectations about future demand behavior, then the degree of trust and conventions – or, more broadly, institutions – are fundamental for entrepreneurs' "animal spirits" to be seen. In the words of Keynes (2007: 161), most decisions "can only be taken as a result of animal spirits". It is worth asking what constitute favorable conditions for animal spirits: optimistic expectations, political and social conditions, institutions and economic policy, and other variables. In summary, the interaction between the *trigger variable* and the determinants of investment must be given a prominent place in economic policy making to foster a *growth pattern*.

As a result, this is the greatest challenge facing policy makers, because that interaction does not depend on them alone; it is impacted by other variables – of a political nature, external constraints, and structural alterations in the current technological standard – that are considered "exogenous" to their domain.[9] Therefore, opting for a particular pattern is no "simple choice": there are variables that contribute to making it more easily or more narrowly feasible, and distinguishing its typical-ideal or "model" formulation from the factual realities of its implementation. In practice, each

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[8] Underconsumption theory argues that a decline in the wage share in national income would reduce aggregate demand and increase saving due to a lack of purchasing power in the consuming classes.

[9] In this regard, BIELSCHOWSKY (2012) seems appropriately concerned, when proposing a development model similar to the wage-led pattern (which he calls the mass consumption pattern), to seek to connect it with the expansion of investment in other sectors or "expansion fronts", in this case natural resources and infrastructure, which should be leveraged by technological innovation and by the reactivation of traditional production chains.

pattern has what can be called, if not "positive" or "negative", then "strong" or "weak" points. The strong point of the export-led pattern is normally considered to be its ability to minimize one of the most frequent constraints on growth in countries with an internationally non-convertible currency: that is, persistent problems of balance of payments equilibrium can mean frequent recessions, inflation (with emergency exchange rate devaluations then being used) and external indebtedness. The wage-led pattern, meanwhile, offers the advantage of opening up room to improve income distribution, because it proposes to create conditions for a relationship of "cooperation" between wages and profits. In this pattern, although not necessarily so, wages' account for a growing share of income, and this characteristic of its ex-post performance cannot be its main characteristic because, over the long term, that would entail a zero profit margin. Accordingly, it is best defined as a "strategy" (LAVOIE & STOCKHAMMER, 2012: 15): rising wages are expected to have positive impacts on consumption and investment, which will interact to ensure growing aggregate demand (ROWTHORN, 1981; TAYLOR, 1983; DUTT, 1987). While the impact of consumption is more or less immediate or strongly expected (assuming, as Kalecki does, that workers are highly likely to consume), *the challenge of the wage-led regime is how to create a virtuous relationship between it and investment*. In this respect, investment deviates completely from neoclassical theoretical constructs, which maintain, on the assumption of perfect competition, that increases in wages will have negative impacts on aggregate demand and level of employment (a result restricted to *profit-led* and *export-led* regimes).

One essential difference between the two regimes is the role of the exchange rate. In export-led (as in profit-led) regimes, exchange rate depreciation has a positive effect on the level of economic activity, while the opposite occurs in wage-led regimes. That is why some of the literature (BLECKER, 2010; BRESSER-PEREIRA, 2009, 2012; ARAÚJO & GALA, 2012) argues that, for economies that are less international leaders and more sensitive to export and import price variations, export-led or profit-led regimes are the most appropriate. Thus, it is concluded that exchange rate policy demands a trade-off between better income distribution and external balance. If the proposition that wage growth is a significant variable in achieving better income distribution is admitted as reasonable, then a wage-led pattern would require a relatively strong currency and rising wages (or wages at least growing in step with productivity), but would have negative impacts on equilibrium in the trade balance and in current transactions. An export-led pattern, meanwhile, would require a depreciated currency

and lower wages compatible with the export effort, pointing to income distribution that favors profits over wages.

Therefore, although there is no “optimum choice”, a choice must be made. Thus, even though both regimes are believed to be theoretically “feasible”, the choice for either should consider economic policy measures to minimize the adverse impact of the variable that was not chosen. In other words: the wage-led proposal that we are advocating here, in opting to pursue better income distribution or a greater share by wages in national income, poses two challenges for economic policymaking: (i) to foster investment in a framework designed to stimulate growth in wages and consumption; and (ii) to formulate exchange rate and foreign trade policy capable of averting or minimizing possible adverse impacts that could impair balance of payments equilibrium.

3. The Brazilian economy: historical experience and the new-developmentalism

Analysis of Brazil’s economy over the last century shows that it experienced various different growth regimes. For the first thirty years of the 20th century, the approach advocated by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) prescribed an “agro-export” or “outward” model based on a *growth pattern* whose *trigger variable* was exports. Components of aggregate demand were strongly dependent on growth in exports: (a) consumption depended on income level and expansion of the market, both of which oscillated with agro-export cycles; (b) private investments and industrial production also oscillated with exchange rates, with private investment normally growing during periods of strong currency and industrial production, during exchange depreciation phases (VERSIANI, 1975); and (c) it was difficult for government spending to behave as an autonomous component of aggregate demand because, in the absence of a system to finance public debt, it was highly dependent on foreign trade, i.e., on taxation on imports and exports.

Since the export-led pattern consisted in the export of a few commodities, especially coffee, that were highly dependent on external demand, not even Brazil’s privileged position in global coffee production – at times representing more than 80% of the world market – could protect the coffee economy from ever more frequent and extreme crises, which required increasing government intervention. “In practice” then the export-led pattern, contrary to what might be expected, did not create a foreign trade balance capable of ensuring stability for the economy as a whole. Quite the opposite, it

revealed its fragility in depending more and more on external financing to ensure government intervention in defense of coffee, and the frequent fundings caused the foreign debt to grow. That is Furtado's classic contribution in Chapters 29 and 30 of *Formação Econômica do Brasil* ([1959] 1977), defined in the expression the "socialization of losses" as a social consequence of a typically "outward" economy subordinated to the international market.

During the 1930s, the model changed towards industrialization by import substitution, on a logic that was closer to the wage-led rationale. Turning "inward" meant fostering a positive correlation between growth in consumption and production, favoring a situation of increasing investment in industries that produced wage-consumption goods. In a sense, Getúlio Vargas's nationalism and laborism gave ideological expression to this new phase: it was the State's role not only to pursue exchange, fiscal and monetary policies, but also to introduce large-scale institutional changes to enable the new pattern (new codes and constitutions, agencies and institutes in the State apparatus, labor legislation, and State enterprises in heavy industry and mining etc.).[10] One very particular feature of this wage-led approach was that it was unable, over the long term, to alter income concentration. This was due in part, as the ECLAC theories themselves showed, to the unlimited labor supply resulting from intense migration from rural to urban areas. Whether for this or other – among them political – reasons it can be inferred that total wages grew by new workers being drawn into the labor market, without necessarily depending on any increase in the wages of each individual worker. Thus, the wage-led regime was able to coexist with wages growing less than productivity, despite labor legislation that imposed minimum parameters and rules on the labor market, without which the income concentration might have been even greater.

Bruno (2003) argued that in the 1970s, during Brazil's 2nd National Development Plan (II PND), a pattern closer to the profit-led approach predominated, while in the 1980s and 90s a wage-led pattern was the standard. More recently, Araújo & Gala (2012) have shown that growth in Brazil's domestic economy is of the wage-led type; but when the external sector is included (as given by net exports), the regime is closer to the profit-led pattern. Thus, domestically aggregate demand responds positively to an increase in the wage share of total income, but in an open economy,

[10] For more on the institutional changes of the period, see Fonseca (2003, 2011).

aggregate demand is more sensitive to a rising share by profit in total income, which corroborates evidence from other countries (HEIN & VOGEL, 2008; BLECKER, 2010). These authors deploy this result as an argument to support the case for the export-led growth advocated by new-developmentalism: a significant currency devaluation would increase the profitability of investments, which would "mean greater capital accumulation, savings, exports and a higher level of aggregate demand (…) [and] could lead the Brazilian economy to a macro pattern of growth that is more sustained and less subject to problems of external constraints, driven by more investment and *less consumption*, which would lead to higher growth rates"(ARAÚJO & GALA, 2012: 53; our emphasis).

As a result, it is clear that these authors not only associate new-developmentalism with a strictly export-led regime, but also characterize it as fully profit-led. Permeating their argument is the understanding that, since this is the pattern in place in Brazil, there are clear signs that it also must be the path to be followed. However, this argument is not totally convincing if better income distribution is included as a value to be pursued, and if attaining that goal depends on the pattern of growth. Prominent in these authors' argumentation is the proposal for "more investment and less consumption", which runs frontally counter to the rationale of wage-led growth, which proposes formulation of a policy and an institutional framework in which both investment and consumption can grow together. However, these authors themselves acknowledge "wage share has grown since 2006, primarily due to growth in employment and real wages" (ARAÚJO & GALA, 2012: 50). This growth in wage share, along with improvement in the Gini Index since the mid-1990s, also warrants expecting Brazil's economy to emit signals that there is space for growth anchored in better income redistribution. If that is the option to be taken, then asking what development we want entails a quite different question: What economic policies should be proposed in order to orchestrate a sustainable, synergic relationship among consumption, investments, GDP growth, and better Gini Index?

As mentioned earlier, the key variables to ensuring long-term performance in wage-led growth are the induction of investments and the exchange rate and foreign trade policies. Together, these seem to be the two most serious bottlenecks to be addressed for the Brazilian economy to reproduce on its current pattern, because despite visible signs of the strength of a domestic market anchored in consumption and of a situation of nearly full employment, the economy has not been able to respond in recent

years with higher rates of private investment, and growth rates have been negligible as a result (see Table 1). The problem thus seems to lie not in the *trigger variable*, but in formulating and executing economic policies to sustain it over the long term. A pattern is unlikely to establish itself spontaneously or merely as a result of the purportedly "natural" rationale of the markets. As already mentioned, that requirement applies to any pattern; what does changes are the policies appropriate to each one. Some of these relating to wage-led growth are listed below.

4. The Brazilian economy: a Keynesian-Institutionalist wage-led proposal

Building on the theoretical arguments of the previous sections and in view of the dynamics of economic policy operation by the Economic Authorities (EAs) since the second half of the 1990s, it can be argued that the various institutional changes that occurred in the Brazilian economy ultimately affected the national environment directly, setting up new guidelines or trajectories. They might have contributed to a process of sustainable economic growth; however, they ended up undermining such growth, primarily because its characteristic dynamic was stop-and-go. The most significant changes include: the opening up to foreign trade in the early 1990s, which set new standards of both external and internal competitiveness; the Plano Real, which changed the monetary regime and thus the rules for coexisting with inflation; a new design for the Nation-State, which began to be guided more by neoliberal strategies than by "developmentalist" measures (at the time considered obsolete, backward and anachronistic); and the orthodox direction given to economic policy as an antidote to aspirations for the return of inflation.

The argument then is that there were two aspects to the outcome of these strategies. First, the "institutional" changes that accompanied the Plano Real were not actually embedded by economic agents and, thus preventing the creation of an institutional environment favorable to investment. Secondly, the macroeconomic policy implemented over this period, which was based on the New Macroeconomic Consensus (NMC) – comprising an inflation-targeting regime and fiscal surplus targets, together with a flexible exchange rate – limited the autonomy of monetary and fiscal policies and, consequently, their impact on GDP. In summary, from 1995 to 2012, the institutional and macroeconomic conditions did not waken entrepreneurs' "animal spirits".

In that situation, the question is: What can be done for the Brazilian economy to, effectively, achieve a state of greater macroeconomic stability under a wage-led growth regime, as defined in the Introduction to this article?

Before answering that question, it is important to know that the Brazilian economy displays some historic restrictions on growth: as with other emerging economies, it does not have an internationally convertible currency, and chronic foreign imbalances lead recurrently to exchange rate crises; infrastructure-related bottlenecks on industrial capacity limit expansion of aggregate demand; the system of, especially long-term, financing for economic activity depends essentially on the public sector; and income distribution, despite improvement in the 2000s, is still very unequal.

Mindful of those constraints and within the theoretical framework developed above, our proposal must contemplate both short-term economic policies and structural-institutional changes.

Our point of departure is the understanding that, in macroeconomic terms, as a percentage of GDP, gross capital formation must be expanded from its present 19% to 25%. In this respect, favorable conditions need to be created to awaken entrepreneurs' "animal spirits" once and for all. For that purpose, monetary policies must explicitly consider the goal of employment stability, together with price stability; and fiscal policy must prioritize public investment and social programs; and exchange rate policy must be designed to maintain balance of payments equilibrium. More specifically:

(i) Fiscal policy cannot be operated in a way that sacrifices its main objectives to ensure, at any cost, the servicing of public debt. Also, it should be implemented in such a way as to ensure that present expenditure on social programs is maintained and to concentrate budget efforts and resources on public investments, especially in infrastructure; on this point, public-private partnerships should be encouraged. Lastly, the government should always seek fiscal *responsibility*, although this should not be pursued as an end in itself, but on the criterion of countercyclical fiscal policy management: this should be expansionist in periods of crisis and recession while, at times of prosperity or economic growth above productive capacity, it should be, respectively, neutral or contractionist;[11]

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[11] The idea of fiscal responsibility is in line with the perspective of Keynes (1980), where management of public expenditures should operate according to the current and capital budget. According to Keynes, the current budget should preferably be balanced or running a surplus and would be related to the State's current expenditure in education, healthcare, safety etc. The capital budget, on the other hand, would be related to public investments, especially infrastructure, in order to stabilize economic cycles.

(ii) Monetary policy should be oriented by employment goals and not just inflation targets. For this purpose, discretionary monetary policy is indispensable. That does not mean, however, that the Brazilian Central Bank (BCB) has an inflationary bias, thus creating problems of intertemporal inconsistency in monetary policy, as argued by Kydland & Prescott (1977). Also, macro-prudential measures should be taken to mitigate financial risks and expand liquidity in the economy. Lastly, as regards the financial system, the BCB and AEs should a) point to measures to decentralize the system, with a view to reducing bank spreads and democratizing 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 development banks, to long-term financing for productive investment; and

(iii) As regards exchange rates, the BCB should administer the exchange rate in such a way as to ensure the real effective exchange rate (REER) is kept competitive, so that any speculative actions on the foreign currency market can be contained. In this direction, Ferrari Filho & Paula (2012) propose the creation of an Exchange Stabilization Fund. The idea is similar to the Federal Reserve Bank: the Brazilian National Treasury would buy and sell foreign currency to promote exchange rate stability and counter disorderly conditions on the foreign exchange market. In addition, capital controls should be used in order to increase the BCB's autonomy to set the nominal interest rate to support domestic objectives, to prevent the *real* from appreciating and to avert financial and exchange crises. Moreover, it is important that the REER proposal aims not only to maintain balance of payments equilibrium, thus mitigating the external constraints, but also to establish an exchange rate that is not so appreciated as to create disincentives to industry nor so weak as to reduce the purchasing power of wages.[12]

In parallel with the macroeconomic policy measures, the following are also important:

(a) taxation and financing policies to encourage exports; for example, by lowering taxes on exports and opening export credit lines through the BNDES;

(b) an institutional environment to galvanize the capital market contemplating, for example, investor protection, exposure limits for financial institutions and risk limits

[12] For instance, on another theoretical approach, Comin *et alli* (2009: 9) reach the same conclusion about the need for an intermediate exchange rate.

for institutional investors, stimuli for the secondary market and taxation appropriate to risk profile;

(c) priority for commercial and financial relations with partners in Latin America, the BRIC nations and other emerging countries in order to increase Brazil's and these other countries' bargaining power on the international scenario;

(d) a tax reform to introduce higher rates of taxation on income and wealth and a more progressive tax rate; and

(e) income policies to regulate wages and prices, in line with productivity gains in the economy and the dynamics of market competition.

As regards structural-institutional changes, the State's role in the economy must be redefined by rebuilding the coordination mechanisms that were dismantled during the 1990s. In other words, the State should once again exercise its function as a regulator and inducer of economic activity and its power needs to be reaffirmed from the perspectives of establishing a Nation's general welfare. Once those functions have been reinstated, the State should select and finance investment priorities in both industry and infrastructure, thus helping form and stabilize medium- and long-term expectations, both of which are essential for a resumption of private investment, as well as guaranteed employment and income distribution must become the key pillar of the State economic intervention.

Specifically to expand productive capacity, and consequently potential GDP, active industrial policies are required to coordinate public and private efforts to attain a rate of capital accumulation compatible with expansion of aggregate demand. Also, it is essential to synchronize macroeconomic policies with technological changes arising from the change of techno-economic paradigm, as in Freeman & Perez (1988), which we are currently undergoing. Thus, the macro-environment's permeability to a new surge in innovation, R&D on new fronts, and the search for new knowledge in areas of potential promise for windows of opportunity are all absolutely crucial, because they allow the Brazilian economy to find a place in the international scenario such that it can absorb the ongoing technological and structural revolutions and attract participation by foreign capital in productive investments that can generate added value, with a view to exporting, i.e., tradables.[13]

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[13] It is worth noting that in the last ten years, the federal government has issued three versions of industrial policy guidelines: *Política Industrial, Tecnológica e de Comércio Exterior* [Industrial, Technological and Foreign Trade Policy], in 2004, *Política de Desenvolvimento Produtivo* [Productive

5. Conclusion

Inspired in the Keynesian and Institutionalist approaches, the proposals presented in the previous section build on the understanding that over the last decade the Brazilian economy has grown with better income distribution and that it is important to take this historical opportunity to make wage-led growth possible. For that purpose, we drew a distinction between *trigger variable* and *growth pattern*, with the corollary that, for economic growth to attain a virtuous long-term trajectory will depend on the interaction between the *trigger variable* (in this case, wages) and the other components of aggregate demand, especially investment. That *growth pattern*, however, does not become viable spontaneously; therefore, macroeconomic and institutional policies have to be applied for this purpose. The low growth rates of the last several years suggest that the problem is not with the *trigger variable*, but rather in connecting it with the others in order to foster an appropriate environment for growth. On the other hand, the economic policy stop-and-go warrants the inference that there is no growth strategy, i.e., economic policy sends out contradictory signals that are inconsistent with one pattern or the other. The first decision is thus to opt for one of them. On the other hand, although export-led or profit-led patterns of growth are technically feasible, their adoption could jeopardize the incipient results of income distribution of the last few years.

In summary, the measures described here, although not exhaustive, are intended to inform macroeconomic policy-making on an approach that converges with Institutionalist thinking, in order to interlink the national conventions or strategies (to be formulated) more strongly and explicitly with the growth process, so that its fruits can be shared by all variety of social segments, which must see themselves represented in the implementation of this project.

In this way, the macroeconomic nature of the pattern would interconnect an aggregate institutional environment with individual disaggregated decisions, ensuring systemic consistency for a developmentalist project. This is what Castro (1997) termed new "conventions of growth without inflation", which started to take shape with the

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Development Policy], in 2008, and *Plano Brasil Maior* [Greater Brazil Plan], 2011. The first was designed to address Brazil's external vulnerability and, accordingly, focused on technology-intensive sectors (semiconductors, software and others). The second aimed to strengthen competitiveness in strategic sectors, both capital goods and consumer durables. Finally, the "Greater Brazil Plan" focused its attention on "building competences with a view to technological and productive densification of value chains" (Kupfer, 2013: A13). According to Kupfer (2013: A13), at least two criticisms should be made of the government's industrial policy efforts: they became auxiliary to macroeconomic policy, not "achieving (...) their own space" and they were unable to "think ahead of their time".

coming of the Plano Real, but only in the 2000s began to show clearer effects in the Gini Index. In our view, this strategy of a new *growth pattern* seeks to fill the gap left by the import substitution process as regards income distribution, aggravated by low growth since the 1980s. Thus inspired by the theoretical tools described here, it would be possible to foster Keynesian-Institutionalist developmentalism, which is a truly new prospect in Brazil's history and one capable of articulating wage-led growth and income distribution.

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Annex

Table 1. Main Macroeconomic Indicators for the Brazilian Economy, 1995-2012

Indicators/ Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
Inflation (IPCA - %)	22.4	9.66	5.22	1.66	8.94	5.97	7.67	12.53	9.30
GDP Growth (%)	4.4	2.1	3.4	0.0	0.3	4.3	1.3	2.7	1.1
Real Effective Exchange Rate[1]	71.1	69.6	68.2	75.3	102.8	100.5	116.7	157.4	133.2
Basic Interest Rate, end of year (%)	n.a.	23.0	38.0	29.0	19.0	16.5	19.0	22.0	17.5
Minimum Wage (R$)	100.0	112.0	120.0	130.0	136.0	151.0	180.0	200.0	240.0
Trade Balance (USD Billion)	- 3.5	- 5.6	- 6.7	- 6.6	-1.2	-0.7	2.6	13.1	24.8
Current Account (USD Billion)	- 18.4	- 23.5	- 30.4	- 33.4	-25.3	-24.2	-23.2	- 7.6	4.2
Foreign Reserves (USD Billion)	51.8	60.1	52.2	44.6	36.3	33.0	35.9	37.8	49.3
Fiscal Result/GDP (%)	0.24	- 0.09	- 0.88	0.01	3.2	3.5	3.6	3.9	4.3
Public Debt/GDP (%)	29.1	29.6	30.4	35.4	44.5	45.5	48.4	50.5	52.4
Gross Capital Formation/GDP (%)	18.3	16.9	17.4	17.0	15.7	16.8	17.0	16.4	15.3

(Cont.)

Indicators/ Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
Inflation (%)	7.60	5.69	3.14	4.46	5.9	4.31	5.91	6.50	5.84
GDP Growth (%)	5.7	3.2	4.0	6.1	5.2	- 0.6	7.5	2.7	1.0
Real Effective Exchange Rate[1]	126.7	100.7	99.3	86.7	106.9	79.4	73.7	79.3	88.7
Basic Interest Rate, end of period (%)	17.25	18.5	13.25	11.25	13.75	8.75	10.75	11.0	7.25
Minimum Wage (R$)	260.0	300.0	350.0	380.0	415.0	465.0	510.0	545.0	622.0
Trade Balance (USD Billion)	33.6	44.7	46.5	40.0	24.8	25.3	20.2	29.8	19.4

Current Account (USD Billion)	11.7	14.0	13.6	1.5	-28.2	-24.3	-47.4	-52.6	-54.2
Foreign Reserves (USD Billion)	52.9	53.8	85.8	180.3	193.8	238.5	288.6	352.0	373.1
Fiscal Result/GDP (%)	4.6	4.3	3.9	4.0	4.1	2.1	2.8	3.1	2.4
Public Debt/GDP (%)	47.0	46.5	44.7	42.8	36.0	43.0	40.4	36.5	35.1
Gross Capital Formation/GDP (%)	16.1	15.9	16.4	17.4	19.1	18.1	19.5	18.5	18.1

Note: (1) End of period, June 1994 = 100.
Source: Banco Central do Brasil (2013) and IPEADATA (2013).