View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Directory of Open Access Journals

Received: 15 September 2011; Accepted: 13 October 2011.
DOI: 10.2298/PAN1105693M
Original scientific paper

André Moreira Cunha
Departament of Economics, UFRGS, and CNPq Researcher, Brazil
andre.cunha@ufrgs.br

Daniela Magalhães Prates
Departament of Economics, Unicamp, and CNPq Researcher, Brazil
daniprates@eco.unicamp.br

Fernando Ferrari-Filho
Departament of Economics, UFRGS, and CNPq Researcher, Brazil
ferrari@ufrgs.br

Brazil Responses to the International Financial Crisis: A Successful Example of Keynesian Policies?

Summary: The paper analyses the economic policy responses of the Brazilian government to the international financial crisis. In doing so, the paper aims to answer a specific question: Can the economic policies implemented in 2008-09 be identified as Keynesian economic policies? It concludes that, despite the fact the Brazilian economic policies response to the international financial crisis seems remember Keynesian economic policies, it is not possible to argue that the recovery of the Brazilian economy can be considered a Keynesian show-case.

Key words: International financial crisis, Keynesian economic policies, Brazilian government reaction.

JEL: E12, O52.

This paper analyses the policy responses of the Brazilian govrnment to the contagion effect of the international financial crisis. Despite the recession in 2009 – the Brazilian GDP decreased 0.6% – on the contrary to previous experiences, Brazil's economic recovery was strong in 2010 – according to the Instituto Brasileiro de Geografia e Estatística - IBGE (2011), the GDP increased 7.5% – and, as result of, it was one of the less affected economies, showing a remarkable resilience. In this context we speculate about how Keynesian has been the Brazilian recovery. We consider that Brazil has experienced a period of transition, where the return of Keynesian policy elements has not been strong enough to overcome previous neoliberal tendencies. Otherwise it has opened new future possibilities, which might be explored by the new elected government. We structured our arguments in three parts. After this brief introduction Section 1 presents the theoretical analysis of the Keynesian economic policies for monetary economies in a context of globalization with financial dominance. In Section 2 it is presented the Brazilian government reaction to the international financial crisis. Section 3 analyses, briefly, the Brazilian economic policies during the Lula da Silva government, 2003-10. The final section summarizes our arguments in order to answer our main question.

1. Keynesian Economic Policies for Coordinating the Dynamics of Monetary Economies in a Global World

In *The General Theory of Employment, Interest and Money* (General Theory) John Maynard Keynes (1964, p. 372) proposed a new social philosophy in order to address the fact that *"the outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes."* The focus of his proposal was the power that the State should steer the economic system, given that, if left to the free workings of market, the economic system and economic policies themselves – unless there was coordination among them – would contribute not to solving, but to enlarging the main problems of monetary production economies.

On this particular, Keynesian economic policies are structured so as to make it possible to manage endogenous features in monetary, fiscal and exchange rate policies (Robert Skidelsky 2009). In this regard, the role of the State is fundamental to restoring macroeconomic balance and to creating an "institutional environment" favorable to "animal spirits." As stated by Keynes (1964, p. 378), *"I conceive ... that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment."* Keynes' idea of "socialisation of investment" should be understood, as can be inferred from Fernando Ferrari-Filho and Octavio Augusto Camargo Conceição (2005), as the State's participating actively in the economy, through economic policies that signal to entrepreneurs the existence of effective demand for their production. State action should, nonetheless, be in tune with the set of socially defined and legitimated institutions (such as habitual contractual compliance, confidence in the quality of legal tender, rules that ensure political stability, and so on).

For that purpose, Keynes (1964) suggests fiscal, monetary and income policies and his *International Clearing Union* (Keynes 1980a) presents an exchange rate and financial system arrangements. In that direction, the macroeconomic policy should be coordinated in such a way as to: (i) operationalize fiscal policies designed to expand effective demand and reduce social inequalities; (ii) make for more flexible monetary policy so as to galvanize levels of consumption and investment; and (iii) coordinate and regulate financial and foreign exchange markets in order to stabilize capital flows and exchange rates. In short, taking up the idea of Hyman Minsky (1986), there is a need for State intervention and regulation through *Big Government* and *Big Bank*.

Keynes was aware that: (i) there are causal relations among monetary, fiscal and exchange rate policies; (ii) the cyclic instabilities in monetary economies have unpredictable effects on the state of entrepreneurs' confidence, leading to stagnation in employment and income creation; and (iii) uncoordinated economic policies, by failing to bolster agents' confidence in effective demand for their products, intensify the potential amplitude of economic system fluctuations. He accordingly prescribed ways of conducting economic policies so that they would assure the good functioning of the economic system.

Such coordination does not entail a planned economy, for that would eliminate entrepreneurial action and transfer it to the agencies in command of central planning; in such circumstances, all that would remain to the entrepreneur would be to carry out the planners' decisions.

What Keynes proposed as economic coordination is economic policy action closely attuned to whatever "will co-operate with private initiative" (Keynes 1964, p. 378). This complementation between State and private initiatives is also underlined by Minsky (1986, pp. 295-296): *"Once we achieve an institutional structure in which upward explosions from full employment are constrained even as profits are stabilized, then the details of the economy can be left to market processes."*

The State is the social entity capable of gathering together the greatest amount of the information available in society and, at the same time, is the social legislator with legal competence to safeguard institutions' ongoing existence and to alter them as required by the historical evolution of the different social systems. It is thus up to the State, for the collective good and not in private interests, to coordinate economic activity.

Accordingly, Keynes stresses that execution of monetary and fiscal policies, particularly the latter, is most important for State intervention to exercise proper guidance, along with the prominent role of exchange rate policy. Tellingly, Keynes' discussions of exchange rate policy are connected with his key proposals for restructuring the international monetary system and are directed basically to mitigating economic agents' uncertainty about the pricing of assets negotiated in world trade (Ferrari-Filho 2006).

1.1 Monetary and Exchange Rate Policies

To Keynes, monetary policy should be conducted so as, by managing the basic interest rate in the economy, to promote alignment among the relative prices of assets open to investment in the economic system.

In view of the foregoing, the basic interest rate set by the Monetary Authority should by fully public knowledge and be held to a level considered normal by that public, true to its conventions, because as pointed out by Fernando José Cardim de Carvalho (1999, p. 275*) "people form an expectation of the normal interest rate and expect current rates to gravitate around it."* Accordingly, as the future is incalculably unknown, agents will always attempt to anticipate the interest rate, which they monitor closely so as not to incur high investment opportunity costs.

Any suspicion of oscillation in the interest rate from what is regarded as normal will produce changes in investors' spending decisions. That is why there should be no secrecy on the part of the Monetary Authority as to interest rate levels over time. Also, there should be no unexpected, significant alterations in the basic interest rates in the economy, so that constancy is credible and agents' preference for liquidity will thus demand lower premiums.

De Carvalho (1994, pp. 43-44) draws attention to a valid illustration to represent how monetary policy acts to determine agents' asset portfolio composition *"it is in this sense that the inverted pyramid is constructed to characterize the Keynesian view of the relationship between currency and other financial assets ... At the vertex*

is legal tender, and on that vertex all other assets rest, in successive layers, each defined by the institutional arrangements that establish the rules of convertibility among the groups ... and by the relationship among the rates of return obtained in each collection of assets."

It is precisely this relationship between currency and the various asset types that grants monetary policy some ability to manage effective demand and affords interest rate management, as an instrument of monetary policy, the ability to influence the real variables of monetary economies. That is, monetary policy acts indirectly on economic activity, initially impacting liquidity levels on the monetary and financial markets. By affecting the liquidity of the various different monetary and financial assets, monetary policy has repercussions on interest rates in the economy and thus influences the real side of the economy (Minsky 1986).

By way of example, at times of widespread lack of confidence among economic agents, monetary policy can contribute little to balancing the economic cycle, as seen in the illustration represented by the familiar *liquidity trap*. For this reason, Keynes (1980b, p. 350) argues that: *"It is not quite correct that I attach primary importance to the rate of interest. What I attach primary importance to is the scale of investment and an interested in the low interest rate as one of the elements furthering this. But I should regard state intervention to encourage investment as probably a more important factor than low rates of interest taken in isolation."*

The following quotation from the General Theory emphasizes this idea: *"I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views ... taking an ever greater responsibility for directly organizing investment."* (Keynes 1964, p. 164, emphasis added).

As for exchange rate policy, throughout his work, Keynes' exchange rate policy thinking and proposals point towards arranging a managed exchange rate regime in order to assure external balance and, particularly, price stability (Ferrari-Filho 2006). In his *International Clearing Union* (Keynes 1980a), Keynes makes this idea clear by signaling that one of the aims of having a fixed exchange rate that is nonetheless alterable to suit circumstances should be to reduce uncertainties about future prices of assets and tradable goods when economic agents take decisions to close exchange contracts.

Moreover, Keynes pointed out that the external dynamics of monetary economies could not do without an instrument to permit balanced symmetries in trade relations between countries. In that connection, Keynes proposed the creation of a multilateral coordinating body that would work to ensure that trade imbalances were cleared automatically, so that deficit countries would not be hostage to the need to attract capital in order to finance their balances of payments.

Automatic clearance of trade imbalances would make it possible to mitigate deficit countries' need to attract external capital in order to finance their balances of payments with deficit current trade transactions. For that purpose, controls could be imposed on international capital flows to enable monetary policy to exert more autonomous control over the interest rate. To Keynes, automatic clearance would be a restriction on countries' freedom of economic action, but would enable them to retain greater autonomy over significant domestic economic policy decisions.

Keynes regards a managed exchange rate, automatic clearance of trade imbalances and permission for capital controls as fulfilling two fundamental purposes: (i) they make entrepreneurial expectations less uncertain; and (ii) they afford greater freedom to pursue monetary policy, both by hindering exchange rate pass-through effects on domestic prices, as well as by making it possible for the interest rate not to be used the whole time to attract external speculative capital, which can inhibit productive investments. In short, exchange rate policy in Keynes is designed to establish, intertemporally, balanced external accounts and the greatest possible autonomy for monetary policy.

1.2 Fiscal Policy

Keynesian fiscal policy has direct impact on aggregate demand – more specifically on consumption and investment – and constitutes the main instrument of State intervention. It is anchored in tax policy and in administering *public expenditure* (importantly, a completely different category from *public deficit*).

Tax policy is intended, on the one hand, to enable unequally distributed income to be reallocated, either by income tax or inheritance taxes. By expanding the State's spending capacity, on the other hand, it allows aggregate demand to be boosted in the economic system. Lastly, as Keynes (1972) points out, tax policy can also serve to increase available income, thus fostering expansion of effective demand.

Meanwhile, administration of public spending, from Keynes' original perspective, centers on constituting two budgets: the "ordinary" or "normal" (current) budget and the capital budget. The current budget relates to the funds necessary to maintain the basic services that the State provides to the general public, such as health, education etc.

Although, as explained by Jan Kregel (1985), Keynes believed in the importance of these current expenditures, particularly social insurance transfers, as *automatic stabilizers* of economic cycles, the current budget should always be in surplus.

To illustrate this concern with budget balance, Keynes (1980b, pp. 204-205) argues, as part of discussions over what kind of social security system should be built in England after World War II, that it would constitute *"a severe burden to meet simultaneously pensions against which no funds have been accumulated and to accumulate funds for future pensions."*

How then would countercyclical fiscal policies be achieved? Keynes (1980b, p. 278) says that: *"It is probable that the amount of current budget such surplus would fluctuate from year to year for the usual causes. But I should not aim at attempting to compensate cyclical fluctuations by means of the ordinary budget. I should leave this duty to the capital budget."*

To Keynes (1980b) the other component of the public budget was the capital budget. This discriminates public expenditures relating to productive investments made by the State in order to maintain stability in the economic system. Such investments should be made by public or semi-public bodies, providing this was done with the clear intention of regulating the economic cycle by supporting entrepreneurs' expectations of effective demand for what they decided to produce in the present.

The Keynesian capital budget could run into deficit, but the surpluses necessarily obtained on the current budget would finance this. Accordingly, any debt occasioned by the capital budget deficit would relate not to State borrowing activities on the financial markets – which might arouse agents' doubts as to the State's solvency and, consequently, its ability to continue fostering entrepreneurial expectations – but rather to *"thus gradually replacing dead-weight debt by productive or semi-productive debt"* (Keynes 1980b, p. 277).

In this way, Keynesian public expenditure policy hinges on balancing the overall budget, even though this may be achieved in the short term by a surplus in the current budget and deficit in the capital budget.

As seen above, in Keynes' own words, monetary and fiscal policies should be wisely managed, not just so that their effects are not adverse to the goals of State intervention, but more importantly because economic policy is a *rule*, a *convention*, on which entrepreneurs rely in deciding whether or not to invest. The fact that economic policy is conducted according to rules is what makes it workable as a coordinator of economic activity. If economic policy were to act casuistically it simply would not function as a provider of bases for agents' forecasts; rather, on the contrary, it would leave them with even more precarious bases on which to decide how to act; after all, it would be a fiscal policy that changed constantly to suit whatever situations arose.

Another important rule about operationalizing the capital budget is that the public investments must not rival private investments, but must be complementary to them (Carvalho 1999). Also, the public investments are normally related to social investments, and *"their ... decisions ... are made by no one if the State does not make them"* (Kregel 1985, p. 37).

Thus, to Keynes, the main task of the *automatic stabilizer* is to *prevent* wide fluctuations by means of a stable, ongoing program of long-term investments originating in the capital budget. Keynes argued that, for the State to be an automatic stabilizer entailed *"a long-term investment programme of a stable character that should be capable of reducing the potential range of fluctuation to much narrower limits than formerly"* (Keynes 1980b, p. 322).

It was not the State's function to intervene during peaks or slumps in the economic system's progress, but rather to *prevent* peaks or slumps from occurring. Once the budget for scheduled long-term productive investments has been established, it is easy to cope with any short-term fluctuations that occur by bringing forward certain future measures, as soon as the first symptoms of insufficient effective demand appear.

Minsky (1986), without resorting to the Keynesian notion of segregated budgets and even underlining the importance of occasional short-term budget deficits, argues that private investment deficiencies need to be balanced by *Big Government* public spending. In monetary economies, he explains, declining profits mean frustrated entrepreneurs and may trigger a whole chain of non-payment of financial liabilities, tending to lead to a critical situation among the institutions operating on financial markets. In this intricate and unstable scenario, where the real and monetary-financial dimensions of the economy are inseparable and mutually dependent, *"big Government must be big enough to ensure that swings in private investment*

lead to sufficient offsetting swings in the government's deficit so that profits are stabilized" (Minsky 1986, p. 297).

Minsky (1986) also proposes that action by *Big Government* should coordinate with action by a permanent *Big Bank*, on the one hand, regulating the activities of monetary and financial institutions (which, incidentally, are operating with much more unstable financial innovations than those contemplated by Keynes in the first half of the 20th century) so as to deter them from constructing increasingly fragile positions and, on the other hand, at the first sign of loan defaults, acting as lender of last resort. In this way, the *Big Bank*'s monetary policy should maintain the monetary-financial system in sound, credible financial positions, so that, in the event a mounting lack of confidence among entrepreneurs' lead to unemployment and income stagnation, no spate of bankruptcies will ensue and lead the economic system into a major depression.

If conducted continuously, automatic stabilization will not focus on containing moments of economic crisis; rather, whenever signs of surplus aggregate demand are perceived, capital budget investment projects will be postponed so that expanding national income is not corroded by any inflation resulting from scarce supply. Therefore, action to contain short-term fluctuations should not be limited to fostering periods of expansion, but should also be applied to avert episodes of surplus aggregate demand.

Returning to Keynes, his proposal of a capital budget rests on the principle that, by fostering productive institutions, it is responsible for generating its own surplus in the long run. In order to balance public finances, it is enough in the short term not to incur a current deficit, given that surpluses called for in the current budget finance any deficits in the capital budget. On the other hand, return on public investments tends, in the long term, to balance the capital budget itself. In Keynes' words (1980b, pp. 319-320), the *"capital expenditure would, at least partially, if not wholly, pay for itself."*

This possibility of a balanced capital budget in the long term makes the overall public budget much more rational and viable, fostering over time the construction of surpluses and consequently public saving in both components of the Keynesian budget, signaling greater intervention capability for the State to act countercyclically. This makes budget deficits an even more remote likelihood; they would occur, confirms Keynes (1980b, p. 352), if *"the volume of planned investment fails to produce equilibrium."* In, and only in, such conditions, "*the lack of balance would be met by unbalancing one way or the other the current Budget. Admittedly this would be a last resort, only to come into play if the machinery of capital budgeting had broken down."*

Nonetheless, Keynes also argues that to leave no doubt about his true intentions in prescribing fiscal policy rules, *"so very decidedly I should cut down all this and not lead the critics to think that the Chancellor is confusing the fundamental idea of the capital budget with the particular, rather desperate expedient of deficit financing"* (Keynes 1980b, pp. 353-354).

1.3 A Final Reflection about Keynesian Economic Policies

In an uncertain world, where agents risk their command power over social wealth in order to increase such power in the future, economic policy should be the greatest source of solidity for private enterprise. It should guarantee a dynamics of increasing wealth which, consequently, maintains and expands the society's inclination to consume, thus enhancing investors' prospects. On this point, Minsky (1986, p. 6) argues that *"if the market mechanism is to function well, we must arrange to constrain the uncertainty due to business cycles so that the expectations that guide investment can reflect a vision of tranquil progress."*

As Maria Cristina Marcuzzo (2005, p. 2) argues, Keynes' theory proclaims the whole time what needs to be done in order *"to sustain the level of investment, but it should be interpreted more in the sense of 'stabilizing business confidence' than a plea for debt-financed public works."*

This is because, *"Keynes' reliance on socializing investment rather than a fiscal policy aimed at smoothing out consumption levels over the cycle shows his concern for the size of the deficit, and the importance ascribed to market incentives to bring about the desired level of employment."* (Marcuzzo 2005, p. 2, emphasis added).

In short, this shows that Keynesian economic policy, in both conception and practice, is intended to maintain levels of effective demand for the purpose of mitigating involuntary unemployment by stabilizing business peoples' state of confidence.

To sum up, the desired result to be achieved through Keynesian economic policies is construction of a society with a trajectory that perpetually enjoys economic efficiency, social justice and individual freedom.

In the following section we show that Brazilian government reacted to the international financial crisis trough a set of economic policies which helped to reduce the overall impact of the global recession on Brazilian economy. We assume that the implemented economic policies, after and during the international financial crisis, were less conservative policies and identified themselves, in some elements, with Keynesian economic policies. However, we argue that these economic policies implemented have some contradictions and, therefore, they are not necessarily consistent with the strategy of Keynesian economic policies. Why? Because, during the Lula da Silva term (2003-10) macroeconomic framework was, in essence, the same of the previous Government, where thigh fiscal and monetary policies and flexible exchange rate, in a context of increasing capital mobility, were the core elements of economic policies as argued, among others, by José Luis Oreiro and Flavio Basilio (2011), Luiz Fernando de Paula (2011), and De Paula and Rogério Sobreira (2011). Nevertheless, at least since 2006 and, moreover, after 2008, economic policies have aimed to stimulate income distribution, credit expansion, increasing domestic market etc. During this period, state intervention have gained more support among policy-makers, politicians and the public opinion (Ricardo Carneiro 2011). Thus, despite some incoherencies and contradictions with the strategy of Keynesian economic policies, we recognized that the current economic policy is different from the economic policies adopted during the 1990s and part of the 2000s.

2. The Brazilian Government Reaction to the International Financial Crisis

The current international financial crisis has been a "stress test" to the Brazilian economy. Until now, 2011, the country has showed resilience, which suggests that Brazil has built a stronger macroeconomic framework over the past years. The reduction of fiscal and external imbalances[1] has diminished the country's vulnerability to external shocks. Between the last quarter of 2008 and the first quarter of 2009, the economy was sharply affected by the international financial crisis, more specifically, GDP shrank by 4.5 percent (IBGE 2011). Despite this fact, countercyclical measures adopted by central government and the internal market dynamism have stimulated economic recovery.

Then, this last international financial crisis experience is a nice contrast with the past, because the Brazilian economy (as others Latin America countries) was much better protected than in other moments of external turbulence, which resulted in currency crises, mainly because of the improved macroeconomic fundamentals, which have increased its resilience against external shocks. That improvement was a result of a positive external environment created by Chinese commodity hunger combined with domestic policies and buoyant markets. With this background the Brazilian government was able to cope with the contagion effect of the crisis without recurring to a loan from the International Monetary Fund (IMF) and, thus, it did not have conditionalities to fulfil, that encompass pro-cyclical (austerity) policies. Therefore, it had greater space to adopt policies aimed to mitigate the negative impacts of the worsening situation in international markets on the economic performance. The macroeconomic better condition was also one of the factors that allowed the adoption of a broad variety of countercyclical economic policies.

Among the better macroeconomic conditions, the smaller external vulnerability of the public sector stands out, firstly. This relates as much with the increase in international reserves as with the fall in the public external debt which made the government a net creditor in foreign currency since January 2006. Secondly, the sizeable primary surplus in the country's fiscal accounts. Primary budget has shown a surplus since 1999 (between 3% and 4% of the GDP until 2008), when the government began to pursue a target to this budget. This target increased successively between 1999 and 2007 (3.1% on 1999, 3.4% in 2000 and 2001, 3.9% in 2002 and 4.25% from 2003 to 2007). In 2008, it was reduced to 3.8% (due to the launch of the "Growth Acceleration Program", called PAC)[2]. In 2009, in response to the fiscal impulse and

---

[1] Net public debt has been lowered in relation to GDP, from more than 50% in 2003, to 38.8% in 2008. Ministry of Finance and market analysts project a 42% relation in 2009. Since 2003, consolidated government has had primary surpluses above 3% of GDP. International reserves has soared from less than USD 50 billion in 2006 to more than USD 200 billion in 2009, despite the crisis. External debt has been stable at a USD 200 billion level, which basically matches international reserves (See: http://www.fazenda.gov.br/ portugues/documentos/2009/p060809.pdf).

[2] PAC, launched by the Brazilian government on January 2007, has three main objectives: stimulate private investment; increase government investment in infrastructure; and remove the main obstacles to economic growth (bureaucracy, inadequate norms and regulation). When it was released, the total forecasted infrastructure investment was US$ 235 billion (R$ 504 billion) between 2007 and 2010, among which US$ 205 billion would be provided by state-owned companies and the private sector, while the

the fall in tax receipts owing to the lower level of activity, the government reduced the public-sector primary surplus target to 2.5%. The target for the public-sector primary surplus in 2010 was set at 3.3%, and adjusted to 3% in November.

In contrast, during the currency crisis of 1998-99, Brazil's macroeconomic situation was fragile, both on the internal and on the external sides. The government was debtor on foreign currency and had a domestic primary deficit around 1% of GDP. At that time, the government responded to the speculative attack against the Brazilian currency – that took place throughout the second semester of 1998 and result on the exchange rate devaluation in January 1999 – by requesting a loan from the IMF, thus, adopting pro-cyclical (that is, restrictive) monetary and fiscal policies, that reinforced instead of alleviated the negative impact of the currency crisis.

Besides the better macroeconomic fundamentals, the greater room for manoeuvring of Brazil (and other emerging countries) to pursue countercyclical economic policies, contrary to the standard economic policy adopted in previous situations of currency instability, seems to be also related with two other dimensions of the recent crisis: (i) its origin on the center of the system, the United States; and (ii) the adoption of countercyclical policies by advanced economies (Economic Comission for Latin American and the Caribbean - ECLAC 2010).

In previous crises, the adoption of pro-cyclical policies by developing countries were also designed to regain the credibility of financial markets and, so, were seen as a precondition for the return of external capital flows (José Antonio Ocampo 2000). In the last crisis, given its systemic nature, governments of emerging countries seem to be aware that pro-cyclical policies would be totally innocuous to attract those flows, besides contributing to aggravate the consequence of the external shock, by creating a vicious cycle between currency depreciation, credit contraction, asset deflation, drop on economic activity and less capacity to pay debt by firms. Therefore, although they were, once again, business cycle takers, Brazil (as others emerging market countries) were able to be, for the first time, policy makers. Furthermore, the fact that even the advanced economies, the epicentres of the crises, had implemented countercyclical policies, may have contributed to increase the emerging countries degree of freedom to adopted the same kind of policies

It is also important to mention that before the onset of the crisis, the Brazilian government adopted some structural initiatives – as the expansion of the social protection and income transfer programs, the real increase in the minimum wage and the expansion of public investment – that contribute to prevent a greater drop in economic activity and also facilitate the policy response to the crisis via ramping up or modifying existing programs, as detailed below.

2.1 Policies and Programs

The government responded to the contagion effect of the systemic crisis with a broad variety of countercyclical economic measures, whose objective was to mitigate this

rest would come from the federal government. Three areas are prioritized: logistics; energy; and social and urban infrastructure. Actually, however, the annual investments within the PAC were much smaller than the forecast. For more details on PAC, see http://www.brasil.gov.br/ pac.

effect both on the Brazilian financial system and on the economic activity. A committee was not formed to deal with the crisis, but the government responded quickly. The Brazilian Central Bank (BCB) and the Ministry of Finance spearheaded the crisis response. Beyond the stimulus package, this response also involved important measures of monetary, credit and finance, exchange rate, labor and sector policies.

Because the first effects of the crisis were felt in the Brazilian financial system, it was the monetary authority that had to respond first. In response to the contagion effect, the Monetary Policy Council (hereinafter referred to as Copom) and the BCB eased monetary policy by lowering the policy rate target and by increasing liquidity in the interbank market. It is worth to mention that the strong contractions of the liquidity on this market after the devaluation of the Brazilian currency (caused by the deepening of the international financial crisis, in September 2008) were related with the losses from exchange derivatives by many companies (mostly, exporters) after the real devaluation. These companies had performed high-risk operations in both the domestic foreign exchange derivative market (which are undertake in Brazilian *real*) and the international foreign exchange derivative market (where non-deliverable forwards – NDFs – are negotiated) in the context of an uninterrupted appreciation of the Brazilian *real* since 2003, with the aim of offering protection to the estimated amount of exports against the devaluation or of obtaining speculative gains (if the value of the operation surpassed the exports). From not knowing the degree of exposure of other banks to the risk of losses in these operations, banks withdrew credit not only from companies and individuals but also from banks on the interbank market (Daniela Prates and Marco Antonio Cintra 2010).

The basic interest rate, called Selic (Special System for Settlement and Custody) rate, was lowered by 5 percentage points, from 13.75% in December 2008 down to 8.75% in September 2009 (BCB 2011). This was the lowest level in over 10 years (equivalent to a real annual rate of almost 4.0%), given the inflation rate of 4.3%. However, the interest rate reduction in Brazil started with delay[3]. Indeed, in the November 2008 meeting of the Copom, the committee argued that the threat of inflation caused by the devaluation of the *real* was high. It is important to emphasize that BCB's rigidity in conducting monetary policy in the last quarter of 2008 strongly contrasted with the actions of its colleagues in the principal advanced and emerging economies.

Besides the cut on the policy rate, a number of measures were adopted to resolve the problem of lack of liquidity in the interbank market and the difficulty of refinancing by smaller banks. For example, the BCB postponed the timetable for implementation of the increase on reserve requirement of leasing companies. According to the schedule established by the BCB in January 2008, the reserve requirement, which was imposed in January 2008, would be increased from 15% to 20% in November and to 25% in January 2009. With the modifications introduced at 09/24/2008, these changes would only take place in January and March 2009, respectively. BCB also established, on 12/10/2008, that leasing companies could deduct

[3] For some criticisms related to the delay of the BCB to reduce the Selic, despite the fall in GDP in the last quarter of the year, see Associação Keynesiana Brasileira (2010), Oreiro and Basilio (2011), De Paula and Sobreira (2011).

from the reserve requirement the amounts referring to foreign currency acquired from the BCB. These currency transactions would be formalized under a resale commitment by the financial institution and a repurchase commitment by the BCB.

It is important to mention that the BCB still imposes several compulsory reserve requirements and also additional liability compliance on financial institutions' deposits to control liquidity within the Brazilian financial system. By changing the requirements related to reserve ratios, the BCB influences the volume of funds available for financial institutions to lend. From September 2008 to December 2008, the BCB reduced reserve requirements on cash deposits and time deposits and the additional liability compliance which affected cash, time and savings deposits. The rules for additional liability compliance were also changed. After December 1st the withdrawals would no longer be made in cash, with remuneration following the policy rate, so that they would be fulfilled in federal public bonds indexed to the policy rate. With this change, BCB attempted to assure that the demand for federal public bonds would not be affected by the change in the withdrawal rule for time deposits. The compulsory reserves was reduced in R$ 99.8 billion and the liquidity for smaller institutions was increase in R$ 41.8 billion on the last quarter of 2008.

To stimulate purchases of credit portfolios from small and medium size banks by the major banks, on 10/02/2008, BCB allowed banks to deduct 40% of the reserve requirements on time deposits to purchases of credit portfolios from financial institutions (with net worth up to R$ 2.5 billion). On 10/13/2008, BCB once again changed the rules for compulsory collection on term deposits, raising the percentage of the compulsory that banks could deduct for the purchase of other banks' credit portfolios from 40% to 70% (there is also a cap of 20% per transferor financial institution for use of this deduction) and increased the net worth of the seller bank up to R$ 7 billion. Moreover, on 10/13/2008 and 10/15/208, BCB extended the range of eligible assets that banks could buy with compulsory resources.

The government created a new liquidity assistance line. BCB was allowed to acquire credit portfolios from financial institutions. The aim was to extended authority for the BCB to assist the Brazilian financial institutions that face cash shortages, mainly small and midsize banks. The guarantees for these transactions (the ratio between the assets and the rediscount value) ranged from 120% to 140%, for credits with clients that have transactions involving more than one financial institution or loans secured by the public sector payroll. When dealing with other credits, the BCB would demand guarantees from 150% to 170% of the assets underlying the transaction. The financial institutions would be able to repurchase their assets by paying the value of the assets plus the variation in the benchmark rate, plus 4% per year; the asset resale value would be adjusted on a daily basis. The financial institutions could accelerate the repurchase of these assets, fully or in part. Upon partial repurchase in advance, priority would be given to credits ranked as a greater risk, with a longer period for maturity, or those not involving credits held with clients that have effected transactions with more than one financial institution or loans secured by the public sector payroll. Moreover, on 10/16/2008, the BCB expanded the range of assets accept as guarantee for these loans, including debentures (fixed income securities issued by companies) rated AA, A and B.

Banco do Brasil (BB) and Caixa Econômica Federal (CEF), both financial institutions controlled by the Brazilian federal government, were authorized to, directly or indirectly, acquire ownership interest on private and public financial institutions in Brazil, including insurance companies, social welfare institutions and capitalization companies, with or without the acquisition of the capital stock control. The Government instituted the Bank Deposit Receipt (RDB) with the special guarantee of the FGC, the national private deposit insurance institution. This measure was adopted because the others ones (mentioned above) were quite innocuous, that is, they did not encourage interbank lending neither the purchase of credit portfolios by major banks. Given the preference for liquidity by private banks and the possibility of the liquid, profitable and very low risk investments in public bonds, the banks simply did not expand interbank credit. In fact, only the stated-owned banks (BB and CEF) acquired a lot of credit portfolios. With the RDB, liquidity in the interbank market began to flow again. Thus, this last measure was, finally, effective.

In addition to the measures of monetary policy, the Brazilian government decided to use the three major federal public banks (BB, CEF and Banco Nacional de Desenvolvimento Econômico e Social – BNDES – the stated-owned development bank) to expand credit and to play a countercyclical role in a context of tightening credit conditions by private banks. Besides the two measures mentioned before (authorization for BB and CEF to acquire ownership interest on private and public financial institutions in Brazil and the BNDES' capitalization), on 11/6/2008 the Ministry of Finance announced a series of new initiatives that together provided R$ 19 billion in credit lines for various sectors, via BNDES and BB in August 2009, and the government made an additional contribution of R$ 500 million in August 2009 to the endorsement funds of BB and BNDES, which would guarantee loans to small and midsize enterprises. Furthermore, the state-owned banks established also new credit lines to some sectors, as detailed below.

The countercyclical action of stated-owned banks was very important to maintain the supply of credit to individuals and companies in a context of high liquidity preference by private banks and, so, to avoid a sharp drop of the economic activity. Other measure of credit policy was the cut in the Long Term Interest Rate (TJLP), used at the BNDES loans, form 6.25% down to 6%, the lowest level in history. The measure reduced the cost of BNDES long-term loans. The countercyclical fiscal policy included the stimulus package adopted by the Ministry of Finance, as well as other fiscal measures, which even though are not components of this package, were also important to mitigate the negative impact of the international financial crisis on the economic activity and the labor market.

The stimulus package amounted to a USD 20.4 billion injection into the economy, equivalent to 1.2 per cent of Brazil's GDP in 2009. It aimed at boosting aggregate demand and mitigating the negative impact of the crisis on the labor market and on the economic activity through three major channels, namely, additional government spending, tax cuts and subsidies. Before detailing each of those channels and the other fiscal measures, it is important to mention some general features of the 2009 stimulus package. Firstly, it was among the lowest amounts spent by G20 countries (as a ratio of the GDP). Because of its small size, there was a limited fiscal im-

pact, with the nominal deficit estimated at 3.2 per cent of GDP in 2009 (around USD 49 billion).

Secondly, given the importance assigned to tax reductions and the percentage of government spending, the Brazilian stimulus package seems to show a closer resemblance to advanced countries' packages than to the emerging countries' ones. This stems from the fact that additional expenditure accounted for an average of 83 per cent of the stimulus package in emerging countries and 65 per cent in advanced countries, with higher tax cuts in the latter group of countries (International Labor Organization - ILO 2010). But, in fact, in the case of Brazil, the additional expenditure should include, besides the increase in government spending (47.5% of the total), subsidies (15.2% of the total). That would sum up 62.7% of the total, a rate closer to emerging countries average. Moreover, the increase on social assistance, with the expansion of the program *Bolsa Família*, also represented an expenditure measure. Thus, we could conclude that regarding the composition of the actual additional spending, the Brazilian stimulus package was similar to emerging economies, where some two-thirds is concentrated in three areas, namely infrastructure, housing and social protection. According to ILO (2010), in advanced economies, in turn, the top three expenditures were infrastructure, social protection and other specific support measures (such as subsidies for the purchase of new cars and appliances).

As is well known, in periods of downturn, public spending on infrastructure stimulates economic activity and generates employment, with little risk of deterring private investment. Public infrastructure investment also enhances long-term growth prospects and has a large multiplier effect on economic activity through backward and forward linkages, although the employment impact varies considerably depending on the structure of the economy in question, the types of public works undertaken (whether they are capital or labor intensive) and the country's capacity to implement projects rapidly.

As noted by ILO (2010), taken together, emerging economies have dedicated a much higher proportion of stimulus spending to infrastructure, about 50% for 2009-10, than advanced economies at about 21 per cent. On average, emerging G20 countries are spending close to 1% of GDP in 2009 and 2010 for infrastructure projects, compared with advanced G20 countries which are spending close to 0.4 per cent of GDP. In the Brazilian stimulus package, the increase in government spending accounts for 47.5 per cent of total, equivalent to USD 9.7 billion or 0.6% of GDP. The rise in government spending covered: (i) an expansion of the PAC; (ii) the start up of a program of government incentives and subsidies for housing construction, called *Minha Casa, Minha Vida,* targeted at low and middle-income households; (iii) budget transfers to municipalities; and (iv) extension of unemployment insurance benefits.

Besides the government commitment to maintain the planned outlay after the onset of the crisis, the stimulus package determined an increase of USD 5 billion (or 0.3% GDP) in investments within the PAC that represents 24.5% of the stimulus package. The goal was to stimulate investment in infrastructure and thereby mitigate the economic downturn.

The program *Minha Casa, Minha Vida* would come from the federal government (R$ 2.5 billion or USD1.4 billion) and from the Guarantee Fund for Time of Service (FGTS) (R$ 7.5 billion or USD 4.2 billion), a monthly fund accessible at dismissal, retirement, or for the purchase of the home, financed by payroll contributions from the worker and the employer. The program aimed at building 1 million new homes in 2009 and 2010 for low-and middle-income families, with a maximum income equivalent to ten times the minimum wage. A principal objective of the program was to reduce the housing deficit in the country, estimated at 7.2 million houses.

In order to avoid the adoption of pro-cyclical policies in municipalities – due to the fall on fiscal revenues caused by the lower level of activity – the stimulus package also included extraordinary budgetary transfers to local governments in 2009, which were equivalent to USD 1.1 billion or 0.07% GDP in 2009 (5.5% of this package). Those transfers were implemented, primarily, through two channels. Firstly, the federal government committed to maintain a stable nominal value of constitutional transfers to municipalities, repeating the value of 2008 despite the drop in federal revenues in 2009. Secondly, 5,564 municipalities received up to R$ 1 billion (around USD 555 million) to compensate the decrease in transfers of the Municipalities' Participation Fund due to the tax cuts on the federal level. It is worth noticing that federal government transfers contributed to the maintenance of municipal services, many of which are an important source of formal jobs in small cities.

In general, unemployment benefits are strongly countercyclical and have a stabilizing effect on consumption during times of declining incomes, cushioning incomes and supporting demand. They also prevent people from falling into poverty. Brazilian unemployment insurance provides temporary financial aid for registered wage-earners who involuntarily lost their job. The unemployment insurance benefit is paid for a minimum of three months and a maximum of five months, continuously or alternately, for each period of 36 months, as follows: three payments if the worker was employed between six and eleven months in the last 36 months; four payments if the worker was employed between 12 and 23 months in the last 36 months; and five payments if the worker was employed for at least 24 months in the last 36 months (Janine Berg 2009).

In order to alleviate the reduction in workers' income in the crisis context, the Ministry of Labor extended the duration of unemployment insurance benefits by two months for workers whose sector of economic activity was badly strongly affected by the recession (mining, steelmaking etc.). This element represented USD 0.2 billion or 0.01 % of the GDP, equivalent to 1% of the stimulus package. In the first moment (March 24, 2009) the extension was granted to workers who were laid off in November and December 2008 (103,707 workers). In May, the extension was also granted to workers who were laid off in January 2009 and February 2009 (more than 216,500 workers).

A series of tax cuts – equivalent to 35 % of the stimulus package (US$ 7 billion or 0.4% GDP) – was announced in order to boost consumption and give support to sectors worst hit by the crisis. For example, in December 2008, the Tax on Industrial Products (IPI) was cut for motorcycles, trucks and automobiles. The tax cut for

cars that would end in December 2009 was extended until March 2010, although they must be energy-saving to qualify for the reduction, in an effort to promote environmentally friendly consumption. It is worth noticing that this last measure was the only “green stimulus” measure adopted by the Brazilian government. On the first semester, the IPI tax cut was also extended to household electrical appliances and building construction materials, and capital goods. Moreover, the Social Security Tax (Cofins) on the production of small motorcycles was reduced from 3.65% to 0.65% and the exemption of tax levied on wheat, wheat flour and bread (that would end in July 2009) was extended to December 2010. Finally, Special Tax Regime on Real Estate was introduced: tax cut from 7% to 1% for houses costing up to almost USD 56 thousand (*Minha Casa, Minha Vida* program) and from 7% to 6% to all other cases.

The subsidies, which account for 15.5% of the stimulus package (equivalent to USD 3.1 billion or 0.2% GDP), encompassed two elements. First, the government capitalized the BNDES with R$100 billion to ensure resources for private and public investments. This measure was off budget: a below-the-line loan to BNDES (IMF 2009). This loan results, however, in a subsidy of USD 0.9 billion or 0.06% of the GDP by the National Treasury. This stems from the fact that BNDES lends at about 6%, well below the yield on the government bonds of 12%, which the National Treasury needs to issue to raise the resources for the BNDES capitalization. The subsidy corresponds to the difference between these two interest rates that is paid by the treasury. It is important to mention that these extra resources from the Ministry of Finance allowed the BNDES to increase its credit by 85% in 2009. Second, the government subsidized the agricultural sector by reducing the cost of loans to this sector. The Brazilian government adopted other countercyclical fiscal measures that were not included in the stimulus package.

Beyond the stimulus package, the Brazilian government also adopted other countercyclical macroeconomic policies – for example, the government extended payment deadlines for various federal taxes and created a sovereign fund, with an initial amount of 0.5% of GDP (around USD 5 billion) – as well as labor policies and sector specific measures. While not being part of the official package, they were also extremely important to mitigate the effect of the crisis on the financial system and the economic activity.

3. The Brazilian Economic Policies from 2003 to 2010

During his first term, 2003-06, Lula da Silva’s economic policies was featured by the continuation, and in some aspects radicalization, of Fernando Henrique Cardoso’s second term economic policies, that is to say, inflation targeting regime, target for primary budget surplus and flexible exchange rate in a context of free capital mobility.

These economic policies, whose are identified on what has come to be known as the New Consensus Macroeconomics, were operated as follows: (i) monetary policy was explicitly recessive, since it is only by affecting aggregate demand that rising interest rates can keep inflation under control. The consequences of high interest rates were serious constraint on economic, through the price of credit and entrepre-

neurs' poor expectations and it increases public debt, which was formed mainly by indexed bonds or short-term pre-fixed bonds; (ii) dominated by the goal of obtaining an average primary surplus of 3.25% of GDP, to maintain some fiscal balance and to stabilize the public debt, fiscal policy did not really pursue austerity. In fact, in all these years that the government set targets for primary surpluses, the government was not saving anything, but it was substituting payments for *rentiers* for public investment and social programs; and (iii) the *modus operandi* of inflation targeting regime plus the adoption of a floating exchange rate regime, under the conditions of full opening of the capital account, resulted in volatility of the nominal exchange rate and the appreciation trend of the real exchange rate.

Due to the economic policy strategy based on inflation targeting, an increased primary surplus target and flexible exchange rate, Brazil's GDP performance was poor: from 2003 to 2006, the average growth rate of Brazil was, approximately, 3.5% per year. Moreover, inflation rate was maintained high in relation to other inflation targeting countries: in the same period, the average inflation rate was 6.4% per year.

In 2007, at the start of Lula de Silva's second mandate, economic policy – and particularly fiscal policy – underwent a slight change of course. At that time, despite the BCB continued to operate monetary policy in such a way as to meet inflation targets, fiscal policy was orchestrated to support implementation of the PAC.

In addition, from 2005 onwards, Brazil – and most other emerging countries – benefited from higher commodity prices, which contributed both to the achievement of significant current account surpluses and to the accumulation of international reserves.

In this scenario and with Brazil growing at around 6% annually, President Lula da Silva and Brazil's monetary authorities at first underestimated the international financial crisis (at the time, President Lula da Silva even remarked that *"the financial tsunami would only raise a 'wavelet' in Brazil's economy"*) to the point that they took no additional, counter-cyclical measures. However, when fourth-quarter 2008 GDP was announced (down 3.6% from the third quarter of 2008), that cast doubt on the notion that Brazil was impervious to the effects of the international financial crisis.

Early in 2009, after the initial impact of the crisis had been absorbed, the monetary authorities – following the behavior of monetary authorities the world over, who actively pursued counter-cyclical policies to mitigate the effects of the international financial crisis on the real side of the economy – decided to implement countercyclical economic measures to reverse the recessive economic trends.

In fiscal policy terms, tax rates (income tax, tax on consumer credit financial operations and tax of industrialized products in the automobile and major household appliance industries) were reduced, public investments were expanded (particularly under the PAC) and a more flexible target fiscal surplus was introduced (from 3.75% to 2.5% of GDP). According to the Ministério da Fazenda (2011), government investment reached 3.3% of GDP in 2010, which represented an increment of 2.0% of GDP above the 2003/2004 level. More specifically, total public sector investment, including states and municipalities, reached 3.6% in 2008, 4.3% in 2009 and 5.0% of GDP in 2010, while, just to put in perspective, between 1995 and 2010 the public

investment to GDP ratio was 3.3%, average annual. Moreover, income distribution policies increased public expenditure in 2.0% of GDP between 2002 and 2010.

In its monetary policy, the BCB injected liquidity into the economy and reactivated the credit market with measures that included changes and reductions in the compulsory deposits required of small and medium banks and large banks and an international export finance credit line set up from funds available from Brazil's international reserves. In addition, in spite of BCB being conservative in terms of meeting inflation targets at any cost, in the course of 2009 monetary policy underwent a slow, gradual process in which the annual basic interest rate (Selic) was reduced from 13.75% at the start of the year to 8.75% in December 2009.

Along with this, other measures played an important part in fixing the Brazilian economy: (i) the public banks (BB, CEF and BNDES) operated on the credit market so as to counteract the scarcity of funds caused by the private financial system's preference for liquidity; (ii) lines of external credit were provided and operated by the BCB and the Fed to meet the private export sector's financing needs; and (iii) there were occasional interventions in the exchange rate market, initially to prevent any devaluation of the *real* from generating a pass-through effect and thus jeopardizing the inflation targets and later to avert any major exchange rate appreciation.

These measures produced the impact expected, because from the second half of 2009 onwards the Brazilian economy began to show signs of recovery, in turn encouraging expectations among consumers, businesses and the financial system, even to the point of persuading them to take decisions, respectively, to spend (consumption and investment) and borrow.

As a result of the economic policy "flexibility", specially, fiscal policy, in the second term of Lula da Silva and the monetary and fiscal policies respond to the international financial crisis in 2009, the Brazilian average growth rate increased from 2007-10: it was 4.5% per year. Regarding the inflation rate for the same period, it, surprisingly, decreased: the average inflation rate was 5.1% per year.

Finally, it is important to stress that, on the one hand, Brazil's reaction to the international financial crisis, although tardy, was successful because Brazil did not have a high level of external debt (it is currently a net creditor on the international market), the composition of its public debt had improved – in the late 1990s and early 2000s, a considerable portion of the public debt was indexed to the exchange rate, while at present nearly all public debt is indexed to the *real* – the BCB had built up foreign exchange reserves and the country had diversified both its export portfolio and its array of trade partners. On the other hand, Brazil's economic recovery and restored flows of international capital once again posed longstanding problems associated more with the period of prosperity. These include the tendency for the *real* to appreciate, affecting balance of trade and the process of "de-industrialization" (Luiz Carlos Bresser-Prereira 2007), and, until 2010, the BCB's predisposition to subordinate fiscal policy to the primacy of monetary policy.

4. Final Remarks: Is Brazil a Keynesian Show-Case?

The international financial crisis affected economic activity dramatically, both in the developed countries and in the emerging economies, casting doubt on the very notion of decoupling the emerging countries (Philip Arestis, Sobreira, and Oreiro 2011).

The developments from the crisis were observed not just in the financial system, but most importantly in the real realm of the economy. After a long period of prosperity in the world economy running from 2003 to 2007, the scenario that unfolded from September 2008 (after the Lehman Brothers bankruptcy) onwards in terms of economic downturn, shrinking trade flows and asset deflation caused the world economy to go into collapse in 2009.

It is important to stress that the world recession in 2009 could be worse if the actions of the Economic Authorities of both the G-7 countries and the emerging countries did not have occurred: aware that the international financial crisis had stemmed from inaction by the State and not from its assumed proactive role, as supposed by the theoreticians of neoliberalism, these countries' Economic Authorities took an active part in mitigating the impacts of the international financial crisis on the productive sphere of the economy. Thus, they implemented countercyclical fiscal and monetary policies in order to reverse the steadily deteriorating state of expectations among economic agents. In that regard, the injections of liquidity and substantial reductions in interest rates practiced by central banks, as well as fiscal incentives, along Keynesian lines, were important in reducing the impact of the crisis on the "real economy" and seeking to restore agents' confidence in the workings of the markets.

In Brazil, the situation was not different. Early in 2009, after the initial impact of the international financial crisis had been absorbed, the Economic Authorities decided to implement countercyclical economic measures to reverse the recessive economic trends. As already pointed out, the measures produced the impact expected, and, as a result of, the Brazilian economy increased 7.5% in 2010.

In conclusion, Brazil's reaction to the international financial crisis, although tardy, and the economic success of this reaction can be divided into two moments: first, some programs adopted by the Brazilian government before the crisis, specifically PAC, helped the economy during the crisis; second, the economic policies implemented during the crisis were expansionary actions ever seen in Brazil's recent economic history.

Thus, answering the main question of the final remarks, the Brazilian policy-makers response to the internationmal financial crisis seems remember Keynesian economic policies, more specifically, those related to the *Big Government* and *Big Bank* (Minsky 1986). However, despite the Brazilian economic policies implemented during and after the international financial crisis seem remember Keynesian economic policies, we are not convinced that they really were. Why? Because, (i) the Brazilian economic policy is still based on monetary regime dominance (it means, inflation targeting regime); (ii) in 2010 the BCB began to increase Selic to keep inflation under control; (iii) the government decided to increase primary surplus target; and (iv) the Brazilian currency has continued its appreciation process. On the other hand, we have to recognize that a sequence of heterodox economic policy has been

adopted since the beginning of the Dilma Rousseff government, such as: (i) instead of fiscal surplus targeting, the Government has sought fiscal responsibility; (ii) monetary policy has become somewhat discretionary; (iii) the monetary authorities have adopted broader strategic capital controls to avoid the appreciation of the *real* – going in this direction, some mechanisms of control over operations with currency derivatives were introduced; and (iv) a new industrial policy – it aims at promoting strategic economic sectors and the country`s investment on innovation, research and development – was launched. In short, the economic policy adopted by the monetary authorities since the early 2011 is different from those adopted during the Lula da Silva government. Moreover, in a context where the international financial crisis is far from resolved, it can be considered an interesting economic policy for the world economy. Thus, the challenge of the Brazilian government is to keep Keynesian economic policies not only in response to international financial crisis, but, mainly, in normal times, in the monetary, fiscal and exchange rate areas. In other words, unlike of conducting economic policy in accordance with inflation targeting regime, fiscal policy pursuing austerity, flexible exchange rate and capital mobility, monetary policy should be oriented by employment and inflation, fiscal policy should not sacrifice all other objectives to guarantee the payments for *rentiers*, exchange rate should be administrated by BCB, an efficient anti-speculation mechanism to control (or regulate) capital movements should be created to prevent financial and exchange rate crises, to avoid exchange rate appreciation and to balance the balance of payments, and structural economic initiatives to improve income distribution and to reduce the infrastructure bottlenecks supply should be implemented. We hope that the Dilma Rousseff administration pursues this direction.

References

Arestis, Philip, Rogério Sobreira, and José Luis Oreiro. 2011. *An Assessment of the Global Impact of the Financial Crisis*. Basingstoke: Palgrave Macmillan.

Associação Keynesiana Brasileira. 2010. "Dossiê da Crise II." http://www.ppge.ufrgs.br/akb/dossie-crise-II.pdf (accessed October 20, 2011).

Berg, Janine. 2009. "Brazil: Unemployment Insurance. ILO Notes on the Crisis." http://www.oit.org.br (accessed February 20, 2011).

Brazilian Central Bank - BCB. 2011. "Séries Temporais." http://www.bcb.gov.br (accessed February 20, 2011).

Bresser-Pereira, Luiz Carlos. 2007. *Macroeconomia da Estagnação: Crítica da Ortodoxia Convencional no Brasil pós-1994*. São Paulo: Editora 34.

Carneiro, Ricardo. 2011. "Desafios para o Desenvolvimento Brasileiro." http://www.iececon.net/arquivos/Book_Desafios_do_Desenv.pdf (accessed October 20, 2011).

De Carvalho, José Fernando Cardim. 1994. "Temas de Política Monetária Keynesiana." *Ensaios FEE*, 15(1): 33-61.

De Carvalho, José Fernando Cardim. 1999. "Políticas Econômicas para Economias Monetárias." In *Macroeconomia Moderna: Keynes e a Economia Contemporânea*, ed. Gilberto Tadeu Lima, João Sicsú, and Luiz Fernado de Paula, 258-281. Rio de Janeiro: Campus.

De Paula, Luiz Fernando de. 2011. *Financial Liberalization and Economic Performance*: *Brazil at the Crossroads*. Abingdon: Routledge.

De Paula, Luiz Fernando, and Rogério Sobreira. 2011. "The 2008 Financial Crisis and the Bank Regulation in Brazil." In *An Assessment of the Global Impact of the Financial Crisis*, ed. Philip Arestis, Rogério Sobreira, and José Luis Oreiro, 209-235. Basingstoke: Palgrave Macmillan.

Economic Comission for Latin American and the Caribbean - ECLAC. 2010. *Latin America and the Caribbean in the World Economy 2009 – 2010. A Crisis Generated in the Centre and a Recovery Driven by the Emerging Economies*. Santiago de Chile: ECLAC.

Ferrari-Filho, Fernando. 2006. *Política Comercial, Taxa de Câmbio e Moeda Internacional: Uma Análise a Partir de Keynes*. Porto Alegre: UFRGS.

Ferrari-Filho, Fernando, and Octavio Augusto Camargo Conceição. 2005. "The Concept of Uncertainty in Post Keynesian Theory and in Institutional Economics." *Journal of Economic Issues*, 39(3): 579-594.

Growth Acceleration Program - PAC. 2011. http://www.brasil.gov.br/pac (accessed February 20, 2011).

Instituto Brasileiro de Geografia e Estatística - IBGE. 2011. "Indicadores." http://www.ibge.gov.br (accessed March 20, 2011).

International Labor Organization - ILO. 2010. *Accelerating a Job-Rich Recovery in G20 Countries*: *Building on Experience*. Washington D.C.: ILO.

International Monetary Fund - IMF. 2009. "IMF Executive Board Concludes Article IV Consultation with Brazil." http://www.imf.org/external/np/sec/pn/2009/pn0992.htm (accessed February 20, 2011).

Keynes, John Maynard. 1964. *The General Theory of Employment, Interest and Money*. New York: HBJ Book.

Keynes, John Maynard. 1972. *Essays in Persuasion* (The Collected Writings of John Maynard Keynes). London: Royal Economic Society.

Keynes, John Maynard. 1980a. *Activities 1940-1944: Shaping the Post-War World – The Clearing Union* (The Collected Writings of John Maynard Keynes, XXV). London: Royal Economic Society.

Keynes, John Maynard. 1980b. *Activities 1940-1946: Shaping the Post-War World – Employment and Commodities* (The Collected Writings of John Maynard Keynes, XXVII). London: Royal Economic Society.

Kregel, Jan. 1985. “Budget Deficits, Stabilisation Policy and Liquidity Preference: Keynes’s Post-War Policy Proposals.” In *Keynes’s Relevance Today*, ed. Fausto Vicarelli, 28-50. London: Macmillan.

Marcuzzo, Maria Cristina. 2005. “Keynes and the Welfare State.” http://www2u.biglobe.ne.jp/~olympa/Cambridge/hyoushi/marcuzzo.doc (accessed February 20, 2011).

Ministério da Fazenda. 2011. “Brazilian Economic Outlook: Special Edition.” http://www.fazenda.gov.br (accessed October 10, 2011).

Ministério da Fazenda. 2009. “Brazil: Overtaking the Crisis.” http://www.fazenda.gov.br/portugues/documentos/2009/p060809.pdf (accessed February 20, 2011).

Minsky, Hyman. 1986. *Stabilizing an Unstable Economy*. New Heaven: Twentieth Century Fund Report.

Ocampo, José Antonio. 2000. *Developing Countries’ Anti-Ciclycal Policies in a Globalized World*. Santiago: ECLAC.

Oreiro, José Luis, and Flavio Basilio. 2011. “Exchange Rate Derivatives, Financial Fragility and Monetary Policy in Brazil during the World Financial Crisis.” In *An Assessment of the Global Impact of the Financial Crisis*, ed. Philip Arestis, Rogério Sobreira, and José Luis Oreiro, 236-260. Basingstoke: Palgrave Macmillan.

Prates, Daniela, and Marco Antonio Cintra. 2010. “The Emerging -Market Economies in the Face of the Global Financial Crisis.” In *The Financial and Economic Crisis of 2008-2009 and Developing Countries*, ed. Sebastian Dullien, Detlef Kotte, Alejandro Márquez, and Jan Priewe, 53-71. New York and Genève: United Nations.

Skidelsky, Robert. 2009. *Keynes: The Return of the Master*. New York: Public Affairs.