

The relevance of post-Keynesian macroeconomics for middle-income economies

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Abstract

Purpose – This paper, based on the 2022 Master Class delivered at the 50th National Economic Meeting organized by ANPEC, discusses how post-Keynesian macroeconomics and New Developmentalism complement each other to understand middle-income economies' development in financial globalization. It summarizes my academic reflection about the advance in post-Keynesian thinking to develop macroeconomics for peripheral middle-income economies.

Design/methodology/approach – As part of this reflection, I first bring up the idea of a developmental convention and, next, how peripheral financialization impacts the elaboration of this convention. Given the asymmetric configuration of the international financial system and the context of hierarchical currencies, I discuss the challenge of overcoming underdevelopment in peripheral economies. The post-Keynesian macroeconomics and advances in the structuralist debate provide the analytical tools to understand how peripheral economies develop virtuous or vicious growth cycles. At the end of the paper, I present some comments on the stagnation of the Brazilian economy.

Findings – The growth strategy with foreign savings does not provide the conditions for middle-income economies to operate with sufficient economic policy autonomy to promote productive transformation. To this end, a developmental convention should replace the neoliberal convention that has dominated since the 1970s.

Originality/value – The dynamics of peripheral, middle-income economies, often influenced by international liquidity flows, are a crucial area of study. This research underscores the importance of understanding these dynamics, as it forms the basis for economic policy recommendations. The paper also highlights the inadequacy of the growth strategy with foreign savings in the current configuration of the international financial system, emphasizing the need for middle-income economies to operate with greater economic policy autonomy to foster productive transformation.

Keywords Post-Keynesian macroeconomics, New developmentalism, Developmental convention, Peripheral financialization

Paper type Research paper

Introduction

The fundamentals of the conventional macroeconomic theory were shaken after the 2007–2008 international financial crisis, leading many well-recognized scholars to self-criticism [1]. Post-Keynesian macroeconomics, in turn, has always been critical to conventional thought, developing a sound theoretical agenda focusing on the central role of the financial sector and uncertain expectations guiding economic agents' choices. Under these premises, instability emerges as the primary outcome of the dynamics of market economies, and monetary policy should be designed to reduce uncertainty and guide long-term decisions. In this sense, a post-Keynesian theoretical framework is much better equipped to explain why deregulated and financialized market economies are prone to recurrent deep and prolonged financial crises

JEL Classification — E12, F63, O11

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and how to deal with recessions. Moreover, the post-Keynesian theory, in contrast with the conventional macroeconomic theory, offers solid reasoning to explain the dynamics of middle-income economies, which present specificities about developed economies and, thus, should dispose of an appropriate tool kit of economic policy instruments to promote growth and development with stability and social justice.

This note appraises the recent development of macroeconomics for middle-income economies based on the structuralist and post-Keynesian approaches. It is based on the master lecture delivered at the 50th National Economic Meeting organized by the National Association of Postgraduate Programs in Economics (ANPEC) in December 2022. [2] Professor Adriana Amado presented the session [3].

I see the post-Keynesian thinking agenda moving forward in the national and international academic arena. I recall the context of the scholarly debate during my doctorate in England in the late 1980s and soon after my return to Brazil. Throughout the 1970s and 1980s, Keynesian theoretical thought entered a wave of renewal, gaining strength on the international scene and updating Keynes's view in the debate with mainstream macroeconomics. In 1979, the last volume of Keynes's *Collected Writings* by the Royal Economic Society came out.

Throughout the 1970s, reference works on post-Keynesian thought were published. I highlight, in 1972, with a second edition in 1978, the book by Paul Davidson – *Money and the Real World* (Davidson, 1978). In 1975, Hyman Minsky launched *John Maynard Keynes* (Minsky, 1975), opposing Keynes's theory to what he called bastard Keynesianism, conventionally taught in economics courses. No less important was the launch of a journal dedicated to disseminating post-Keynesian thought in 1978 – the *Journal of Post-Keynesian Economics* in the USA. A year earlier 1977, the *Cambridge Journal of Economics* was launched in England.

Victoria Chick's best-known book, *Macroeconomics after Keynes: A Reconsideration of the General Theory* (Chick, 1983) [4], was published the year before I arrived for my Ph.D. A lesser-known post-Keynesian author's work, but particularly important for the development of my doctoral research, is *The Macrodynamics of advanced market economies* (Eichner, 1991) where the author is dedicated to developing a macroeconomic model under the principles of post-Keynesianism. Eichner's sudden death in 1988 left his work unfinished a year after a preliminary version of his *Macrodynamics* had circulated. The original proposal of Eichner's modeling is to build a macro-dynamic model based on the interaction between micro and macroeconomic decisions. In this view, short-term deviations are not due to market failures and rigidities in price adjustments and can permanently affect the economic dynamics.

Despite the progress that post-Keynesian macroeconomics has made emphasizing the inherently unstable nature of a monetary economy with a sophisticated financial sector—since the 1980s, a new macroeconomic consensus started being constructed founded on the micro fundamentals of macroeconomics. Based on the rational expectations hypothesis and the behavior of maximizing agents to explain macroeconomic dynamics, economic policy recommendations focus on inflation targeting and fiscal policy limited to pursuing balanced budgets. As Stiglitz (2014) critically points out, “the models/theories that guided policy were not just innocent bystanders in the crisis that unfolded beginning in 2008. They were critical in creating the crisis and inadequate responses to it.” [5]

In 1992, Fernando Cardim de Carvalho, one of the patrons of the Brazilian Keynesian Association, launched his first book – *Mr. Keynes and the Post Keynesians* (Carvalho, 1992), and in 1994, Marc Lavoie launched – *Foundations of Post Keynesian Economic Analysis*. Both books will be widely used as textbooks in courses in post-Keynesian macroeconomics. Marc Lavoie's book had a significant extension in 2015. Carvalho's book was translated into Portuguese after his death in 2021 at the initiative of Professor Bresser-Pereira.

Two doctoral theses, supervised by Victoria Chick, were published in England – Rogerio Studart's *Investment Finance in Economic Development* (Studart, 1995) and Adriana Amado's *Disparate Regional Development in Brazil: A Monetary Production Approach* (Amado, 1997). Both are essential references that open the post-Keynesian research agenda and bring reflection to developing economies. In Brazil, in the 1980s, several publications or collections of articles, emphasizing those organized by the University of Campinas, spread the debate on Keynes's macroeconomics.

In particular, an essential editorial milestone was the launch by the then-publishing company Campus of the book edited by Gilberto Tadeu Lima, João Sicsú and Luiz Fernando de Paula – *Macroeconomia Moderna: Keynes e a Economia Contemporânea* (Lima, Sicsú, & Paula, 1999). The book was a success, bringing together unpublished works by recently graduated researchers in the post-Keynesian tradition. This work inspired Eliane Araújo and me to launch the collection *Macroeconomia Moderna: Lições de Keynes para economias em desenvolvimento* (Feijo & Araújo, 2019) through the Brazilian Keynesian Association. The collection brings together more post-Keynesian authors from the old and new generations, updating the heterodox macroeconomic debate with a look at peripheral economies.

In the organization of this collection, it became clear to me that, in the 2000s, there was a significant advance in post-Keynesian macroeconomic thinking, which is the combination with New Developmentalism to develop macroeconomics for peripheral, middle-income economies. These economies exhibit specificities, and understanding their dynamics, generally subordinated to international liquidity flows, is essential to discuss economic policy recommendations. Also, the debate on economic development was reborn in Brazil in the 2000s, punctuated by Bresser-Pereira [6] and Ricardo Bielschowsky [7]. The renewed debate seeks to update the old ECLAC structuralism discussion, now considering the international context of economic openness and financial integration.

The novelty I want to bring is a reflection on how post-Keynesian macroeconomics and New Developmentalism complement each other to understand the development of middle-income economies in the context of financial globalization [8]. As part of this reflection, I will first bring up the idea of a developmental convention of economic policies and, next, how peripheral financialization impacts the elaboration of a developmental convention. My conclusion is that the challenge of overcoming underdevelopment in peripheral economies is redefined with financial integration, given (1) the asymmetric configuration of the international financial system and (2) the context of hierarchical currencies. The post-Keynesian macroeconomics and advances in the structuralist debate provide the analytical tools to understand how peripheral economies develop virtuous or vicious growth cycles. At the end of the paper, I present some brief comments on the stagnation of the Brazilian economy before concluding it.

Developmental convention

In the context of the resumption of the neoliberal debate of the 1970s and 1980s, the import substitution model, which had been the reference for the accelerated industrialization of underdeveloped economies, is being strongly criticized as a development strategy. For the neoliberals, the import substitution model had failed. It was necessary to replace it with a model with less State interference and greater commercial and financial integration, in addition to an intense process of privatization of the economy. On the other hand, for the developmentalists/structuralists, there was a need to complete the process of import substitution with the intensive implementation of industries in the technical progress of the new technological paradigm. Through innovation, place productivity and competitiveness would increase, and a virtuous growth cycle would occur, culminating in the resumption of economic development. The need for State action was recognized to sustain growth, increase

economic–financial efficiency and mainly neutralize the Dutch disease, a disease, so to speak, to which economies endowed with abundant natural resources and cheap labor are subject.

The watershed between the two visions – neoliberal and developmental – is the role that aggregate demand plays in economic growth and development.

While in the neoliberal view, the restriction to growth is on the supply side, in particular, in the lack of domestic savings (hence the importance of financial liberalization to attract foreign savings), in the developmental view (and here I join the post-Keynesian macroeconomics and the New Developmentalism), the interaction between demand and supply stimuli describes the process of growth and development. Demand stimuli mobilize available resources, which increase aggregate productivity through dynamic returns to scale (the so-called Kaldor–Verdoorn law), triggering a virtuous growth cycle [9]. Thus, the “developmentalists” growth models interpret the growth process as path-dependent; demand shocks can have long-lasting effects.

This observation opens space for discussion about the dual role of economic policies in middle-income economies. If, on the one hand, they must act countercyclically, economic policies must also be designed to implement strategies to increase the supply elasticity of goods, mainly with higher technological content; that is, short-term policies must be coordinated with long-term policies to promote structural change needed to increase aggregate productivity.

Overcoming underdevelopment depends on structural change to make the productive structure more complex. This implies assuming that breaking with underdevelopment takes time and requires macroeconomic stability. This is another way of expressing that short-term performance influences long-term results.

In the growth models of the structuralist–developmental–Keynesian tradition, long-term growth is dictated by the ratio between the income elasticity of exports and imports, which expresses the degree of diversification and technological intensity of the productive structure [10]. That is the composition of the sectors of activity matters – an economy more specialized in producing goods that are intensive in natural resources will demonstrate, in the long term, less dynamism and more volatility than an economy that is more complex and technologically sophisticated.

An offshoot of the Kaldor–Dixon–Thirlwall circular causation model is the so-called Thirlwall’s law, which shows that the greater the distance between the income elasticity of exports and that of imports, the smaller the restriction to long-term growth imposed by the balance of payments should be. Therefore, relaxing the external constraint on growth must be the developmental agenda of developing economies. This is achieved by structural change towards a more complex product structure that perennially raises the economy’s productivity.

The process of structural change depends on the ability to import investment goods, carry more advanced technology and access foreign exchange. So, how do we deal, from the point of view of the growth strategy, with the issue of absorbing foreign savings? [11]

The New Developmentalism emphasizes the external and macroeconomic vulnerability that arises from the accumulation of net external liabilities due to persistent current account deficits in middle-income economies. Conversely, conventional macroeconomics emphasizes that the absorption of foreign savings, represented by current account deficits, should be stimulated to complement domestic savings to boost domestic investment [12]. However, consistent with post-Keynesian theory, for New Developmentalism, the issue of increased investment is not a lack of domestic savings but rather a shortage of foreign exchange, which is necessary for an economy with a non-convertible currency to finance imports of capital goods and facilitate the adoption of foreign technologies [13].

It is worth remembering that Keynes (1971), in the *Treatise on Money* of 1930, had already warned of losing economic policy autonomy when the economy was financially integrated, allowing free capital flow. It was as if the monetary authorities were giving up their freedom to implement countercyclical macroeconomic policies in the name of a commitment to attract capital. However, in light of developmentalism, the absorption of foreign savings must meet the need to promote structural change.

Post-Keynesian macroeconomics and New Developmentalist theory complement each other [14] in that the commitment to relax the external constraint on growth implies that short-term economic policies – the monetary, fiscal and exchange rates – are coordinated with long-term structuring policies, such as industrial and technological development policies [15]. In this sense, policy coordination implies an economic policy convention committed to development.

For post-Keynesians, an economy's growth trajectory is built by the sequence of short-term movements, that is, by the capacity to mobilize production factors, which, in a market economy, depends on the expected return. This is the principle of effective demand. Besides, assuming that expectations in a monetary economy are formed under uncertainty, particularly those relating to investment expenditures and financial portfolio allocations, they will be defensive, as the future is unknown.

To deal with the formation of expectations in an environment of uncertainty, Keynes (1973) introduces in his *General Theory* the concept of convention—the set of practices, rules and institutions created to support uncertain decisions. Well-consolidated conventions give confidence to the formation of expectations under uncertainty [16]. In other words, rules and habits, characteristic of an economic environment of monetary economies, are the necessary institutional apparatus to induce economic agents to make sensible choices [17].

The theoretical tools of post-Keynesian macroeconomics make room for discretionary economic policies that, if supported by well-accepted social conventions of monetary policy, can coordinate expectations for carrying out the process of structural change towards more complex economies from the point of view of production chains. From the point of view of attracting foreign capital, this would mean using foreign resources to invest in projects that ensure that the share of net exports in GDP increases so that foreign exchange earnings increase to the point of covering the financing commitments created by the external commitments made (Kregel, 2004). A successful development convention would be how to awaken the “animal spirits” and start a virtuous growth cycle. Carvalho (2014), in his discussion of Erber's concept of the development convention, suggests that Keynes employed the idea of the convention as a dominant belief at a specific time—one that could explain not just individual behavior but also the behavior of the economy as a whole. In line with this perspective, the concept of a developmental convention in this note refers to the shared belief that a particular set of economic policies, designed to promote structural change through the incorporation of technical progress and sustain high long-term growth rates, would be successful and serve as an anchor guiding private investment decisions.

The absorption of foreign savings in a developmental convention, in this sense, should attract “patient” investors, who are convinced that their investments, as put by Kregel (2004, pp. 580–1), “have a positive net present value when measured in terms of earnings in foreign currency.”

However, as the New Developmentalism and the post-Keynesian theories show, middle-income, semi-industrialized economies that opt for a growth strategy supported by foreign savings in a globalized economy lose policy space to develop a developmental convention. They can fall into the “trap” of high interest rates and an appreciated exchange rate, compromising their competitiveness and, therefore, their chance of promoting structural change.

Peripheral financialization

Through what channels does the financial integration of peripheral economies restrict economic policy space? Peripheral financialization has different contours from major economies because it is linked to high external constraints. This is one reason why the financial integration of economies without convertible currency has been pointed out as the primary inducer of the advancement of the financialization of peripheral economies (Bonizzi, 2013-2014; Bortz & Kaltenbrunner, 2017, among others).

The defining aspect of financialization in peripheral economies is the asymmetrical integration of these economies into the international monetary and financial system, characterized by the hierarchy of currencies. In the hierarchy of currencies, the most convertible are those issued by major countries and are characterized by having a higher liquidity premium than peripheral ones; when the degree of uncertainty in international financial markets increases, peripheral currencies are the ones that suffer most from the so-called flight to quality that can end in sudden stops and sharp devaluation of peripheral currencies (Ocampo, 2003). Therefore, the currency hierarchy imposes a monetary asymmetry, expressed in the “original sin”; peripheral countries cannot issue debt in their currency in the international financial market.

In addition to monetary asymmetry, financial asymmetry is related to the determinants of capital flows to the periphery—of a cyclical nature—and the relative size of these flows—associated with the small participation of these economies in global capital flows. The procyclicality and volatility of capital flows to the periphery make peripheral economies takers of the international liquidity cycle.

Finally, the dynamics of international financial flows lead to macroeconomic asymmetry, that is, a lower degree of autonomy of macroeconomic policy to manage the economic cycle. In capital mobility and financial globalization, the freedom to define the interest rate to manage aggregate demand is constrained because the monetary authority may be willing to accommodate changes in the direction of capital flows using the interest rate differential. The attraction of foreign capital appreciates the exchange rate, which helps to combat inflation but deteriorates the current account balance. Thus, the expectation of exchange rate appreciation will be interrupted by sudden stops when investor expectations are reversed. Macroeconomic asymmetry describes, therefore, a volatile economy susceptible to international liquidity flows (Corrêa & Feijo, 2022).

In the macroeconomic context of narrowing economic policy space, the time horizon of private agents’ decisions tends to be shortened, particularly investment decisions in capital formation. On the other hand, the advance of financial motives and practices, by maintaining high accurate interest rates and an appreciated exchange rate, stimulates rent-seeking to the detriment of committing resources to productive activities.

In structuralist literature, industrialization is perceived as the strategy allowing peripheral economies to free themselves from the condition. Structural change implies a substantial investment in capital formation. The downward trend of the investment rate in the context of financialized peripheral economies constitutes a barrier to structural change. It is associated with the process of early deindustrialization (Feijo & Lamônica, 2018).

We can advance some conclusions. Given the above, the strategy of growth with foreign savings, in the current configuration of the international financial system, does not need to provide the conditions for middle-income economies to operate with sufficient economic policy autonomy to promote productive transformation. Furthermore, peripheral economies, which do not neutralize the Dutch disease associated with exploiting natural resources, attract direct investment in the commodities sector, representing an obstacle to structural change. In addition, direct investments are also a source of external vulnerability, as they represent an increase in external liabilities and potential outflows (Botta, 2017).

Given the constraints imposed on the economic development of financially integrated middle-income economies, what is the policy recommendation for building a developmental convention? In light of the post-Keynesian–New Developmentalist literature, defining a functional macroeconomic policy for a structural change is necessary to define a new “normal” for macroeconomic prices.

The main obstacle for economies that adopt the growth strategy with foreign savings is overcoming the tendency for their currencies to overvalue. In this sense, monetary policy must be able, together with other macroprudential policies, such as capital controls, to provide an economic environment in which average accurate interest rates remain below the average real rate of return on capital. Fiscal policy must play a prominent role and be countercyclical, generating primary fiscal surpluses during expansions and eventually generating primary deficits in recessions. As for exchange rate policy, the real exchange rate must be maintained at the “means industrial equilibrium” level, meaning that the domestic currency must keep a marginal devaluation in real terms. The policy toolkit should also include industrial policy as an essential complement to a structural change strategy. In the developmental approach, industrial policy is defined as combining a set of incentives at the sectoral level with horizontal policies (especially infrastructure and research and development) [18].

The Brazilian performance in the 2000s, 2010s and early 2020s: a brief comment

The Brazilian economy since the economic opening of the 1990s is an emblematic example of the advance of the financialization process and structural change with increased productive specialization in the exploitation of natural resources. Based on the analysis of the institutional and sectoral balances derived by the National Accounts, an interpretation of this performance shows a strong correlation between the financial balance of the external sector and the private sector. This evidence reinforces a stylized fact of semi-industrialized economies, where the balance of the domestic sector industry (private and government) adjusts to the financial balance of the External sector.

In the case of the Brazilian economy, in the mid-2000s, the excellent performance of the External sector allowed a reduction of the government deficit and the maintenance of the positive balance of the private sector. At the beginning of the 2010s, with the deterioration of the External balance and the attempt to reduce the industrygovernment deficit, the private sector had a negative balance that would only be recovered with an increase in the government deficit [19]. Considering that the economy is more dependent on the flow of foreign capital because it is becoming increasingly financially integrated and its exports are highly dependent on commodities after 2009, it can be concluded that the Brazilian economy is heading towards stagnation.

The difficulty of controlling fiscal deficits in a stagnant economy fuels the financial sector’s defense of austerity policies. Since 2015, government authorities have been implementing austerity policies that cut public spending but have had little success in recovering economic growth. In turn, austerity policies are deepening the Brazilian economy’s financialization process. Indeed, while the investment rate of non-financial companies decreased in the 2010s, the financial sector shows a net increase in accumulated assets, mainly on public sector debt securities.

The COVID-19 pandemic hit the Brazilian economy before it had recovered from the 2015–2016 recession. Economic contracted 3.9% in 2020, despite the government’s response in implementing several measures to mitigate the financial impact, including emergency cash transfers to low-income families (Auxílio Emergencial), tax deferrals and business credit support. These measures provided some relief, particularly for the most

vulnerable populations. The post-pandemic period was of a slow recovery, and only in mid-2022 did real GDP reach the 2014 level. The central bank implemented a series of interest rate hikes to combat inflation, raising the Selic rate from a record low of 2% in early 2021 to 13.75% by 2022. The high interest rate level increases the public debt burden, so the Brazilian economy has to deal with fiscal constraints, which limit policy space to implement long-term transformation policies. Although the Brazilian economy performed well in 2023, achieving a 2.9% GDP growth and the ongoing growth in 2024 has been accompanied by a reduction in the unemployment rate, the recovery of investment remains sluggish. For instance, data from the IBRE Fiscal Policy Observatory [20] indicates that the investment rate in 2023 was 16.5%, with investment expenditures in the consolidated public sector accounting for only 2.6% of GDP. These figures are significantly lower than those observed in the 2000s and early 2010s. Thus, a sustained economic growth trajectory will depend on the consolidation of confidence in the economic policies introduced by the new government, which assumed office in 2023 with a focus on industrial policy and environmental policies [21].

We return to the question – what is the policy space for implementing pro-developmental policies for the Brazilian economy? An important conclusion, which does not change for the most recent post-pandemic period, is that the Brazilian economy needs to regain dynamism, recovering the investment rate. And to recover the capacity to grow and develop, it is necessary to adopt an economic policy convention that opens space for a development project with a view to productive transformation and environmental sustainability.

Concluding remarks

My final assessment is that expanding policy space in middle-income economies demands a growth and developmental convention, alternative to the neoliberal economic policy convention that has prevailed in recent decades.

In this sense, I want to end with the words of Victoria Chick in her book *Macroeconomics after Keynes*:

Good theories are relevant abstractions, and relevance alters as history moves on.

In economics, old theories are seldom wrong; they have become irrelevant (Chick, 1983, p. 2).

The world has recently gone through two deep crises – the 2008 financial crisis and the 2020–2021 pandemic. In both, the prominent role of the State with interventionist policies was necessary. The climate crisis also imposes itself as a reality, where market solutions are insufficient to avoid announced catastrophes.

In this context, just as the revolutionary ideas of John Maynard Keynes formed the basis of the post-war institutional structure, advances in post-Keynesian theory and New Developmentalism, mainly in middle income, semi-industrialized economies, offer an alternative worldview to the neoliberal macroeconomic model that consolidates after the 1970s with the rise of globalization and financialization.

In my view, the financialization of market economies and its consequences in terms of low growth, high income and wealth inequality challenge the explaining capacity of the mainstream models built on methodological reductionism and the sovereignty of markets for the efficient allocation of resources. In this way, I interpret post-Keynesian macroeconomics and New Developmentalism theory as noteworthy contributions to understanding modern market economies and advancing macroeconomic thinking.

Notes

1. See, for example, Akerlof, Blanchard, Romer, and Stiglitz (2014).

2. I am grateful to ANPEC's Deliberative Council for the invitation to deliver the 2022 master class at our community's most relevant and prestigious academic event. I consider myself exceptionally fortunate that the homage took place at a time when ANPEC resumes face-to-face meetings and the country sees hope reborn with the victory of democracy in the inauguration of a new government in 2023. I also understand that this honor reaffirms ANPEC's commitment to the plurality of economic thought in Brazil. By choosing an academic with a theoretical profile in heterodox macroeconomics, the community of postgraduate programs at ANPEC recognizes the relevance of the contributions of post-Keynesian authors to understanding the reality of peripheral economies. Presentation at the 50th National Economic Meeting, ANPEC 2022, Fortaleza, CE. Presentation at the 50th National Economic Meeting, ANPEC 2022, Fortaleza, CE. Available at: <https://www.youtube.com/watch?v=EQ1xGgXVOIs>.
3. Professor Adriana Amado, from University of Brasilia, is my long-time friend, with whom I have shared important moments in defense of the Economics Area with research funding agencies. I also share with her the doctoral advisor, Professor Emeritus of University College London, Victoria Chick, who very recently left us (January 15th, 2023) and is a reference in developing and disseminating Keynes's theory.
4. For an excellent review of Professor Chick's work, see [Marcuzzo, Repapis, and Toporowski \(2024\)](#).
5. See also [Skidelsky \(2009\)](#).
6. See, for instance, [Bresser-Pereira and Gala \(2010\)](#), in special Frame 2, p. 679.
7. See, for instance, [Bielshowsky and Mussi \(2006\)](#) and [Mollo and Amado \(2015\)](#).
8. Many ideas came from lengthy discussions with my two great research partners, André Nassif and Eliane Araújo, and talks with Bresser-Pereira at the Centro de Estudos do Novo Desenvolvimentismo.
9. See the classical paper by [Dixon and Thirlwall \(1975\)](#).
10. For an estimate of the Thirlwall coefficients for the Brazilian economy, see [Nassif, Feijo, and Araújo \(2014\)](#).
11. The critical role of technical progress in economic growth should be remarked on. As pointed out by [Ocampo \(2001, p. 23\)](#), [Prebisch \(1951\)](#) called attention to the importance of the channels through which that progress is transmitted from the "countries of origin" to the developing countries. In Prebisch's view, the dynamics of developing countries depend on their position within the world economy and, therefore, as they absorb technical progress from developed economies.
12. In the early 1970s, [McKinnon \(1973\)](#) and [Shaw \(1973\)](#) laid the theoretical foundation for financial liberalization. They argued that such liberalization would facilitate the global allocation of savings and direct resources to the productive sectors of developing economies. Their central assumption was that developing economies face a domestic savings shortfall, and thus, the influx of foreign savings would enhance capital formation and stimulate long-term economic growth.
13. I am very grateful to an anonymous referee for highlighting this important conceptual distinction between savings as a necessary condition for investment, a mainstream assumption, and foreign savings as the provision of foreign exchange. [Resende and Terra \(2018\)](#) clarify the difference between foreign savings and domestic investment in capital formation.
14. On this idea of complementarity between Post-Keynesian macroeconomics and New Developmentalist theory, see also [Manna \(2020\)](#).
15. For a discussion on policy coordination to promote structural change in Brazil, see [Nassif, Bresser-Pereira, and Feijo \(2018\)](#). See also [Feil and Feijo \(2021\)](#) for a discussion on the role of development banks in Brazil in promoting structural change.
16. [Oreiro \(2000\)](#) discusses the Keynesian concept of convention, based on uncertainty, the formation of expectations and Shackle's concept of potential surprise. The author concludes that (p. 136): "The necessary condition for a given theory of the world to emerge as a dominant convention among economic agents is the existence of network externalities associated with adopting theories or

models of the world. These externalities, in turn, can result from a series of factors, such as, for example, uncertainty regarding the information available to other agents, reputation effects, self-fulfilling prophecies and defensive strategies in the face of uncertainty. If these effects are strong enough, then economic agents will be induced to adopt the same world theory in forming expectations.”

17. See [Feijo, Lamônica, and Bastos \(2016\)](#) for a discussion on the neoliberal convention of economic policy focusing on price stability that led to low investment rates in the Brazilian economy in the 1990s and 2000s. In a broader conception of developmental convention, see the contributions of Erber, particularly [Erber \(2007, 2012\)](#). Dequech critiques Fábio Erber’s definition of “conventions” by arguing that the discussions surrounding conventions and development conventions are problematic. Among other aspects, the author mentions the lack of specification regarding the context and compliance mechanism, which would demonstrate the applicability of the convention concept to development discussions. Additionally, Dequech argues that the idea of behavioral convention derived from game theory does not align with the situation examined by Erber. For further details, refer to [Dequech \(2017\)](#). In [Dequech \(2022\)](#), the author discusses that Keynes’s convention theory would be more appropriate to financial markets and not to goods markets. The idea of a developmental convention of economic policies adopted in this note is one of shared beliefs about a vision of the functioning of a monetary production economy necessary to reduce fundamental uncertainty and support expectations concerning long-term decisions.
18. For a discussion on recent Brazilian economic development in line with the post-Keynesian-New Developmentalist literature, see [Nassif, Feijo, and Araújo \(2020\)](#).
19. For a graphical representation, see [Monteiro and Feijo \(2023\)](#), p. 189, Figure 3).
20. <https://observatorio-politica.ibre.fgv.br/series-historicas/investimentos-publicos/investimentos-publicos-1947-2023>
21. For further discussion on the revival of economic debate under the new administration, see [Resende \(2023\)](#).

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