MACROECONOMIC POLICY FOR A SOCIAL-ORIENTED DEVELOPMENT STRATEGY – THE BRAZILIAN CASE*

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Abstract

In the recent debate on the Brazilian growth model, the accuracy of the economic tripod (inflation targeting, primary fiscal target and floating exchange rate regimes) was pointed out as being responsible for lowering Brazilian economic growth and hindering its development. However, over time the macro regime has proved flexible, allowing changes in the form of management of policies within the same institutional framework, especially after the 2008 crisis. Within this context, the present chapter aims to discuss the relationships between these macroeconomic policy fronts and a social-oriented development strategy for the Brazilian economy. The background question is whether the actual macroeconomic regime, inherited from an orthodox perspective is compatible with the deepening of a social-oriented development, which depends on a strong role of the State, income distribution and the expansion of social infrastructure.

Introduction

According to any of the several possible definitions, economic development is a medium- and long-term process. Moreover, it is always a set of structural changes, which are not to be confused with the short-term fluctuations in the macroeconomic variables that generally attract more attention in the economic news, namely the exchange rate, interest rates, inflation, unemployment and public deficit. From the perspective of governmental actions, development is oriented by issues such as the role of the government in the economy, industrial policy, regulation, infrastructure, financing and income distribution policies and other social action fronts, among many other policies. Accordingly, it takes much more than macroeconomic management (understood here as the handling of the monetary, exchange rate and fiscal policies) to characterize a development strategy, although there are several points of contact between the two dimensions. The former president Lula's administration is a clear example of gradual and important changes in the development strategy, with an activist view of the role of the State, which occurred despite the visible continuities in the management of a very orthodox macroeconomic regime.

Using an expression to the liking of economists, the macro regime is thus a necessary yet non-sufficient condition for development. However, it seems a necessary condition, mainly due to the negative influences and barriers that it can impose

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on the conduct of procedures defined by the broader strategy. Again, the process under way in the Brazilian economy over the past few years reflects a clear example of these restrictions.

Thus, the present chapter deals with these relationships between the macroeconomic policy fronts themselves (exchange rate, monetary and fiscal) and a development strategy whose constituent elements were presented, in part, over the past presidential terms, but whose contents need to be revisited, deepened and complemented. The background question is whether the actual Brazilian macroeconomic regime, derived from an orthodox perspective, is compatible with the deepening of a social-oriented development, which depends on a strong role of the State, income distribution and the expansion of social infrastructure.

The social component of this strategy, termed here as "social-developmentalist", is contextualized and summarized in the first section.[1] The second section focuses on the institutional framework of each of the three macroeconomic policy fronts and assesses their recent conduct in Brazil in the light of the preceding considerations. Finally, some brief conclusions complete the text.

I. Deepening and renewing the social emphasis of the Brazilian development

In conceptual terms, very distinct development ideas, practices of economic policy or even "recipes" can be reunited under the label of "developmentalism". According to Fonseca (2004), developmentalism is the ideology that preaches government intervention, nationalism and industrialization for development. In this conceptual framework, developmentalism can assume various strategies such as those observed in the 1960s and 1970s, when the rapid economic growth that transformed the productive structures was accompanied by a deterioration in income distribution. This is certainly not the best-suited style of development considering Brazil's current needs and conditions.

Therefore, we must qualify the "developmentalism" that is defended here, as well as differentiating it from other proposals and strategies of the past and present. Starting from the recent Brazilian experience, this qualification specifically comprises incorporating and emphasizing the social dimension as a central and guiding development element. Resuming the argument, we understand that it is possible to be developmentalist only in economic terms. In other words, there are theoretical formulations and policy propositions, and there were several relevant historical experiences, in which the defence of the national interest, government intervention and search for a more sophisticated production structure were associated with a worsening in income distribution and/or other dimensions of the social differences that are characteristic of capitalism.

In Brazil, the economic and social dimensions have been reconciled, or reinforced, in a virtuous way in recent years. It is impossible to separate the growth cycle in the second half of the 2000s from the expansion of domestic demand, with the latter greatly influenced by the accelerated personal income distribution process during this period. In practice, there has been an expansion of the mass consumer market as a dynamic engine of economic activity – a relationship that was already in the theoretical formulations of progressive economists for some decades and happened diametrically opposed to that seen in the 1960s and 1970s, when the concentration was functional to growth.

In addition to the favourable international framework, four major tools have been instrumental in this recent process, not all of which are duly recognized in the Brazilian public debate. The most famous were the policies of income transfer to poorer layers of the population – led by the "Bolsa Família" programme – which have been heavily enhanced and expanded.[2] In addition to these more focused actions, the other instruments of the Brazilian social security system that have a wide scope and very important impact, despite many problems, deserve being highlighted.[3] The policy of the real appreciation of the minimum wage is the third element of this explanation, involving a direct expansion of purchasing power of a broader layer of society than those directly affected by the focused actions. Finally, and related to the previous three, there is the favourable behaviour of the labour market over the last decade, which is marked by major transformations still to be better explained, but has resulted in an intense process of formalization and a gradual reduction in the unemployment rates to historical low levels.[4] As an additional impulse to the dynamism of the economy in recent years, the expansion of bank credit has positively influenced the purchasing power of the population and played an important role in the expansion of the domestic market.

Looking forward, a developmentalism separated from the reduction of the huge social inequalities that mark the Brazilian society does not seem very suitable – or very promising in practical terms – in the current context. The social dimension must be at the centre of the development strategy, and hence the name "social-developmentalism". However, this emphasis should not only serve to explain or praise the recent trajectory, much less to consider sufficient or secured the changes. On the contrary, the social character of the Brazilian development is justified more by the challenges (and, in the virtuous sense proposed here, opportunities) than the progress achieved.

The concentration of income in Brazil remains among the highest in the world. Furthermore, the positive results in recent years have occurred in one of the dimensions of inequality: personal income concentration (and not least in the indices of misery and poverty). Indicators of inequality with other approaches (living conditions and consumption, with an emphasis on the access to sanitation, education and health) have shown more timid improvements in recent years, or the differences have even increased.[5]

Another more important motivation to the social emphasis is the fact that the progress achieved thus far has largely been of a personal and private nature, strongly associated with the power of consumption. As previously mentioned, this had positive impacts on the economy, but little explored another venue of economic dynamism and reduction of inequality, namely the social infrastructure, or the commonly termed collective or public goods, such as education, health, transportation and conditions of urban life, sanitation, etc. By contrast, there was a "private solution" for the social services in several of these dimensions that expanded them and increased access while commodifying social relations without ensuring their quality.

Therefore, the way forward is to go beyond the expansion of the mass consumer market, advancing in the social rights dimension (incidentally provided for in the Constitution of 1988). Moreover, this is not only a goal in itself; rather, the progress in this direction is also one of the motors for the future growth of the country. In addition to those effects that have already been verified (and have not depleted) about income distribution on the consumer market, the expansion of social infrastructure also has a great economic impact in sensitive areas. In the short-term, this means the expansion of investment, whereas in the long-term, it influences the competitiveness of the productive sector by improving the educational, health and quality of life levels of the workforce.

In this way, next to the strengthening and efficiency gain of the government, as well as the reversal of troubling processes underway in the production structure, the renewal and deepening of social progress is one of the pillars of the "social-developmentalist" strategy held here.[6] In relation to this aspect, the macroeconomic policy considerations are detailed in the following sections.

II. Brazilian macroeconomic regime: A critical assessment

The institutionality of the Brazilian macroeconomic regime currently in force dates back to 1999, when the tripod floating exchange rate, inflation targeting and primary fiscal target was set. The elaboration of this institutional architecture involved the assumption of a liberal conception about the role of the government and follows the Washington Consensus headlines. In this perspective, development is an emptied concept delivered to a commonly called natural character of the capitalist system, whose operation free from government interference would lead to an efficient resource allocation. Thus, the architecture of this regime sought to limit the government's discretion in the handling of macro policies. It was advocated that the macroeconomic instrument should be mobilized for the – almost exclusive – search of price stability, identified as a primordial condition for the development.

This restriction to the government role lies at the root of the discussion concerning the macroeconomic regimes (Lopreato, 2013). To the new classical theory, the macro regime must submit the government to an "inter-temporal restriction" to avoid spoiling the economic dynamics that works harmoniously under the reins of market. In a stylized manner, the goals of a macroeconomic regime in a neo-liberal project must focus on the exclusively price stability and solvency of the public sector in the long run, preferably with reduced public spending over time, to reduce the size of the government and thus increase the efficiency in resources allocation.

For a social-developmentalist project as envisaged here, development is assumed as a political intention and not as spontaneity from the automatisms of the market. In this way, the macroeconomic regime must be compatible with the government's active role in search of an economic dynamism capable of ensuring the deepening of the income distribution process and the expansion of social infrastructure. For this purpose, the government should enjoy a higher degree of discretion in the handling of macro policy, although this does not necessarily mean that rules and boundaries should not be established. These are essential so that the management is not restricted to the short-term horizon and can be reconciled with the long-term goals.

In the recent debate about the Brazilian growth model, several critics have pointed to the accuracy of the economic tripod as being responsible for the low growth of the Brazilian economy and as a hindrance to its development. However, the macro regime has proved flexible over time, allowing changes in the form of management of policies, within the same institutional framework. Especially since the 2008 crisis, the foreign exchange policy now includes the capital controls among the instruments, the monetary policy now considers the supply-side shocks for its decisions and the fiscal regime has incorporated, at least in terms of intentions, an anti-cyclical concern.[7] This prompts the question of whether this flexibility is enough to admit, among other things, a more active role of the government in the economy, the sustained growth and structural changes inherent to the process of economic development.

In the following subsections, we engage in critical discussion concerning the institutionality and management of the regime of macroeconomic policy in force in Brazil, characterized by the floating exchange rate, fiscal targets and inflation targeting.

A. Exchange rate policy and the need for greater control

Despite the redundancy, it is worth mentioning that the main virtue of the floating exchange rate regime is its flexibility. In the face of the current international context, involving a high degree of uncertainty associated with the high volatility of financial variables and commodity prices, the exchange rate flexibility allows absorbing external shocks that could otherwise have a strong impact on the domestic economy. For example, the abrupt changes in relative prices, when not quickly absorbed by the exchange rate, can generate inflationary pressures and thus overburden the monetary policy. Therefore, the institutionalization of an exchange regime with some reference rate (goals, foreign exchange bands, etc.) can generate important macroeconomic imbalances.[8]

If some degree of flexibility is welcome, an excessive flexibility can lead to distortions of various natures, as the exchange rate determined by the market is not necessarily best suited to the process of economic development. For analytical purposes, we present below four reasons that justify an active exchange rate policy. These are divided into two groups, namely those linked to the trade account of the balance of payments and those linked to the financial account.

The first reason for an active exchange rate policy is the cycle of commodity prices. Considering the system of Hicks (1974), which differentiates the markets between fix-price and flex-price based upon the nature of the production process (product cycle, idle capacity, etc.), the sectors that produce industrial goods tend to adjust the quantities produced given the demand shocks, while those that produce commodities tend to adjust prices. Thus, the export revenue of the country producer of commodity tends to be more volatile than that of a country exporter of industrial goods, meaning that the supply of foreign currencies arising from external trade will depend on the price cycle of basic products. This instability is transmitted to the exchange rate, which affects the rest of the economy. Thus, in countries with an export agenda heavily based upon commodities, the foreign exchange policy is important to lessen the impact of this price fluctuation in the exchange rate.

The existence of a high competitive commodities exporter sector leads to the second argument linked to current account, which justifies the use of an active exchange policy. As explored by Bresser-Pereira (2008), the role of this sector in a national economy is subjected to the risks of the commonly termed "Dutch disease", which is manifested as a chronic tendency to currency appreciation. One of the relevant points of approach is the identification of an equilibrium exchange rate for the current account, whose level is more appreciated than that required for the development of a competitive industrial sector.[9] In this case, the role of the foreign exchange policy is to prevent an excessive appreciation of the exchange rate and a specialization of the domestic economy in the production of primary goods. Even if the concept of "equilibrium rate" and the "chronic" character of the appreciation tendency are questionable, they are important thoughts for economies such as Brazil.

Specific exchange policies can be designed to meet these distortions, such as taxes on the exports of commodities, which are causes of Dutch disease, or the constitution of stabilization funds, such as those established by oil exporting economies (the Islamic Republic of Iran, Kuwait, Norway, the Russian Federation, the United Arab Emirates and the Bolivarian Republic of Venezuela) or other commodities, such as Chile (Cagnin et al., 2008).

The third reason for the exchange rate policy is the need to neutralize the temporary or cyclical distortions caused by the financial sector. This is because the financial market does not necessarily lead the exchange rate to an alleged equilibrium and thus the exchange rate policy has the role of containing the excesses, avoiding overshootings and exaggerated volatility. This volatility is particularly harmful to countries such as Brazil, with high pass-through between the exchange rate and inflation. For this purpose, it is appropriate to use capital controls on short-term financial flows that are inherently volatile, as well as regulatory measures on the foreign exchange derivatives market.

However, in the Brazilian case, the financial distortions go beyond volatility and cause long processes of exchange rate appreciation interspersed with short and sharp depreciation periods, such as that experienced in June 2013. This pattern of exchange rate behaviour is pronounced in the Brazilian economy due to the high profitability of financial investments and mainly the high interest rates practised in the country. Carry trade operations have been a constant pressure on the Brazilian currency appreciation in the recent period (Rossi, 2012). This operation is one of the main transmission mechanisms of international liquidity cycle to exchange rates and comprises an inter-currency investment involving the formation of a liability (or a short position) in the currency of low interest rates and an asset (or a long position) in the currency of higher interest rates.[10]

In a pendulum motion, carry trade operations tend to appreciate currencies with high interest rates during the ascending phase of the liquidity cycle and undervalue them in the reversal phase. The important detail is that this movement tends to happen asymmetrically: the process of optimism that characterizes the international liquidity expansion occurs more gradually, while the mood reversals are usually more abrupt. As shown by McCauley and McGuire (2009), as well as Kohler (2010), the most depreciated currencies during the more acute period of the 2008 financial crisis were the target of carry trade, while the funding currencies served as a safe haven of financial flows and consequently appreciated during the crisis.[11]

In those terms, the reasons related to the financial account justify adopting foreign exchange policies to avoid excessive volatility in the exchange rate, as well as an excessive appreciation of the domestic currency. In this context, the architecture of exchange rate policy must be assembled to neutralize financial distortions, given that the subjection of the national currency to the speculative cycles from the financial sector is incompatible with long-term economic development.

Since the 2008 international crisis, Brazil has advanced in the direction of a more active exchange policy. The accumulation of foreign exchange reserves was complemented with measures of control of financial flows (taxes on investments in equities, fixed income and loans), market regulation measures of interbank exchange (encumbrance of excessive short positions of banks in the cash market) and the foreign exchange derivatives market (tax on short positions in dollar). These measures implemented and partly withdrawn between 2008 and 2013 proved efficient for both the qualitative improvement of capital flows and a lower volatility of the exchange rate.[12]

B. Fiscal policy, anti-cyclical action and the search for room for investment

An important task of the macroeconomic regime is to avoid sharp movements in the pace of activity, called the anti-cyclical role. This action must be guided by the goal of sustaining economic growth, and particularly the rate of investment, to enable the advancement of structural changes inherent to the development project. To this end, the guidance of public spending is strategic because it is an autonomous source of aggregate demand. In addition, the entire emphasis on the social infrastructure and public services defended here as a guide for a "social-developmentalism" require significant fiscal resources for their implementation.

According to these criteria, the conduct of the fiscal policy as presented in Brazil – guided by annual fiscal targets – can and should be improved. This is because not only is the fiscal result pro-cyclical within this regime, but also the search for the fulfilment of the goal throughout the year reinforces this pro-cyclical character. Therefore, there is an inadequacy in the establishment of annual targets that have the purpose of long-term debt sustainability yet disregard the economic cycle and the endogenous relationship between public spending and growth.

By definition, the government has control over its decision to spend, although its revenue depends on income generation, or economic growth. Thus, the establishment of an annual goal implies that the government undertakes a fiscal result at the beginning of the year based upon an expectation of revenues, considering the estimated economic growth. However, the growth might not perform as planned during the year, resulting in a smaller tax revenue than expected, thus undermining the fiscal result.[13] Given this, the government can: (a) announce that it will not fulfil the goal and be accountable to society; (b) announce nothing and fulfil the accounting of the primary goal through rebates and the anticipation of dividends; or (c) take additional measures to raise taxes or reduce spending to ensure the fiscal goal of the period.

Of these three options, the first two are bad for the government's credibility and the latter is more adjusted to the prevailing tax regime. However, it is the worst among them, given that the search to fulfil the goal through an emergency and contractionary fiscal policy removes stimuli to the aggregate demand of an already sluggish economy and further reduces economic growth. Added to this, the most common output for this type of adjustment is the curtailment or postponement of investment projects, given that a large part of public expenditure is bound and thus tax increases or expenditure cutting are not always politically feasible. In other words, the search for fiscal goal adds an anti-investment bias to this tax regime in the short-term.

Similarly, the annual target for the primary surplus is inappropriate when economic growth is greater than that projected by the government. In this case, there is an incentive for the excess revenues to be materialized in the expansion of the public spending. By influencing the already heated economy, this additional spending can generate an excess aggregate demand and place pressure on the price level. Thus, the conduct of fiscal policy does not cooperate with the regime of inflation targeting, given that it potentially increases demand inflation and imposes the need for a contractionary monetary policy to control prices.

In summary, in the regime of annual fiscal targets, not only is the fiscal result pro-cyclical, but also the search to fulfil the fiscal goal throughout the year reinforces this pro-cyclical character and accentuates the economic cycle. As addressed here, surplus goals are established for annual periods through a model that estimates the long-term debt sustainability. The criticism that arises is the inadequacy of establishing annual goals in the long-term model, disregarding the economic cycle and the endogenous relationship between public spending and growth.

However, there are two ways to neutralize this problem and reconcile the targeting regime with the anti-cyclical management of the fiscal policy. The first one refers to lengthening the periodicity of the target to encompass the economic cycle. A medium-term goal would give more flexibility to the fiscal policy to have expansionary and contractionary moments, ensuring the expected surplus on average for the period. The drawback of this proposal is that it assumes a conjecture about the nature of the economic cycle and its periodicity, which does not always follow a pre-determined pattern.[14]

The second proposition is to establish an institutional mechanism with clear rules, allowing the public spending to be expansionary in times of low growth and contractionary in times of high growth, thus preserving the continuity of a surplus goal with annual periodicity. This might be feasible through a budgetary fund with public resources reserves, which, when used, must have the specific purpose of public investment. Thus, there would be a legal apparatus that allows the expansion of public investment in the low economic cycle and obliges the government to save the excess revenues in the high economic cycle.[15]

An anti-cyclical policy that guarantees the sustainability of the growth process also opens up fiscal space to expand public investment, as already pointed out as an economic expansion engine and one of the main axes of the development strategy defended here. Larger investments in social infrastructure would have important multiplier effects in terms of employment, income and boosting local economies. Moreover, as the coverage and quality of public services (of education, health, transport, etc.) are expanded, the increasing portion of family income committed to these expenses would be released for other uses. This second effect is greater for poorer layers of the population. The expansion of disposable income seems a more powerful (and fair) instrument of income distribution than the extension of subsidies to the private providers of social services of these social rights, which are often of poor quality, thus only reinforcing the need for a new public pro-investment fiscal policy.

C. *Inflation targeting and the flexibility needed*

The regime of inflation targeting has the advantage of establishing a public commitment to price stability and a reference framework for the monetary policy. This regime is flexible when compared with the alternatives of monetary targeting regime and nominal anchor exchange rate policies,[16] and comprises different forms of institutionalization of the regime and its management. The analysis of the Brazilian case points to a need for greater flexibility of the inflation targeting system, given the structural transformation processes of the economy.

According to the recipe of the commonly called "new macroeconomic consensus", the management of the targets system must rely on using the interest rate instrument with the aim of affecting aggregate demand. However, the causes of inflation are not restricted to a problem of demand; moreover, structural issues associated with the development process are sources of price increases on the supply side.

For example, the process of reducing income inequality can cause a configuration drift between wage growth and productivity. In a first moment, real wage increase generates increased pressure on production costs. In a second moment, the recomposition of the profit margin of entrepreneurs generates a new round of price increase, which in turn reduces real wages.[17] Additionally, the process of income redistribution also results in changes on the demand side, given that the entry of new consumer classes widens the market and requires adjustments in the supply conditions, which can take time.[18]

The fluctuation of commodity prices is another important source of cost inflation. In the recent past, the exchange rate has been an important channel of monetary policy transmission and the absorption of supply shocks from commodity prices. However, the use of the exchange rate for this purpose is extremely problematic due to the volatility pattern of commodity prices. Insofar as the exchange rate reproduces this volatility pattern, the industrial exports and productive investment are undermined.

As an alternative instrument, we can highlight the management of import and export tariffs as an aid to the regime of inflation targeting. In the case of predominantly imported products such as wheat, the reduction of import tariffs can be used in times of this product's increasing price in the international market. In the case of the increasing price of Brazilian export products that have a major impact on the inflation index, export tax represents an alternative. This increase will prompt the redirection of the production for export to the internal market, thus boosting supply and lowering prices.

In the case of commodities and other cases in which inflation stems from supply problems, the effectiveness of using the interest rate as an instrument of monetary policy is extremely limited, given that the increase in interest rates tends to inhibit investment and retract the offer, thus reinforcing the causes of inflation.[19] Accordingly, the monetary contraction might affect the aggregate demand, thereby reducing the growth without affecting the original cause of inflation.[20] Thus, instruments that are alternative and auxiliary to the monetary policy under the inflation targeting regime should be considered.

Put briefly, the regime of inflation targeting might be appropriate for the developmentalism project defended here, given that it is flexible. However, its management must consider three important points: (1) that inflation targeting is not an exclusive goal of the monetary policy; (2) that inflation targeting is flexible enough to accommodate price pressures arising from structural changes inherent to the development process and other supply shocks; and (3) that the interest rate is not the only instrument to achieve the goal of inflation and that other instruments are used depending on the origin of the phenomenon and the nature of the inflationary impulse.

In addition to these issues, the regime of inflation targeting should be compatible with the Brazilian economy's transition to a pattern of lower interest rates. This transition is absolutely necessary to create a macroeconomic environment that is more suited to productive investment and enables the development of a credit system of long-term financing and the improved competitiveness of the productive sector. This transition will be responsible for profound structural changes in the economy, since the fall of the basic interest rate must be accompanied by the fall of the other profitability rates of the system.

The management of the regime of inflation targeting in Brazil has shown some progress in recent years. In particular, we highlight the concern about economic growth that was manifested in recurrent speeches of the monetary authorities, as well as the use of macro-prudential policies as an alternative instrument to the interest rate in terms of controlling inflation. The Central Bank's significant reduction in the levels of the SELIC rate (short-term interest rate) over the course of 2011 and 2012 was an explicit demonstration of the intent to reduce this anomaly of the Brazilian economy, taking advantage of the favourable conjunctures and even facing the powerful resistance against the reduction in the cost of money in Brazil. However, this key price has subsequently increased since April 2013, in a movement that actually responds to a rise in inflation but should not mean a return to the levels – and the rigidity of the objectives and instruments – verified on the economic policy until 2011.

III. Final remarks

In light of the recent Brazilian experience and its future possibilities, this chapter has sought to reflect upon the relations between two dimensions of economic reality and the economic policies that are usually analysed separately, namely macroeconomic management and the development strategy. The final message is that despite the necessary separations between these two perspectives, they need to be tuned, especially when it is believed that the task of development cannot be solely undertaken by market forces.

In more accurate terms, we need the exchange rate, fiscal and monetary policies, which alone are not a sufficient condition for development, to create minimum conditions (and the least possible constraints) for the longer-term objectives of the country, namely defending the national interest, a relevant role for government action, the modernization of the production structure and, in the point highlighted here, the reduction of the social inequalities that have historically characterized Brazil.

This last aspect, which justifies the "social-developmentalist" label, must mean an advance in relation to the undeniable achievements of the last decade, mostly in the form of the expansion and improvement in the supply of public goods. Investment in social infrastructure and the living conditions of the population, especially in urban centres, is a necessary and urgent complement to the improvements in personal income distribution, which should continue, given the long path until acceptable levels are attained. To justify such choices, we not only have the political and moral imperatives, but also the positive economic impacts that the social improvements have caused and continue to cause in the country, especially in the light of a number of external constraints that show the domestic market as a large (and perhaps the only) source of dynamism.

The macroeconomic regime is a necessary condition to account for this renewal and deepening of the social character of the Brazilian development. Therefore, it must be part of the strategic planning and reinforce the articulation with other development policies, such as social, industrial, technological, public investment, infrastructure, wage and other policies.

The analysis of the floating exchange, annual primary fiscal target and inflation targeting regimes shows that the theoretical assumptions that give substrate to them do not converge with the social-developmentalist project. This macroeconomic regime was originally designed to impose limits on the discretion of the government's action and submit the political authorities to the principles of a liberal vision of development, within which the market is the main protagonist. However, a direct correspondence cannot be established between these theoretical principles and the operationalization of the macro regime, which has been shown to be flexible.

In this sense, we have assessed that the current macroeconomic institutional framework can be flexible enough to accommodate a development project in which the government has an inducer role and the social is the central focus of its activities. As pointed out, it is clear that we must move forward in this direction to increase the control over the functioning of the foreign exchange market, turn the fiscal policy effectively into anti-cyclical and with more room for public investment, as well as ensuring that the flexibility allowed by inflation targeting translates into sustainable reductions in interest rates in the country.

Nonetheless, this analysis is ultimately optimistic about the compatibility between the two dimensions addressed. Perhaps better phrased, it does not consider that the debate concerning the possible abandonment (or not) of the so-called macroeconomic "tripod" should be the focus when the goal is to deepen and renew the virtuous traits of a development style that has made advances in recent years. Considering some enhancements and more appropriate management, the institutionality of the floating exchange, primary fiscal target and inflation targeting regimes can accommodate the social-developmentalist project.

Notes

1 The discussion around social developmentalism is recent and much broader than the space given in this paper. In relation to this topic, we recommended reading Carneiro (2012), Biancarelli (2013), Bastos (2012) and Bielschowsky (2012), although the latter does not make use of this term.

2 The "Bolsa Família" is a social programme that provides a benefit to families with less than R$ 70 per capita monthly income (around $ 30). According to ANFIP (2014), in 2013 the Bolsa Família programme benefited 14.1 million families with a basic income of around $ 70 per family per month.

3 According to ANFIP (2014), the Benefits of Continuous Support (BPC) amounted to R$ 32.1 billion in 2013 and were distributed to 4.1 million elderly and disabled persons.

4 Concerning the social protection system and its relations with the recent process of the Brazilian development, see the panoramic analysis of Castro (2012). In relation to the transformations underway in the Brazilian labour market, see Baltar (2015). In addition to the novelty in the Brazilian history, the virtuous relationship between growth and income distribution is a very rare feature in today's world (by contrast to other times, mostly in Western Europe during the post-war period).

5 A multisectoral approach to the issue of inequality is presented by Dedecca (2015).

6 For further details about these other pillars, as well as the ideas presented in this and the next section, see Biancarelli (2013).

7 This article does not aim to discuss whether or not the economic policy carried out from 2008 was correct, but rather to assess the possibilities of changes and ways of managing the macroeconomic regime.

8 Additionally, the definition of an exchange rate target implies an institutional commitment and allows failures in the conduct of the exchange rate policy. Faced with a large financial openness, the definition of an exchange rate target also exposes the regime to speculative attacks such as those that occurred in emerging countries in the 1990s, as described in Prates (2002).

9 "The Dutch disease or the curse of natural resources can be defined as the chronicle overvaluation of the exchange rate of a country caused by Ricardian rents that the country gets when exploiting abundant and cheap resources, whose commercial production compatible with an exchange rate of current balance is clearly more appreciated than the industrial equilibrium exchange rate" (Bresser-Pereira and Gala: 2010: 671).

10 "It is therefore a leveraged investment that implies currency mismatch. The generalization of this type of operation gives specific features to the dynamics of exchange rates. It follows that, the way that the financial wealth allocation is promoted by the carry trade is not restricted to an allocation process of financial asset, but also to the formation of liabilities" (Rossi, 2012: 26).

11 It is interesting to note that, at the peak of the flight-to-liquidity of the 2008 crisis, the Japanese currency was the only one that appreciated against the United States dollar. According to McCauley and McGuire (2009) and Kohler (2010), the explanation for this lies in its role as the carry trade funding currency.

12 However, despite the expansion of foreign exchange policy instruments, some structural aspects have not been modified. In particular, the Brazilian exchange market permeability to financial speculation is a critical element that needs to be addressed. The speculative nature of the Brazilian exchange market is mainly due to the interest rate differential of the Brazilian currency in relation to the others, as well as the liquidity asymmetry existing between the market of derivatives and the foreign exchange cash market, as discussed in Rossi (2012). Therefore, for an exchange rate that is less subject to financial distortion, a reform in the Brazilian exchange market is necessary to increase liquidity in the cash market and reduce the activities of speculators, whose work primarily focuses on the future market.

13 One way to measure the impact of the cycle in the primary result is by estimating the structural primary result. Concerning this measure, see Gobetti et al. (2010).

14 Another form of addressing the same problem is by assuming a "structural fiscal target", which is a measure with cyclical adjustment. In the case of Chile, it considers economic activity and the price of copper among other variables, as shown in Marcel et al. (2001).

15 It is worth noting that the recovery of the Brazilian government's capacity to plan and execute public investment is necessary for a more efficient use of the anti-cyclical fiscal policy.

16 Evidently, it is less flexible than a purely discretionary monetary regime.

17 In turn, the transfer of the high production costs to prices depends on the structure of the productive sectors. "It is reasonable to consider that, in general, oligopolistic sectors (with greater market power) tend to create more inflation for at least two reasons: (i) have a greater ability to pass-through to prices increases in costs, and (ii) may be relatively immune to monetary policy contraction, since it does not necessarily compete via prices" (Modenesi et al., 2012: 204).

18 This process is associated with the expanding of the internal market of mass consumption proposed by Bielschowsky (2012) and already commented in section I.

19 In addition, nominal interest should be considered as a cost component for businesses, as both a financial cost for indebted companies and an opportunity cost of capital for all firms (Serrano, 2010).

20 Depending on the combination of factors, the interest increase might even lead to a rise in inflation, since it reduces the supply ability.

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