Development Conventions: theory and the Brazilian case after the mid-20th century

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Abstract
Keynes believed conventions to be a device to overcome uncertainty. For French Conventionalists (FC) conventions coordinate behavior in complex market situations. Brazilian economist Fabio Erber contributed to this debate by formulating a concept of development convention (DC) based on Keynes' and FC's contributions. As development refers to long term structural changes, DCs can only be identified in the long term. Multiple development conventions can co-exist, however, at any given period, among which only one can be dominant at a particular point in time. There has been in Brazil a struggle for hegemony between two DCs: the *pro-growth – state led* and the *pro-stability – free market* conventions. From WW II until the 1970s, the former was hegemonic (or dominant) but it has been since replaced by the stability convention after the 1980s. The conservative conduct of monetary policy in Brazil since the 1990s builds on the hegemony of the stability convention. This view point has opened room to a research program based on political economy devoted to the study of the Brazilian contemporary monetary policy, which helps to explain why the country has consistently maintained the world's highest interest rates for so long.

Key words: Convention; Development Convention; Political Economy; Brazil

Resumo
Keynes considerava as convenções um instrumento para superação da incerteza. Para os Convencionalistas Franceses (CF), as convenções serviam para coordenar a ação dos agentes em "situações de mercado complexas", não abrangidas pela hipótese de concorrência perfeita. O economista brasileiro Fabio Erber deu seguimento a esse debate formulando um conceito de convenção de desenvolvimento (CD) baseado nas formulações de Keynes e dos CFs. Como o desenvolvimento econômico envolve mudanças estruturais de longo prazo, CDs também só podem ser identificadas no longo prazo. Múltiplas convenções de desenvolvimento podem coexistir num dado período, sendo uma deles a dominante em cada ponto no tempo. Observa-se no Brasil uma disputa pela hegemonia entre duas CDs: a convenção *pro-crescimento-liderado pelo Estado* e a convenção *pro estabilidade-livre mercado*. Da II Guerra Mundial até os anos 1970, a primeira foi hegemônica (dominante) tendo sido substituída pela convenção da estabilidade após os anos 1980. A condução conservadora da política monetária brasileira desde a década de 1990 é sustentada pela hegemonia da convenção da estabilidade. A contribuição de Erber dá espaço para um programa de pesquisa focado na economia política da política monetária brasileira, que ajuda explicar por que o país tem persistentemente praticado a taxa de juros mais alta do mundo.

Palavras-chave: Convenção; Convenção de Desenvolvimento; Economia Política; Brasil
JEL: B59, O10, O20

ÁREA 2: HISTÓRIA ECONÔMICA E ECONOMIA BRASILEIRA
SESSÕES ORDINÁRIAS

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Introduction

An ordinary concept in its origin, convention was first used by Keynes in the General Theory to deal with the modes through which private agents coordinate their behavior under uncertainty. The notion was later developed by a group of French economists, that we will call French Conventionalists (FC), who extended its reach from the original focus on investment decisions given by Keynes to other areas of economic collective behavior. These two strands, Keynes and FC, served as starting points for Brazilian economist Fabio Erber to develop the concept even further, dealing with beliefs and behaviors related to development processes in developing economies.

For this paper's authors, a DC can be characterized as responding to two fundamental questions. The first one is grounded on the fundamental macroeconomic trade-off of growth versus price stability (or employment versus inflation), expressed, for instance, by a phillips curve. The second one is based on the efficacy and relevance attributed to state intervention versus free market operation. In both cases, a DC is supposed to result from an examination of historical evidence pertaining to that society (or class of societies).

From a broad historical perspective, two DCs have been struggling for hegemony in Brazil: the ***pro-growth – state led* convention** and the ***pro-stability – free market* convention**. Generally speaking, the former prioritizes economic growth and state intervention, while the latter prioritizes price stability and free market operation. From World War II until the 1970s the former was hegemonic (dominant), but it has been replaced by the stability convention after the 1980s.

Besides this introduction and a conclusion, this paper has three sections. In the first, are presented Keynes and FC concepts of convention. The second addresses Erber's concept of development convention (DC), gives a history of DCs in Brazil from World War II to the begin of the 2000s, and eventually analyses the DCs prevailing in president Lula da Silva's terms. In the third one, the problem of high domestic real interest rates is analyzed from the viewpoint of conventions.

1 – Convention: Keynes and French conventionalists

Conventions are very useful in our daily life: it is a resource to overcome the uncertainty related to "human decisions affecting the future, whether personal, political or economic, which cannot depend on strict mathematical expectation, since the basis for such calculations does not exist" (Keynes, 1936, pp. 162-163). This sort of uncertainty is the one of a *nonegordic* stochastic process (Davidson, 2002). It is also worth remarking that convention is not an economic concept, being instead the basic psycho-sociological concept of Keynes's investment theory.

Keynes has given two examples of generic situations, i.e., not necessarily related to the economic field, in which we have to betake to conventions. The first: not knowing how the future is likely to be, "we tend (…) to substitute for the knowledge that is unattainable *certain conventions*, *the chief of which is* to assume, contrarily to all likelihood, that the future will resemble the past" (Keynes, 1973, p. 124; our italics). It is a practical way of judgment (and behavior), used when one feels unable to predict the future. It is fairly termed *projective convention* by Dequech (2011).

The second situation: needing to adopt a hypothesis about the future we may call upon a "*conventional* judgment" or "copy the others' (Keynes 1937, p. 214; italics in the original), e.g., "[k]owing that our individual judgment is worthless (…) we endeavor to conform to the behavior of the majority or the average" assuming that "the rest of the world is perhaps better informed" (ibid., 214). This *conventional* (in italic) judgment is the specific way which Keynes has proposed is performed by financial investors.

In the first case, the assumption that "the future will resemble the past" is considered by Keynes *the chief* convention: meaning that there may be other alternatives to be chosen by the individual in such situations. Moreover, the choice is made without direct external influence: the agent's decision and/or behavior do not depend on what the others do. He decides by himself to assume – in a sense rationally, but at the same time conventionally – the projection into the future of present conditions.

In the second case, the conventional judgment emerges from a genuinely social process, i.e., which transcends the individual sphere: it is a belief, a judgment, or an expectation whose formation results from *the interaction of social actors*, and which, by its turn, eventually shapes the understanding, the decision or the behavior of each member of a given society or social group. In brief, the individual decision depends, fundamentally, on the judgment (or behavior) of the pertinent social group.

Despite of these contributions, Keynes has not translated the content of convention into a formalized expression or a definition in strict sense, for good or evil (Modenesi et al., 2013b). This seems to be due to the circumstance that his concern was not with the formulation of a theory of action, or the like, neither with convention itself, but with the building up of a revolutionary investment theory (a task sufficiently complex): in few words, it was a mean, not an aim. And perhaps because Keynes believed it to be an empirical fact, more than a theory of action.

More precisely, Keynes has used the ordinary concept, with its original denotation and connotations,[2] but has also proposed a proper concept of convention – the one implicit in the above mentioned "*conventional* judgment" – comprising, nevertheless, the basic features of a general concept of convention, according to Dequech (2011): social sharing, conformity with the conformity of the others, and arbitrariness. This is the sense of convention which is relevant to the purpose of

[2] Keynes's thinking about the role of conventions has dramatically changed along his intellectual history. In the beginning, he considered as fundamental the concept of intuition, an intellectual capability that enables an unmediated insight into reality. Thence, Keynes then "repudiated entirely customary morals, *conventions* and traditional wisdom" (Davis, 1997, p. 149; our italics) as having no meaning whatsoever for human comprehension of the real.

this paper. It is utilized in *The General Theory* to explain the logic of financial speculation by means of a well-known metaphor: the beauty contest "in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most corresponds to the average preferences of the competitors as a whole" (Keynes, 1936, p. 156). In Keynes's view, the best thing to do in such cases was to follow or imitate the others.

With this denotation, the term "convention" has been understood as designating "mimetic behavior" (Dupuy, 1989), "collective representation" (Jodelet, 1989), "rules of the game" (North, 1990), "a structure of interdependent judgments" (Davis, 1997), "collective rule of behavior" (Oreiro, 2000), "a socially shared pattern of thought (and possibly of behavior)" (Dequech, 2009), and so on.

The inaugural contributions of FC were published in a special issue of the *Revue Économique* (March 1989). Working then as a research team, they departed from the identification that neoclassical theory was at that time facing critical problems in its attempt to explain economic behavior under non-competitive conditions. They mainly refused the proposition that equilibrium is reached by the meeting of individuals wills, with no exterior reference. In fact, FC postulated that an agreement between individuals, even in the case of an exchange, was not possible "without a common framework, without a constitutive convention" (Dupuy et al., 1989, p 142; our translation). According to Thévenot, in the case of non-competitive market, the neoclassical theory faces "critical situations" requiring resorting to "notions external to the explicative system of the general market equilibrium model, mainly qualified as 'organizational' or 'social' (conventions, engagement, trust, loyalty, solidarity, etc.)" (1989a, p. 149; our translation). For him, in these situations some "different constitutive conventions" are useful to allow market equilibrium, as far as they "serve as common prerequisites for action" (1989b, p. 401). In sum, convention provides market coordination.

FC claimed that their insight was shaped under the influence of Durkheim (1960) who had suggested that "'free exchange' (…) could not rest only on the voluntary agreement of private individuals". They also noted that Durkheim proposed that "the contract is not sufficient in itself" requiring "a regulation", a "contractual law". For FC, this is a referential "not modifiable by private individuals" to which Durkheim has attributed a "social origin" constitutive of a "fundamental norm" (Dupuy et al., p. 142; our translation). They replaced the basic neoclassical proposition by a "common constitutive framework" which should not be considered

> as the result of a primitive contract as is supposed by contractualists, but rather as a theory, a paradigm (Orléan) a common sense (Dupuy), a cognitive model (Favereau), a system of knowledge (Salais), of representations, a structure of information etc., which provide the information deemed pertinent and useful for action, and determine the nature of elements that can serve as resources (Eymard-Duvernay, Thévenot). (ibid., p. 142; our translation)

They also observed that “as well suggests the semantic field of the term ‘convention’, that designate the device constituent of an agreement of wills as their product, having a mandatory normative power, convention should be understood both as the result of individual actions and as a framework which constrains agents” (ibid., p. 143; our translation). In other words, a convention emerges from the interaction of the wills, expectations, decisions, or behaviors of the members of a social group or a society, thus establishing a set of guiding rules or a social agreement making up a common framework – endowed of normative power among its adherents – which, by its turn, influences and constraints agents’ wills, expectations, and so on. In this sense, conventions are “collective representations that make an a priori coordination of individuel (sic) expectations” (Orléan, p. 402).

In line with the conventional behavior illustrated by the means of the “beauty contest”, Dupuy formulated the following definition:

> a convention is, by definition, a regularity of behavior R (or of behaviour and of belief) that, in a population P, satisfies the following six conditions: 1. Each conforms to R. 2. Each believes that the others are conforming to R. 3. This belief that the others are conforming to R provides everyone a good and decisive reason to conform to R. 4. All prefer a general conformity to R rather than a slightly less than general conformity – in particular, rather than conformity of all except one (this condition ensures that there is equilibrium. It is local [or partial] and therefore it does not imply that a general non-conformity would not have been preferable). 5. R is not the only regularity able to satisfy the last two conditions; at least one other, R’, would equally have respected them (this condition ensures that there is a certain arbitrariness in conforming to R). (Dupuy, 1989, p. 369; our translation)

In sum: FC have departed from Keynes’s innovative concept of convention and have also followed him in the use of this concept to analyze economic issues. But instead of expectation formation, their focus was the coordinative function of convention. From another perspective, they extended its application far beyond the terrain of investment, and of financial market. Erber went even further by formulating a *new* concept of convention which allows to analyzing a phenomenon not strictly economical but also comprising a social and a political dimension – economic development.

2 – Development Convention: an analysis of the Brazilian case

2.1 – *The Concept of Development Convention: Erber’s contribution*

Professor F. Erber was influenced by the French school of regulation and applied its concepts and theses to the analysis of the *pattern of development* in Brazil – a key factor to understand the genesis and the meaning of DC.[3] He defines pattern of development as a "(…) set of **relations** between **economic and social agents** that ensure, for a given period of time, the continuity of the **processes** of **capital accumulation** and the **preservation of political power**" (Erber, 1992, p. 8; our highlights; our translation). In the economic dimension, these relations are translated into a set of standards regulating: accumulation; production; consumption; funding; innovation and diffusion of technology; State intervention; and international insertion[4]. According to Erber:

> [t]hose relations are built within each nation state, historically speaking. However, they are subject to limitations imposed by the logic of the system and the prevalence, at an international level, of a given hegemonic formation (…). (…) those relations are themselves selective, as they determine **a cast of 'problems'** that can be addressed and the **manners of solving** them, assuming a cumulative character. That's why, in the Kuhnian tradition, they are called standards or paradigms. (1992, p. 9; our highlights; our translation)

Here we find two key elements of the concept of DC elaborated by the author later on. First, the idea that we are dealing with a phenomenon that transcends the economic sphere. Its sociological character is due to the relevance given to the interrelations among social actors. It is a genuine social phenomenon: something *sui generis*, a whole that cannot be reduced to the sum of its parts, no matter what roles they perform. It is an *emerging* phenomenon: external to the behavior of individuals and irreducible to individual cognition (De Wolf and Holvoet, 2005).[5] And second, the emergence of a set of problems to which is given set of solutions or an *agenda*. The idea of convention comes into view more clearly – although not explicitly yet – in Erber (1996), which discusses the concept of *myth* in details. Later on it reappears in Erber (2002): "Part of the conventions which help social actors to deal with uncertainty are 'stories' told about change – of how change is necessary and, especially feasible, even under difficult circumstances" (p. 15). Erber (2002, pp. 19-33) also explores the notions of myth and agenda in both positive negative perspectives.

The concept of convention is then expounded in Erber (2004), in a section especially dedicated to the development conventions. In later stages of his career, Erber (2007; 2008a; 2008b; 2011; 2012)

[3] For instance, Lautier and Moreau (2012), and Thury and Freitas (2010) apply Erber's DC concept. According with Carvalho (2014): "Erber chegou ao conceito menos por via de Keynes que pela via dos trabalhos de economistas franceses, notadamente André Orlean, sobre o tema, mas jamais perdeu de vista a possibilidade de fertilização cruzada que esse tipo de problema oferecia com a teoria keynesiana" (p. 272).

[4] Erber uses the notion of *Mode de Régulation* [Mode of Regulation]. Boyer and Saillard (2002: p. 41) state that "a mode of regulation establishes a set of procedures and individual and collective behaviour patterns which must simultaneously reproduce social relations through the conjunction of institutional forms which are historically determined". Agents are involved by series of institutional arrangements that socialize and restrict both information and cognitive abilities, adopting situated rationality. It ensures compatibility of a set of decentralized decisions, without requiring agents to internalize the principles governing the overall dynamic of the system (Aglietta, 1997). Modes of regulation may differ, depending on time and location, and evolve as a result of the interactions of its institutional forms (Benassy *et al.*, 1979).

[5] Erber (2007) uses the concept of "sociological generation" (Abrams, 1982), which reinforces the sociological character of the concept of convention: "[t]he identity that constitutes a given sociological generation can be understood as a 'social convention', a cognitive system that guides social practices and serves as a key element to reduce uncertainty and coordinate economic and political agents" (p. 43; our translation).

devoted himself almost exclusively to studying conventions and exhaustively deepening and shaping the concept, under the influence of both Keynes and the FC, such as Orléan (1989; 2004) and Jodelet (1989).[6] For Erber (2004, pp. 40-41):

> **[c]onventions** are **sets** of **beliefs shared** by a **community for**, among other purposes, **problem-setting** and **problem-solving**. They are a **heuristic device** for **dealing** with **uncertainty**. Conventions may steam from different sources: religion, myths, scientific theories, etc. Since the Enlightenment the prestige of science as a source of conventions has increased, albeit at the cost of dressing up other sources (such as myths) in the guise of scientific theories. (…) conventions embody a **set** of **criteria** which specify a '**positive agenda**', the set of problems which should be tackled and a set of solutions which should be used to solve such problems. The criteria also specify a '**negative agenda**', problems which are not relevant and solutions to (relevant) problems which should be avoided. (our highlights)

The author himself acknowledges the contribution of Castro (1993), who proposes a dichotomy between the conventions of "growth" and "stability". Erber (2004; 2012), in addition to acknowledging that he owes Castro the notion of convention, also acknowledges the influence of Schön (1988). Erber also borrowed the notions of "rules of the game" and "shared mental models" from North (1990) and Denzau and North (2004), respectively. The power of theses guiding rules is strengthened if there exist a metaphor (given by myth, story or theory) assuring that the promised better future will be achieved since the agenda is implemented – that is to say, a teleology. According to Erber:

> [s]uch set of rules, the positive and negative agendas they generate and the teleology underlying them are a **convention** – a collective representation which structures individual expectations and behavior (Orléan, 1989) (…). A convention arises out of the interaction of social agents but it is external to such agents and cannot be reduced to their individual cognition, i.e., it is an emergent phenomenon (De Wolf and Holvoet, 2005). In every society there are many conventions dealing with different aspects of economic and social behavior (e.g., the quality of traded goods, the working of the financial system). Following our definition, a **development convention** is concerned with structural change. This begs the question about which "structures" are to be changed? The answer to that question differentiates development conventions. (Erber, 2012, p. 8; highlight in the original)

DCs exist as a direct result of the concept of economic development itself, which cannot be reduced to the growth of per capita income – what in Erber's words would simply mean "more of the same".[7] The structural changes subjacent to and characteristic of the development process produce uncertainty (in the Keynesian sense), as well as coordination problems (as FC emphasized). Thus,

[6] FC approach is usually combined to Keynes' ideas. See, for instance, Dequech (2003; 2009; 2011).
[7] Erber acknowledges the contribution of Schumpeter (1964) to the formation of his own view of development.

conventions exist to mitigate the uncertainties and the consequent coordination problems that are inherent to the development process.

Development is a multifaceted phenomenon in which the economic dimension – both at micro and macro levels – cannot be dissociated from its political and sociological aspects.[8] Eventually, development is promoted and hence determined by social actors. In addition to the role performed by policy makers, Erber emphasized the influence of social actors, such as interest groups, corporations, multilateral organizations (as the IMF and the World Bank), scholars, opinion makers, voters, and others. His epistemological stance becomes very clear: "Ontologically, Economics is Politics". Based on the assumption that economic theory is not axiologically neutral, Erber explained where the DCs prevailing in contemporary Brazil came from – or how they were formed – and where they are leading us to.

Probably, the main contribution resulting from the study of DCs is that the belief that a given DC can be transformed into a "national project" aiming at the "common good" is as utopic as the belief in Rousseau's idea of the "general will". Actually, a DC serves a set of interests, particular to a given society and historical moment, which asymmetrically affect all social actors and groups of interest:

> [d]espite **being sold** as a "**national project**" aiming at the "**common good**", they actually **represent** a given **distribution** of **political** and **economic power** in a society in a given period of time. (…) **no development convention can accommodate everyone** (Erber, 2011, p. 36, our highlights, our translation).

2.2 – *Development Conventions in Brazil: a brief retrospect from post-World War II to the1990s*

From WW II until the end of the 1970s, the hegemonic convention in Brazil was the **developmentalist** one. The core content of its agenda was to foster development by changing the productive structure – dominated by the primary sector – by means of industrialization assumed as a national project to be implemented under the leadership of the State. Industrialization came to be politically and socially envisaged as indispensable to reproduce the same productive structure and, eventually, social patterns similar to those regnant in the developed world.

The ideological and theoretical basis, and the technical instruments to implement this convention was mainly provided the UN Economic Commission for Latin America (ECLA).The called "center-periphery approach" or "structuralism" was firstly formalized by Prebisch (Executive Secretary of ECLA) in what Hirschman (1961) named the "Latin-American Manifesto":

[8] In the sense given by Weber (1991): knowledge is built upon the theoretical-rational construction of ideal types, as a product of interpretation of reality. As this one is infinite and subject to multiple ordinations, it becomes impossible to explain a given object from all possible *viewpoints*: "all the analysis of infinite reality which the finite human mind can conduct rests on the tacit assumption that only a finite portion of this reality constitutes the object of scientific investigation" (Weber, 1991, p. 29).

> [i]n Latin America reality is undermining the schema of international division of labor (…) Under that schema, the specific task that fell to Latin America, as part of the *periphery* of the world economic system, was that of producing food and raw materials for the great industrial *centers*. There was no place in it for the industrialization of the *new countries*. It is nevertheless being forced upon them by events. Two world wars in a single generation and a *great economic crisis* between them have shown the Latin American countries their opportunities clearly pointing the way to industrial activity. (Prebisch, 1949, p. 4; our italics)

Accordingly, a necessary condition to overcome underdevelopment was to promote structural changes: increasing the overall productivity of the economy above all through industrialization, but also with the modernization of agriculture and the renewal of infrastructure. Figuratively speaking, it was prescribed as necessary removing the then called development "bottlenecks".

Given the underdevelopment conditions[9], the technical complexity of the investment projects and the huge investment expending required, the private sector was not able neither to fund nor to implement those investments, which in many cases were made in natural monopoly (with a high minimum efficient scale).[10] So, direct state intervention – by means of public enterprises –, planning, and also public incentives to private investors were other necessary conditions to foster development.[11]

In a sentence, surpassing underdevelopment was sold as mostly a political task to be furthered by the State. This was an upheaval political-ideological perspective grounded in theoretical fundamentals which was translated into economic policy objectives and eventually in actionable targets. Thereat, the developmentalist convention was in its way to conquer hearts and minds. ECLA's theory provided the cognitive content for a teleology which explained "how the present arose from the past and, especially how the future will be" (Erber, 2008, p. 2) once the developmentalist agenda is performed.

As mentioned by Erber (2012, p.14), industrialization attended not only national interests but also those of international oligopolies producers of durable consumer goods, capital goods and intermediary industrial products which established subsidiaries in the country benefiting from domestic market reserve provided by import controls and high tariffs – discouraging imports of goods to be produced domestically and favoring essential goods imports –, and also from the

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[9] Meaning: the low skill of labor force, low level of saving, rudimentary financial market, limited entrepreneurial capacity, lack of experience with the formulation of investment projects and its implementation, etc.

[10] See Kerstenetzky et al. (1973) and Baer et al. (1976).

[11] From 1956 to 1979, five economic plans were adopted. By the end of the 1970s there were around 80 public enterprises, for instance: CSN (siderurgic), SIDERBRÁS (siderurgic), CVRD (mining), Álcalis (alkali), PETROBRAS (oil), CHESF (electric power), FURNAS (electric power), ELETROBRÁS (energy), TELEBRÁS (telecommunications), FNM (automobile), EMBRAER (aircraft), and EMBRAPA (agricultural research).

resulting high profit rates. The denominated "import substitution industrialization" was fully developed by Tavares (1964)[12]

Developmentalism turned to be a "social representation", grounded in a teleology (Structuralism), and having all the other features of a DC: 1) shared guiding rules to reduce uncertainty and promoting coordination; 2) an agenda ranking the problems to be faced (e.g. low degree of industrialization, infra-structure "bottlenecks"), the respective acceptable solutions (e.g. import substitution and investing in infra-structure) and the no acceptable ones (e.g. reducing growth to controlling inflation); and 3) organizations in charge of the achievement of the established goals, as the National Bank for Economic Development (BNDES); and 4) the rules and regulations to be followed in the targets implementation. Developmentalist convention had progressively conquered a highly solid and effective support of the majority of Brazilian population eventually becoming hegemonic.

Inflation was not considered a relevant problem and growth was favored over price stability. Accordingly, President J. Kubitshek's was elected using the slogan "fifty years [of growth] in five". During his administration (1956-1960), GDP grew around 8%. Despite that inflation accelerated to more than 22%, he was then considered the most popular president. Another negligence was related with income distribution that actually worsened (Gini coefficient increased from 0.535 to 0.589, from 1960's to 1970s). Changes in the institutional framework were not promoted as it was envisaged by the developmentalist agenda. For example, the historically needed land reform was not promoted, being labeled by rightists as "a communist banner". And also scarce attention was given to scientific and technological development. Thus developmentalist agenda was not fully implemented: it was adopted in a rather distorted way, giving rise to a *restrict* version of it, limited to fostering economic growth.

The full implementation of developmentalist agenda was largely obstructed by a right wing military coup in 1964 (Furtado, 1995). The autocratic regime put even greater emphasis on economic growth[13], waving that the social changes would necessarily follow it. For instance, as a sacred economic law to justify the income distribution worsening, an authority has vowed that "the cake has to grow up before being distributed". Nevertheless, the most frequent orthodox criticisms from adept of liberalism was mainly concentrated in blaming on the low degree of openness of the economy and the high level of state intervention.

Indeed, for the whole period of 1946 to 1979, economic growth was rather impressive: GDP increased at an annual rate of 7,6%, and the share of industrial product in the GDP rose from 23% to around 33%. On the other hand, inflation accelerated progressively from 19% in 1946 to 67% in 1979.

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[12] See Bielschowsky (1988) for a thorough analysis of developmentalism.
[13] Promoting high growth rates was an instrument of political legitimacy of the autocratic regime, which ruled until 1984.

After the 1970s, the pattern of development in Brazil started being radically changed. During the "lost decade" (1980s), economic growth vanished abruptly[14] and the situation was made worse by the already chronic high inflation, (external) debt and fiscal crises. Inflation went out of control producing high income regressive effects – bearing the poor especially – and disturbing economic system and people's day life. Worst of all was the frustration resulting from the negative overall outcome: the feeling that the overcoming of underdevelopment eventually became unreachable.

This new economic reality turned to be a fertile field to the rise of a new DC. Indeed, during the 1980s, the developmentalist convention began a cumulative process of deconstruction. Its cognitive content was put in check; and then the adherent population started diminishing. Both factors contributed to weakening its political and economic power – which, by its turn, ended up restricting its capacity to subsume and determine the individual judgment and behavior.[15] The widespread delusion with the developmentalist convention provided a necessary condition for the **neoliberal** convention emergence.

In the political-ideological level, the forthcoming of the Washington consensus (Williamson, 2004) played a crucial role.[16] IMF and World Bank became in charge of promoting (sometimes even imposing) at global level a completely new agenda: fiscal discipline; privatization; deregulation (especially in financial markets); current and capital account liberalization (focused in FDI); property rights; etc. Accordingly, there was also a completely new teleology: liberalizing the economy will bring development. One should note how this antagonizes with the developmentalism: its positive agenda suddenly became negative.

From 1985 to 1994, economic policy was virtually reduced to attempting controlling inflation: six stabilization plans were implemented without being succeeded. Price stability was only achieved with the Real Plan, based on an exchange rate anchor. Inflation plunged from a monthly rate of 47% in June 1994 to less than 2% two months later, and it has since then been maintained at reasonable levels: between 6-7% per year.

During Sarney's (1985-89) and, mainly in Collor's administration (1990-92), a wide set of reforms began to be implemented: opening up of the economy (current and capital account); privatization; administration reform; and tax reform. During Cardoso's terms (1995-2002), the Washington consensus agenda was furthered and the neoliberal convention eventually became

[14] From the 1980s on, GDP annual rate of growth averaged around 2,5% p.y.

[15] According to Keynes (1937, p. 215): "The practice of calmness and immobility, of certainty and security, suddenly breaks down. New fears and hopes will, without warning, take charge of human conduct. The forces of disillusion may suddenly impose a new conventional basis of valuation." Likewise, Erber (2012, p. 13) has proposed that "[d]evelopment conventions arise out of the interplay internal economic and political forces with the international context and a crisis of such forces (…) may prevent the incremental and cumulative process of change of a DC, leading to an attack on its hard core (…). Under such circumstances the hegemonic DC tends to be replaced by a new convention".

[16] For a PK view on the Washington consensus, see Davidson (2004) and the other papers in the *JPKE* especial issue on the subject (vol. 27, n. 2).

hegemonic.[17] Privatization and capital account liberalization was deepened. State intervention was reduced substantially in favor of free market operation. Price stabilization process – begun during Franco's (1992-94) administration – was concluded. Economic policy was focused on price stability. Economic growth became secondary – or at best, considered a byproduct of price stability.

In 1999, the exchange rate anchor was abandoned in favor of the policy *tripod*: inflation targeting (IT); floating exchange rate (with high capital mobility); and primary budget surplus targeting. Monetary policy was hierarchically superior compared to others: economic policy targeted price stability, which became the sole object of monetary policy and fiscal policy gained a supporting role, limited to not creating inflationary pressures. The tripod was aligned to the New Consensus on Macroeconomics.

In few words: from the WW II to the 1970s, a pro-growth – State-led convention was hegemonic being replaced by a pro-stability – free market convention along the 1990s.

2.3 – *The Development Conventions in President Lula's terms (2003-2010)*

Erber (2008b; 2011) applies the concept of DC to the analysis of President Lula's terms, which began surrounded by huge uncertainty. He discusses the clash between two conventions: the institutionalist convention and the neo-developmentalist convention. The former became hegemonic, but the latter also exerted some influence on President Lula's terms, as we shall see ahead.[18]

The discourse and the documents produced by the Brazilian Central Bank (BCB) and the Ministry of Finance are permeated with the **institutionalist** convention, which is founded on neo-classical theory and the *new institutionalism* (North, 1990). It is grounded on the myth of a competitive, meritocratic society, where free market and adequate institutions are thought to ensure economic efficiency, especially from the allocative perspective. In this framework, allocative efficiency is reinforced by investments in human capital (education) and targeted social policies, such as those preached by the World Bank.

Market forces – based on a price system that adequately signals the relative scarcities – allow for an efficient allocation of resources, which in turn ensures economic growth. From this perspective, institutions, translated into a set of rules and organizations, favor the adequate functioning of the markets. Assuring ownership rights and creditors' rights and reducing transaction costs are equally important, hold as essential. In general, *second-generation* institutional reforms, that is, post-Washington consensus, are recommended.

[17] More details on Sallum (2000).

[18] Erber (2011, pp. 31-32) also acknowledges the existence of two other conventions: the neoliberal convention, which despite losing strength after the 1990s crises (Erber, 2012) stood out for its critique of the interventionism of President Lula's governments; and the **new-developmentalist** convention (Bresser-Pereira, 2012a; 2012b), inspired by post-Keynesian thought, which opposed the policy *tripod*.

It is worth to mention the belief that a reduced level of inflation (as it ensures the adequate functioning of the price system) is an essential precondition to economic growth. Indeed, the BCB played a crucial role, with its president elevated to the status of a minister during President Lula's terms. The BCB is a kind of organization, structured in accordance with the principal-agent model, that must be *independent* of the political system (but not the financial market, as we shall see ahead), in order to avoid the profane temptation of monetary authority being subject to *inflationary bias*. Price stability has become sacred, a "good in itself", according to the Federal Reserve Chairman Ben Bernanke's expression.

The institutionalist convention, despite its hegemony, was adopted in a mere restrictive manner, as it focused price stabilization mostly. Thus, at the top of President Lula's agenda, price stability was pursued as a key goal. Since the macroeconomic policy focused on inflation control, the policy tripod became asymmetric: IT influenced and restricted both fiscal and exchange rate policies.

The high interest rates attracted foreign investments – in pursuit of arbitrage gains – and thus contributed to the overvaluation of Brazilian real. In its turn, the overvaluation of real facilitated inflation control. Indeed, the exchange rate became a key monetary policy transmission channel. As a matter of fact, during President Lula's terms,[19] Brazil set a world record in terms of (real) interest rates, and the Brazilian real was one of the most overvalued currencies of that period. Roughly speaking, fiscal targets were achieved by cutting government expenditures, especially investments. If any conflicts arose between inflation control and other macroeconomic goals, they were solved in order to pursue the sacred goal of price stability.

As Erber (2011) noted, despite price stability being sold as a good in itself, featuring like a public good – whose benefits are available to everyone –, the (asymmetric) policy tripod was not neutral from the allocative perspective, with losers and winners being clearly distinguished.

Among the losers are debtors and credit takers. The State – the biggest individual debtor – spent around 6% of GDP a year on average with public debt interest payments. Private borrowers (firms and households) also lose. The financial system becomes scarcely functional, as it prioritizes operations with government bonds. The result is a high concentration (to total financial system assets) of short-term assets with high liquidity and high yield. As a consequence, it jeopardizes the funding of investment projects (in production and innovation), which are essential to the structural changes subjacent to development.

Among the winners are surplus units, in general, and the financial system, in particular, whose incomes mostly come from the vigorous gains from treasury operations. Erber (2011) points out that Brazilian banks' net profit tripled, with their profit margins rising from 15% to 23% between 2003

[19] Note that, also during President F. H. Cardoso's terms, interest rates were high and the currency was maintained overvalued.

and 2007. The wealthier also benefited: from 1995 to 2005, non financial companies and individuals received 80% on average of all financial incomes, according to data presented by Bruno (2007).

However, the institutionalist convention was not only beneficial to the financial system and the *rentiers*. Aligned with the logic of *financialization* – which characterizes the period under study – firms, especially those with vigorous cash flow, also benefited from the combination of high interest rates and currency overvaluation, as they were able to make robust financial gains from investing their cash flows. Among them, one should mention producers of intermediate goods; producers and sellers of commodities; wholesalers; and retailers. Another example is the high leverage position in foreign exchange derivatives by Aracruz (one of the biggest pulp and paper producers) and Sadia (one of the biggest food producer), revealed at the end of 2008.

The overvaluation of real is a byproduct of monetary policy, from which it cannot be dissociated: “currency overvaluation and high interest rates are Siamese twins” (Erber, 2011, p. 43). Importers of goods and services also benefit from currency overvaluation, whereas domestic producers and exporters have their businesses negatively affected by it. The combination of high interest rates and currency overvaluation also benefits those who have access to international credit markets, as well senders of outbound money transfers (such as investments, profits, dividends).

Summarizing, despite being sold as beneficial to everyone, as something aimed to promote the common good, the stabilization policy – based on the combination of high interest rates and currency overvaluation – was non neutral from the allocative perspective and clearly produced distinguishable winners and losers.

The **neo-developmentalist** convention coexisted with (despite being subject to) the institutionalist convention, which was hegemonic in that period. The 2003-2007 Pluriannual Plan (in Portuguese, Plano Plurianual de Aplicações – PPA) and the Industrial, Technology and Trade Policy (in Portuguese, Política Industrial, Tecnológica e de Comércio Exterior – PITCE) provided the guidelines for the neo-developmentalist convention, which was reinforced by changes in the command of the Ministry of Finance (notably, the substitution of Minister A. Pallocci) and President Lula’s reelection in 2006. Five pillars underpinned the neo-developmentalist agenda: 1) investment in infrastructure (especially energy, logistics and sanitation), with emphasis on the role of public companies and the BNDES; 2) investment in residential real estate, based on both public and private credit, aiming at reducing the housing deficit; 3) virtuous cycle involving an increase in consumption – due to an increase in the minimum wage, formal employment, and income transfer programs – and investments in fixed capital and innovation; 4) investment in innovation through subsidies and fiscal incentives; and 5) an independent foreign policy that prioritizes relations with developing countries.

The theoretical framework behind it is Keynesian, in which the State and State policies played a central role. A point to be mentioned is the endeavor to create a virtuous cycle involving income increase among low-income families – by means of income transfer programs and increase in the minimal wage – and State-led strategic investments.

Contrarily to the more liberal character that permeates the institutionalist convention, in the neo-developmentalist convention the State assumes a strategic role in the implementation of those five pillars. The role of the public sector in implementing the first two pillars, as well as the last one, makes this new convention particularly close to the (old) developmentalist convention. Nevertheless, despite sharing features with the new-developmentalist framework, the neo-developmentalist convention diverges from it in a fundamental issue: the second one accepts the policy tripod.

The neo-developmentalist convention builds on the myth of a cooperative, inclusive society. It builds on the pursuit of a social contract and on President Lula's metaphors that compare society to family and interpret economic problems in terms of home economics. Social inclusion policies – which aimed to reduce poverty and materialized the third pillar underpinning the neo-developmentalist convention – played an important role in President Lula's agenda, which distanced this convention from both the old developmentalist and the neo-liberal conventions.

Also, it is worth to mention that the relation between the institutionalist and the neo-developmentalist convention is rather dialectical. On the one hand, they antagonize in key aspects; on the other, they reinforce each other mutually.[20] According to Erber (2011), the main "link" between them is the belief that price stability – obtained by means of the policy tripod – has a purging capability. As a consequence, under the influence of the hegemonic pro-stability convention – which serves them both – the neo-developmentalist and the institutionalist conventions reinforce each other mutually and ensure the *status quo*, serving to a wide range of interests. In his words:

> However, "links" can be established between the two conventions, which reduce the conflicts between them and, at the same time, allow for **the hegemony of the convention of stability to consolidate**. Among them, there is the idea that the "poor" tend to be the most negatively affected in periods of high inflation, and that the political success of social inclusion policies, achieved by means of low fiscal costs and despite of relatively low growth rates, reduces the importance of high growth rates as an instrument of political legitimacy (…) and allows for the reconciliation between the two conventions. (…) the coexistence of both conventions is enabled under the hegemony of the restrict institutionalist convention, which is in turn ensured by **controlling the macroeconomic policy tripod** and by neo-developmentalist policies not jeopardizing the interests behind such a convention, insofar as the policies that incorporate this convention are sustained. The **combination** of **both conventions** serves a **wide range of interests**, which ends up making it stronger (…). (Erber, 2011, p. 51, our highlights, our translation)

Next section discusses how the concept of convention has been particularly applied to the analysis of Brazilian contemporary monetary policy, which brings the world's highest (real) interest rates as a

[20] On the power of DC, see Erber (2012, p. 8).

key feature. A special attention will be given to the power of the pro-stability convention, which calls for the conservatism that has characterized the conduct of monetary policy since mid 1990s.

3 – The Problem of Interest Rates in Brazil from the Viewpoint of Conventions

The concept of DC can be used to explain the so-called *problem of interest rates* in Brazil. Bresser-Pereira and Nakano (2002) are pioneers in using it to explain the excessive monetary rigidity that has been practiced in Brazil since the launching of the Real Plan – period where, put in simple terms, the country had the world's highest real interest rates: "[a]fter a long period of persistently high interest rates it is natural that a fear of cutting interest arises, to a point that the prevailing interest rate level becomes a convention" (169). Erber (2011) gave a decisive contribution to furthering the thesis on the existence of a convention supporting the conservative conduct of monetary policy in Brazil. According to him, the excessive monetary rigidity should be explained from the perspective of Political Economy. In other words, one should not understand the high interest rates as a problem of macroeconomic nature only, but rather as the result of a powerful coalition of interests on sustaining interest rates at high levels and hence keeping the real overvalued.

As previously mentioned, Erber authoritatively discusses the non-neutrality of President Lula's economic policy. He acknowledges the existence of a powerful "coalition of interests" to keep high interest rates and currency overvaluation. Such coalition is beneficial not only to *rentiers*, who profit from financial operations, but also to other beneficiaries (see previous section), including the BCB itself, which benefits from the reputation of being a conservative, inflation-averse central bank. Therefore, this is not a typical situation where the agent, the Brazilian Central Bank (BCB), is capture by the principal, the *rentiers*. In his words:

> [t]hus, a **wide** and **powerful constellation** of **interests** has been **structured** on the combination of high **interest rates** and **currency overvaluation**, and it has **established** a **convention** on the idea that those **features** are **essential** to the **development** of the country. (…) Such coalition of interests has at its disposal **powerful instruments** to **consolidate** and **disseminate** its **convention** of development, the **most explicit** of which is in the **hands** of the **financial system** (…) But there are others (…) such as the funding of political campaigns, relations with Congressmen, the 'bureaucratic-corporate circle' (…) and relations with media groups. The Central Bank is a necessary member of that coalition (…). To establish the coalition and the convention that serves as its social representation, it is necessary that the **Central Bank** and the **private** banks **jointly benefit** from the **same policy** – in this case, the prestige from achieving targets and the profits from high interest rates and currency overvaluation (Erber, 2011, p. 43, our highlights, our translation).

It is worth noting that the more orthodox economists find it somewhat difficult to assimilate the precise meaning of this thesis – probably, because it transcends economic theory, given its sociological character. In addition, it cannot be formalized as an abstract theoretical model in which historical timeframe, political relations and social relations are irrelevant – something usual among mainstream economists. As a result it is common to find this thesis addressed to in a completely distorted manner. For instance, from Schwartsman's (2011) point of view the convention suggests there is a "conspiracy" among the analysts at *Boletim Focus* to "induce the BCB to put interest rates in a trajectory that is higher than strictly necessary". It is true that *Focus* is one of the instruments used by the beneficiaries of this convention, the BCB among them, to keep the *status quo* (Guimarães, 2008, 2009). However, the thesis cannot be reduced to a mere "conspiracy".

Erber pioneered a research program based on Political Economy devoted to study the Brazilian contemporary monetary policy. Corrêa (2010), Dequech and Seabra (2003), among others, bring the thesis on the interest rate convention close to Keynes' ideas. Modenesi et al (2013b), as well as Erber, apply Keynes' (and the post-Keynesians') approach, as well as the French conventionalists', in an explicitly convergent manner. They suggest that the monetary policy framework, in general, and the setting of Selic rate, in particular, are driven by conventions.

In empirical studies, the parameters of the reaction function estimated by Modenesi (2008; 2011) and Modenesi et al (2013a) corroborate the idea that BCB was extremely conservative. In general, their results indicate excessive slow movements in Selic and lower bound well above zero for the equilibrium interest rate. Chernavsky (2007; 2008) provides empirical evidences that also seem to corroborate the convention thesis.

Due to changes in the economic policy (especially in the strategy to control inflation) started at the end of President Lula's second term (notably in the late 2010's) and furthered in President Dilma's government (after 2012), the contribution of Erber has gained relevance as an explanation to the situation of high interest rates in Brazil. It is now clear that it is rather a matter of Political Economy, more than any other thesis could have foreseen.[21]

Indeed, one can argue that there were no genuine impediments of macroeconomic nature to the fall of interest rates. In the end, there have been no bank crises and no capital flights, nor has the chronically high inflation returned. In addition, there has been no need for a drastic reorientation of the fiscal policy, as proposed by the defenders of the *fiscalism* – one of the most popular explanations for that problem. Hence, real interest rates (both in short and long terms) have ultimately declined as a result of a political decision made by the President, and no macroeconomic disturbances have threatened the success of the new monetary policy.

On the one hand, the BCB has cut Selic in an unprecedented manner – and has kept it to a historical minimum level – but inflation has not been significantly above the average observed

[21] Modenesi and Modenesi (2012) list five theses on the "problem of interest rates in Brazil": reduced efficacy of the monetary policy; pro-conservative convention in the monetary policy; multiple interest rates equilibria; fiscalism; and jurisdictional uncertainty.

during the post-Real Plan period.[22] On the other, the strong reaction against the “unexpected” cut in Selic – especially by representatives of the financial market – reveals the role and the power of the conservative convention behind the monetary policy in Brazil, as we shall discuss ahead.

BCB’s new stance became concrete in the cutting of Selic by 50 bp (a movement that had not been foreseen by financial market analysts), during a meeting of the Monetary Policy Committee (COPOM) in August, 2011. The cutting of Selic generated massive losses to most money market agents, who had bet on the maintenance of Selic at a high level. Contrarily to the market consensus (or convention), the BCB set Selic rate at a level expected to prevail within three months ahead on future contracts (*SWAP-DI*).

BCB had made this decision based on a more favorable inflationary scenario, where: 1) the Eurozone crisis was deepening and consequently international interest rates were expected to remain at minimum historical levels; 2) it featured the cooling of domestic economic activity; and 3) inflation came closer to the target center. Ministry of Finance, in a more coordinated action with the BCB, made a contribution in rising the primary surplus target; and, especially, in setting a new rule for the earnings from savings account, and thus removing a sort of lower bound that obstructed the falling of Selic.[23]

Two other key factors have accounted for the fall of interest rates. First, monetary policy instruments have become more diversified, by including macroprudential and credit control measures. Second, measures have been taken to control cost inflation, such as payroll tax cuts and energy price cuts.

Despite being well grounded, the decision to cut Selic prompted a wave of criticism, particularly from financial market participants (both at the domestic and international levels). The “wide and powerful constellation of interests” on high interest rates (and currency overvaluation) acted in defense of its worldview and its agenda (both positive and negative).[24] Despite the world crisis, they asked for more of the same and radically opposed to the changes in the monetary policy.[25]

According to Nakano (2011), spokesmen for the financial system publicly bemoaned the break with “protocol” and “liturgy”, as well as the subversion of IT “most valuable principles”, which

[22] Selic was set at 7.25% p.y. during the COPOM meeting of August, 2012. The consumer price index (in Portuguese, Índice de Preços ao Consumidor Amplo – IPCA) rose by 5.9% in 2012, thus inflation target was achieved. Note that the average inflation since IT was adopted (1999-2012) stood around 6.7% p.y., whereas IPCA stood at 7.4% p.y., on average, since the Real Plan was launched (1995-2012).

[23] The old rule erroneously established a sort of lower bound for the Selic rate, around 9% p.y. As Selic converges to this level, the earnings from most money market funds became smaller than the earnings from the savings accounts. Thus a massive migration to the savings accounts was feared, since it could jeopardize the sale of public bonds.

[24] Put in simple words, in the negative agenda the alleged abandonment of IT predominates; in the positive one, the need to rebuild the policy tripod is preached.

[25] Among the demonstrations of astonishment and dissatisfaction, two news articles leap to the eye for the mocking in their titles: “Cuts in samba rhythm” (Olivares, 2011) and “Farewell Taylor rule, welcome Rousseff rule” (Schmidt, 2011). Jensen and Ribeiro (2012), for their turn, issued a warning: “at some point the government will have to make hard choices. Inflation may come to diverge from the target (...). In the best scenario, the tripod will be resumed. In the worst, institutional murders escalate (...)” (p. A-29).

made financial markets “perplex”. Banks got “used to have a promiscuous relationship with the BCB, to say the least”, in which the BCB merely sanctioned the expectations on inflation (revealed by *Focus*) and interest rates (contained in *SWAP-DI* contracts). According to Nakano, that protocol has been broken and “the BCB has finally become independent” from the financial market. Thus, “[it is] understandable that those who profit from high interests shall defend the ‘valuable principles’ of the current rule” (p. A-15).

Former BCB President Franco (2011) attacked the change in monetary policy and, covertly, the Minister of Finance himself. First, Franco suggested that the BCB should adopt the “let-things-be-to-see-how-things-turn-out-to-be” kind of behavior, which had already been adopted in the subprime crises (and proved to be a disaster) and became eventually known as the Meirelles mistake.[26] Franco then warned that the BCB responded proactively (before the crisis) and gave “the impression of COPOM members knowing better than the market”. Eventually, he joined not only the hordes of non-believers in the gravity of the crisis, but also the litany of complaints by the “orphans” who used to benefit from that old liturgy. On the brink of mysticism, he stated that “[those] mysteries – and there is no one who dares to question the size of the risks mentioned by the BCB – have suspended the usual considerations that are applied in inflation targeting liturgy” (p. A-14)

One should note that the more radical opposition to the changes in the conduct of monetary policy has particularly come from those representing and participating in the financial market. Above all, leveraged future money market agents who had bet that interest rates would be kept at a high level ended up having heavy losses. In this case, the conflict of interests is explicit and unequivocal: the “unexpected” fall in interest generated losses for those who had bet interest rates would remain high. Criticizing the BCB was a way of defending or justifying the positions in *SWAP*-DI contracts. Naturally, this cannot be done explicitly; the interests of a particular group must be sold as if they aimed at the common good.

The cry of dissatisfaction was swollen by market analysts (chief economists, strategists at financial institutions) who, given their job descriptions, acted as genuine defenders of the financial market interests. Acting as if they were lobbyists, they defended the worldview and interests of the financial system.

From another perspective, one should note that most of the criticism (and particularly the sharpest) did not come from investors and savers, neither from most of the non-financial entrepreneurs, especially the small and medium business owners.

[26] Despite the subprime crisis deepening (which ecloded at the end of 2008) and the clear signs of economic slowdown, the BCB kept the monetary policy tightened and hence gave an extra contribution to deepen the economic slowdown. Actually, a good opportunity was missed to cut Selic. That was one of the most notorious examples of the conservatism in the conduct of the monetary policy prior to the ruling of A. Tombini as chairman of the BCB.

To sum up, the recent changes in anti-inflationary policy illustrate the thesis on the role of DC as an explanation for the problem of interest rates in Brazil. The Political Economy approach has proven to be fertile and powerful in the study of this issue.

Concluding Remarks

Summing up, until the 1970s a *pro-growth – state led* convention was hegemonic in Brazil. After that, a liberalization process took place and economic growth became secondary giving rise to a *pro-stability – free market* convention, which has become hegemonic since the 1990s.

The conservative conduct of monetary policy in Brazil builds on the hegemony of the pro-stability convention. The excessive monetary rigidity should be explained from the perspective of Political Economy. In other words, one should not understand the problem of interest rates as a problem of macroeconomic nature only, but rather as the result of a powerful coalition of interests on sustaining interest rates at high levels and hence keeping the real overvalued.

This view opens room to a research program based on Political Economy devoted to the study of the Brazilian contemporary monetary policy. Recent changes in the anti-inflationary policy illustrate and, more importantly, corroborate the thesis on the role of DC as an explanation for the problem of interest rates in Brazil. Adopting the perspective of Political Economy to studying this issue has proven to be fertile and powerful.

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