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Evolving monetary orders: the evolution of public financial institutions in Brazil and Mexico

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Abstract

How do monetary orders evolve in emerging economies, and under what conditions can nations "recollect" past financial practices? This thesis examines the evolution of monetary orders in Brazil and Mexico, focusing on the interplay between Central Banks, Development Banks, and interest rate management practices. While existing literature emphasizes external pressures and the diffusion of foreign practices, this study proposes the concept of recollection — the revival of dormant domestic practices — as a critical mechanism for institutional change. Using a comparative historical approach and quantitative text analysis of central bank communications, the thesis explores Brazil and Mexico's divergent responses to the 2008 global financial crisis and its aftermath. Despite converging on inflation targeting in the 1990s, the countries diverged post-2008: Brazil recollected developmentalist practices, leveraging institutional memory and political cohesion, while Mexico remained on a neoliberal path constrained by international linkages and the erosion of its developmentalist heritage. The findings suggest that recollection depends on the availability of dormant practices, cohesive political coalitions, and international uncertainty. The study highlights the broader implications for understanding institutional evolution in emerging economies, challenging theories of diffusion and linear historical evolution and emphasizing the interplay of translation, recollection, and innovation in shaping monetary systems.

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Chapter 1

Introduction: Monetary Ordering in Latin America

How do monetary systems evolve in emerging economies? Traditional explanations emphasize the influence of international markets and organizations in compelling domestic actors to adopt foreign practices. While acknowledging the impact of external forces, this thesis explores the specific conditions under which domestic institutions and political actors *adapt and recover* existing practices to achieve their policy objectives.

To address this question, the thesis examines the management of interest rates in Brazil and Mexico, focusing on the roles of Central Banks and Development Banks. Interest rate policy, while a public policy instrument, typically operates with limited democratic oversight and takes various practical forms. Over the past century, Latin American countries have employed two contrasting approaches to setting interest rates: one led by Development Banks and the other by Central Banks. Development Banks aim to provide low-interest credit to sectors that promote economic growth, often with a focus on industrialization. In contrast, contemporary Central Banks prioritize setting a uniform policy rate without sectoral preferences, aiming to maintain price stability. Historically, however, these functions were often combined within institutions that managed both tasks simultaneously.

Table 1.1: Practices, goals and institutions of Neoliberalism and Developmentalism in managing interest rates

	Developmentalist	Neoliberal
Goal	Industrialization	Macroeconomic Stability
Anchoring Practice	Credit Targeting	Inflation Targeting
Main Institution	Development Banks	Central Bank

The thesis focuses on two different practices of managing interest rates - the price of money: the credit targeting and the inflation targeting (see Table 1.1). The politics of managing interest rates under different monetary orders will be analysed historically across the history of the Latin American countries studied. Interest rates, as the main price managed by Public Financial Institutions is the ideal starting point to understand the politics of monetary orders.

1.1 Research problem

The aim of this thesis is to explaining the divergent paths in financial and monetary practices in Brazil and Mexico after 2008. Since the 1990s, Brazil and Mexico have converged toward a monetary framework that prioritizes price stability, despite their distinct historical and economic contexts. Unlike Argentina, which distanced itself from international financial markets in the 1990s and became increasingly reliant on the IMF (Kedar, 2013), Brazil and Mexico implemented stringent monetary policies, including inflation targeting. However, this convergence revealed significant differences in the role of development financial institutions. In Brazil, a return to developmentalist practices followed the 2008 financial crisis. In contrast, Mexico has not returned to developmentalist practices, even under left-leaning governments. To investigate these dynamics, the central questions this thesis seeks to answer are:

- What factors explain the divergent financial paths of Mexico and Brazil? Why Brazil recollected developmentalist financial practices while Mexico remained on a path-dependent neoliberal trajectory after the 2008 crisis?
- From a theoretical perspective, what does it mean for a country to "recollect" its financial practices? Under which conditions can such a recollection occur?

The research focuses particularly on the mechanisms of change, and the reintroduction of practices previously employed. To understand this reintroduction of practices the concept of “recollection” is proposed. The varying intensity of "recollection" of practices provides a lens through which to examine the divergent paths of these Latin American economies in the post-2008 era. The thesis evaluates how countries may revive or adapt past developmental practices in response to new challenges. Through examining the divergent paths of Brazil and Mexico, this thesis seeks to illuminate the factors that enable or constrain the recollection of developmentalist practices in emerging economies. This exploration also contributes to the understanding of under which conditions these financial practices remain stable, even when challenged by crises. The concept of “recollection” offers a novel perspective that incorporates the studies on the “translation” of neoliberalism, but seeks to advance the discussion of institutional evolution in developing economies in more general terms.

1.2 The cases of Brazil and Mexico

This thesis studies the evolution of monetary orders in Brazil and Mexico, focusing on the role of Public Financial Institutions. It demonstrates how Development Banks and Central Banks were integral to the stabilization and reform processes of two distinct economic orders: the developmentalist and the neoliberal. The cases are examined across three periods: the developmentalist era, the neoliberal reform period starting in the 1980s, and the post-2008 era. The thesis shows that after 2008, Brazil and Mexico diverged due to their different neoliberal reform trajectories. Brazil's strong developmentalist memories facilitated a return to these practices, unlike in Mexico.

Brazil and Mexico present intriguing parallels and contrasts in their recent monetary evolution. Both countries are characterized by high interest rates, managed by independent central banks operating under inflation targeting regimes. While their political histories differ, they share recent experiences with leftist governments. In the international monetary order, they maintain relatively similar hierarchical stances, though their relationships with the United States diverge significantly. A stark contrast emerges in their domestic banking systems: Brazil maintains strong development banks, which experienced a robust resurgence after the 2008 crisis, whereas Mexico's development finance sector saw only a muted revival, instead relying heavily on international banks and capital markets.

Comparative exercises among Brazilian and Mexican financial systems are standard in the literature. For instance, Sylvia Maxfield (1991) explains why the two countries had diverging paths of monetary policy during the XX century. Maxfield (1991) states that "where there is a historically strong banker's alliance, we could expect limited potential for unorthodox economic policies such as loose credit of financial and exchange regulations that restrict capital mobility". Restrict monetary policies would be the rule in Mexico, with periodic exceptions of attempts to prompt growth through monetary loosing. In stark contrast, in Brazil, state control of investment financing, with public banks committed to credit expansion, precluded the formation of a strong bankers alliance, and allowed for loose monetary policies.

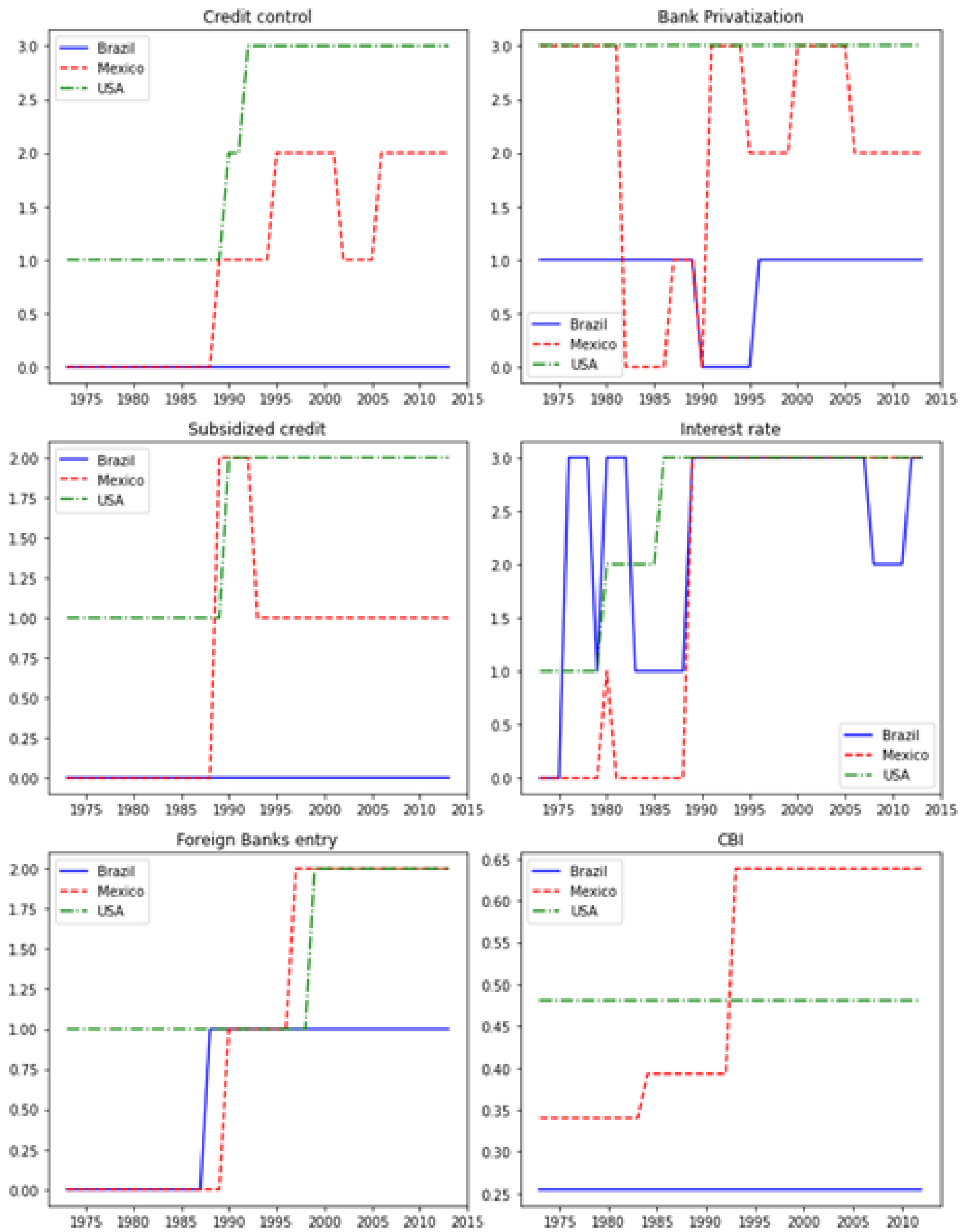
The centralized monetary order in Mexico relied on a conservative Central Bank, founded in 1925, with the main goal of promoting monetary stability. By its turn, Brazil only founded its Central Bank in 1964, under a military dictatorship committed to legitimize its rule through fast economic growth. Brazilian Central Bank would share its centrality on the monetary order with a myriad of Public Banks, that competed with the Central Bank on the ability to function as government's bank. The lack of a unified Central Bank and a credit market dependent on subsidized public credit led Brazil to be consistently lax on monetary policy. Whereas in Mexico a strong tradition of a central bank linked with private banker's alliance have praised monetary stability and privileged tight money controls. International financial markets were aware of the differences and "Mexico, with a relatively strong bankers' alliance, has been a darling of the international creditor community, since 1983. At the same time, Brazil, with a relatively weaker bankers' alliance, has more often than not been a thorn in the creditors' side" Maxfield (1991, p.453). While Maxfield (1991) account may leave unexplained episodes of tight monetary policies in Brazil and loose policies in Mexico, it represents an established view that the historical construction of Central Banks and its relations with the financial sector is the key to understand a national monetary order.

But by reading Maxfield (1991) one would not expect the striking convergence on monetary policies that Brazil and Mexico would soon present. After a strong wave of reforms in the 1990's, Brazilian and Mexican Central Banks increased its power, centralizing functions of other economic institutions and adopting the internationally recommended practices. This process of reforms in the 1990's is usually seen as a critical juncture for the region that ended up abandoning former developmentalist practices and replacing it by neoliberal practices (Roberts, 2015). In the field here examined, the monetary order, this critical juncture implied three interrelated processes: the conquering of hyper-inflation, the reforms in the financial system and the deepened engagement with the international financial markets.

These processes culminated in Brazil and Mexico in the adoption of inflation targeting, which aimed to conciliate the price stability goal with the coordination of expectations of financial markets. The early adoption of inflation targeting by some Latin American countries led to their inclusion in a higher "league" of international financial markets, which Jacome et al. (2018) calls LA5, composed by Mexico, Chile, Colombia, Peru and Brazil. Those countries have a higher access to financial flows for adopting similar monetary practices. The evolution of the Central Banking in Brazil and Mexico is rewarded by financial markets and by the transnational central bank community. For instance, on 2021, the president of Brazilian Central Bank Roberto Campos Neto received the prize of Central Banker of the year by *The Banker* magazine, part of the Financial Times newspaper group, for its management of the economy of pandemics. His Mexican homologous, Alejandro Díaz de León also received on 2020 the Governor of the Year prize awarded by the website CentralBanking.com. This respectful status of the two Central Banks was built over time, in a trajectory where the countries adapted to the main practices promoted by the international markets and the community of Central Bankers.

In parallel with the changes in the Central Bank's practices, the two countries diverged starkly in terms of credit control and subsidized credit. Figure 1.1 illustrates the financial reforms in Brazil, Mexico, and the USA across several dimensions, including credit control, bank privatization, subsidized credit, interest rates, foreign bank entry, and central bank independence (CBI). The highest the scores, the more liberalized is the dimension. Both Brazil and Mexico maintained stable - market-based - practices for setting interest rates after the 1990's, indicating the convergence towards price stability goals. However, the paths diverged significantly in terms of subsidized credit, with Brazil continuing to rely on state-controlled credit mechanisms while Mexico moved towards market-based solutions.

Figure 1.1: Financial Reforms in Brazil and Mexico



Source: Author's elaboration based on IMF Financial Reform Database.

As it will be argued, the market-based setting of interest rates later acted as an impeding factor for subsidized credit in Brazil, limiting its effectiveness. The following historical analysis will delve into these factors, exploring how historical legacies and institutional choices shaped the distinct monetary trajectories of Brazil and Mexico in the interplay between Central Banks and Development Banks, and its practices on inflation targeting and directed credit. The historical comparison allows us to evaluate the outcomes in relation to the political evolution, specially regarding contrasting experiences with leftist governments in Brazil and Mexico (see periodization in Figure 1.2.

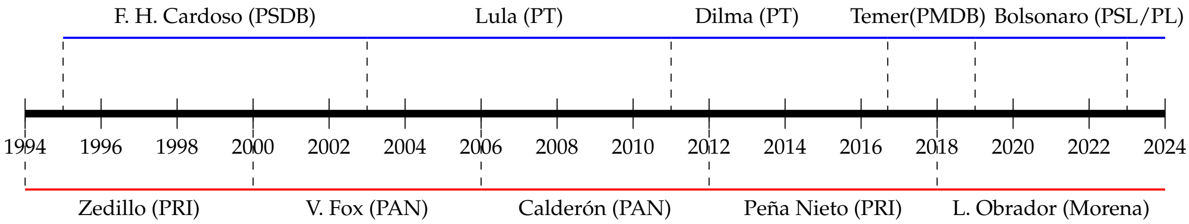


Figure 1.2: Timeline of Presidents of Brazil (above) and Mexico (below), from December 1994 through 2024.

1.3 Literature Review

1.3.1 A background history of monetary evolution in Latin America

Until the 1990's, Central Banks in the whole Latin America had among its goals the promotion of development (Jacome et al., 2018). Central Banks tried to alleviate balance of payments crises, to promote development and to incorporate country specific wage bargaining structures (Vernengo and Caldentey, 2014). This multiplicity of goals was supported by diverse actors, from industrialists, labor unions, monetary policy experts and government officials (Jacome et al., 2018; Franco, 2017). These actors not only shared the understanding of the inflationary process, but were part of the decision making, for instance, taking seats in the Monetary councils (Jacome et al., 2018).

By the mid-XX Century, the structuralist school of economic thought (Sunkel, 1958; Rangel, 1963; Furtado, 1964), famous for its connections with the United Nations Economic Commission for Latin America (ECLAC), argued that the wage-price spiral was a propagation mechanism for the basic inflationary causes that arise from the underdeveloped productive structures. The competing claims over income would propagate the cost shocks originated from supply-side bottlenecks (Carvalho, 2019). The ultimate control of inflation would only be achieved through the development of productive structures. This and similar views were highly influential for the conduct of monetary policy in the continent (Vernengo and Caldentey, 2014; Carvalho, 2019).

The reign of developmentalist Central Banks came to and end in the 1990's, amid the socioeconomic transformations lived in the region, informed by neoliberal ideas. A new shared understanding of the inflationary process shaped new institutions and practices. Inflation was increasingly seen as an exclusive outcome of bad management of money supply and excessive government spending. The conflictual face of inflation and monetary policy was absent, and distributional conflicts stemming from monetary policy were ignored.

By that time, overcoming hyperinflation was the measure of success for Latin American Presidents (Kaplan, 2013). Every social class would come to agree that the main goal of economic policy was to control the extremely high inflation. Governments experimented institutionally, imported and discarded new practices in a fast pace. The solution for the "inflation problem" involved reducing the heavy external debts, changing price indexation practices, and reforming the Central Bank. The overcoming of high inflation in almost every country inaugurated a phase that has been labelled the "golden age of Central Banks" in Latin America (Jacome et al., 2018). From the 1990's on, every Latin American Central Bank would become more independent and increase its focus on the inflation control.

Reforms in the 1990's were mainly informed by practices from North-America, synthesized in the Washington Consensus (Babb, 2013). In the Washington Consensus, financial liberalisation aimed to obtain interest rates determined by the market. The market determination of interest rates would serve two goals, first it would avoid "the resource misallocation that results from bureaucrats rationing credit according to arbitrary criteria" (Williamson, 1990, p.13). And second, "real interest rates should be positive, so as to discourage capital flight and, according to some, increase savings" (Williamson, 1990, p.13). As John Williamson (1990, p.13) concedes, the maintenance of high interest rates may harm investment (and consumption) and lead to a explosion in public debt. As the economist who coined the term Washington Consensus explains:

> *Financial Liberalisation.* The ultimate objective is market-determined interest-rates, but experience shows that, under conditions of a chronic lack of confidence, market-determined rates can be so high as to threaten financial solvency of productive enterprises and government. Under that circumstance a sensible interim objective is the abolition of preferential interest rates for privileged borrowers and achievement of a moderately positive real interest rates. (Williamson, 1996, p.14)

The World Bank and the IMF relied on research by Ronald McKinnon and Edward Shaw to justify the liberalization of interest rates in developing countries since the 1970s (Studart, 1995). According to these authors, underdeveloped countries suffered from a lack of depth in the financial system due to financial repression, caused by government action. Governments restricted loanable funds, limiting corporate financing. Policies such as credit targeting, high compulsory reserve rates, regulated real interest rates, low bank competition, barriers to entry for international banks, and the existence of public banks would prevent real interest rates from being determined by the market and would be below the equilibrium level (McKinnon, 1993).

Low interest rates, conditioned by state action, would lead to a low level of savings and reduced investment. Liberalization of financial markets would eliminate such frictions and allow the market to be driven to the desirable equilibrium. To the extent that interest rates were raised toward the equilibrium rate, there would be a positive effect on growth. As interest rates rise, savings, capital accumulation, and resource allocation efficiency would increase.

In this context, inflation targeting became an "anchoring practice" (Adler, 2019, p.127) - that defined the criteria used in more specific targets. Other practices, as interventions in the foreign exchange markets and government budgeting could not conflict the core rule of inflation targeting. In the foreign exchange markets, the inflation targeting has been associated with the adoption of dirty floating exchange rates, with Central Banks intervening in order to reduce the volatility, employing a wide range of instruments such as repurchasing options and exchange swaps. Regarding fiscal policy, inflation targeting has been associated to stronger fiscal policy rules. As we will analyse in the case of Brazil, financial Development policies, and the action of Development Banks, have also been questioned for its competing effect with inflation targeting (Bonomo et al., 2016).

1.3.2 Business, economists, politicians, and its ordering

This section reviews the literature focused on actors as promoters of economic change and stability. We argue that a focus on *economic order* and the relationships between actors is more useful for understanding long term change, than the local causation arguments that focus either on business power, party politics and scientific evolution. We first review the literature on business power, experts, and party politics to argue for a view that deals with how those actors interact in practice.

Market power in Latin American economic policy

Developmentalist macroeconomic policies were supported by large developmentalist producer coalitions (Etchemendy, 2011). In fact, the study of producer coalitions has a long tradition in Latin American studies (Hirschman, 1968; Cardoso, 1977; O'donnell, 1973). Nevertheless, studying how producer coalitions affect macroeconomic policies comes in cycles and has been recently neglected: a review pointed that "research on business politics [in Latin America] is first characterized by how little there is" (Karcher and Schneider, 2012). This literature can contribute for studies on how the interests of business coalitions are sufficed by the macroeconomic frameworks. It is well documented how business interest groups have been powerful in the stabilization periods and for the exchange rates management (Frieden, 2014; Steinberg, 2017). In this line Bizberg (2019) promotes a systematic effort of studying the coalitional dimension of politics in the region, showing that the relations among producers and politics is country specific, but follows certain typologies. Other recent studies provides the basis for comprehending country cases of business coalitions organization (Schneider, 2009; Boschi, 2011; Cimini et al., 2018; North and Clark, 2018).

A traditional interpretation examines how international finance pressures countries through its *structural power*. In a recent account, Roos (2019) defines structural power as "the capacity to withhold something upon which another depends". Therefore, by withholding finance from dependent countries, external markets can influence a certain course of action of governments. This reading can be found, for instance, in the literature on "macroeconomic populism" (Edwards, 1994; Alesina and Stella, 2010). Latin American populist governments are considered to emphasize "economic growth and income redistribution and de-emphasize risks of inflation and deficit finance, external constraints and the reaction of economic agents to aggressive non-market policies" (Dornbusch and Edwards, 1991). The reaction of international markets to the adoption of "non-market policies" would force governments to comply with market requirements.

The power of international market would be especially strong in moments of international financial volatility, or reductions the commodity prices (Campello, 2015). In times of international volatility, constraints over governments become stronger, leading governments seek for credibility (Campello, 2015). With the drop in commodities prices, the reduction in exports would lead to lower economic growth, and decrease in dollar inflows and in public revenue. Unfavorable fiscal prospects would make sovereign bonds less attractive to creditors. Governments would, thus, be structurally constrained to adopt conservative economic measures (Campello, 2015). The structure of the debt is a relevant variable when accounting for the strength of market structural power. Kaplan (2021) argues that countries borrowing from less centralized lenders would face higher pressure in the direction of less inflationary policies. On the other hand, Roos (2019) argues that when borrowing is concentrated in a few banks the structural power is stronger.

Countries with higher need of international creditworthiness would tend to cede the discretion over Central Banks Policies (Maxfield, 1999a, p.48). The higher the exposure to foreign trade, investment and multilateral lending would lead to higher *coercion* from financial markets and the diffusion of Central Banks practices across countries (Polillo and Guillén, 2005).

Although this structural power literature has been influential, it is not obvious how financial markets structural power would be sufficient to understand the design and the content of an adopted practice (King, 2005). In fact, when financial market withhold from financing a country, the course of action of government depends on how the market is understood by the government (Morlin et al., 2024). Institutional changes, following a structural constrain, have to take into account how the signs of the financial markets are negotiated and translated by domestic agents. Social scientists' reference to structures can hardly explain change, but mostly how "social life is shaped in consistent patterns" (Sewell, 2005, p.135). When states are pressured by international financial markets, their course of action depends not only on the structural constrain, but in a creative institutional effort. By creating new institutions states interpret what markets understand by credibility and answer accordingly. It is not only a matter of choosing "market or non-market policies", but instead negotiating or learning what would be the "credible" policy.

For instance, as Wansleben (2018) show, the introduction of inflation targeting in England required convincing financial markets that the practice was acceptable. If we were to understand financial markets as structures that constrains states for the adoption of certain practices, one would probably have to ignore the fact that financial agents views of best practices also evolve over time.

In the 1990's, when the first Latin American Countries adopted inflation targeting, it was also a recent practice in other countries, that was being absorbed and shaped by international financial markets, academics and international organizations. Although the search for a credible framework that satisfies financial markets may be part of an explanation, it can not explain the co-evolution of what the market and the state sees as the best framework. From an structural power perspective, it is puzzling that countries more dependent on external finance, such as Argentina and Bolivia, do not adopt Inflation Targeting, given the fact that it is currently seen as the most "credible" framework. An structural narrative, predicting homogenization of practices do not explain why certain countries do not adopt it.

Of course, markets do not affect policies only through structural power: the professional connections between financial markets and the Central Bank - the so-called *revolving door* - also affects the way monetary policy is decided. Adolph (2013) has shown that Central Banker's past experiences influence their monetary policy preferences. Former bureaucrats would value more output, while former private bankers would put more weight on inflation. The possibility of being hired later by the financial sector would incentive Central Bankers to commit with low inflation. Besides, Nelson (1995, p.49) explains, business are often part of a coalition as providing technical expertise. Business use their political affinities and technical knowledge in their specific sector to achieve politics. Nelson (1995, p.7) argues that technicians from computer industry could strengthen its alliances with the PMDB (Brazilian Democratic Movement Party) facilitating their lobbying efforts.

Besides the revolving door, market based practices adopted by the Central Banks consolidates a shared way of thinking with the financial markets. Gabor and Ban (2016) have shown that the adoption of financial instruments by public institutions can increase the vulnerability of states in its relation to financial markets. By employing repurchasing agreements and other financial instruments for achieving its policy goals, Central Banks reinforces markets logic and may be trapped by its own policies. As Braun (2018) argues, when governments rely on market-based practices, their expectations on the effectiveness of a policy depends on the adherence of financial markets to that practice. By governing through bonds markets, the Central Bank is subject to "infrastructural power" of finance, i.e., finance is able to shape the effectiveness of policy instruments. Infrastructural power operates "via policymakers' expectation that curtailing markets will curtail the effectiveness of their own, market-based policy instruments." (Braun, 2018).

The infrastructural power arises when the policies implemented by the Central Bank depends on the market infrastructure. The expected implementation of monetary policy would require that the open market operations of the Central Bank would balance around the target interest rate the whole set of the economy's interests rates. Braun (2018) explores the possibilities that private financial actors have to curtail the expected results of monetary policy. Since the state depends on the financial markets to achieve their desired policy outcomes, financial actors leverage on this dependence to force certain paths of policy action. I

The literature on communities of practice can be helpful on understanding these relations. Rethel (2020) reflects on how government agencies and market practitioners can interact for expanding capital markets. Financial markets and government agencies interact also through training and consultation processes that are necessary for common legitimization of practices. The practices not only have to be introduced and disseminated, but also have "to be bestowed with a certain degree of social legitimacy - as something worthwhile (and profitable) to pursue" (Rethel, 2020, p.2). All these mechanisms are relevant for the implementation and for the day to day execution of inflation targeting. By implementing inflation targeting, financial markets become the channel by which the central policy goal is to be achieved. The coordination of expectations of financial markets is seen as the central task Central Banks should pursue in order to maintain the inflation low.

Knowledge power in Latin American political economies

Political Economy has always been interested in the study of how ideas shape policy making. Ideas appear in different forms in different research traditions. Some speak of cognitive schemes, interpretive mechanisms, frames or mind things (Campbell, 2002). In all of those inquires an obvious observation is made: how people interpret the world shapes political actions. The literature on the power of ideas goes beyond the study of formal institutions and interests to understand how the evolution of interpretations influences policy making.

Central Banking and monetary policy is a fruitful field for the study of the ideas affecting policy. In fact, important books of the "turn to ideas" (Blyth, 2003b) investigated monetary policy, with McNamara (1998)'s book on the European monetary integration being the foremost example. But ideas are present in monetary policy analysis in more subtle ways. For instance, on the influential literature on Central Bank Independence, the promotion of independence is always sided by the defense of a "conservative" Central Banker. Conservativeness in monetary economics literature means that the central banker values more inflation stability than growth, in the short run (Rogoff, 1985), in order to achieve the welfare maximizing market equilibrium (Rogoff, 1985).

The Central Bank Independence (CBI) was only one of the means to guarantee that such conservative Central Banker would be appointed and maintained in power. As Adolph (2013) reminds, nothing in the independence *per se* guarantees that the conservative central banker will be kept in power. The necessary condition for the desirable policy is the appointment of a ideologically aligned central banker. Formal Central Bank Independence was not relevant for reducing inflationary pressures in Latin America in the 1990's (Jácome, 2001). The independence was generally adopted after inflation had stabilized (Jacome et al., 2018) and may have helped to maintain the price stability policies (Madariaga, 2020). Whether a central banker come from a financial, political or academic background, is more important than CBI for the main outcomes of monetary policy (Adolph, 2013; Hayo and Méon, 2013). For sustaining a low inflation, Central Bank Independence is less important than who are the actors in power and what kind of ideas they hold.

In Latin America, an ideational change was central to the transformation of Latin American Central Banks from Developmentalist institutions to the current focus on price stability. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) had been the main theoretical source for the developmentalist thought and influenced in varying degrees countries in the region (Bielschowsky, 2009). Beyond the work of ECLAC, foreign experts have deeply shaped the ideas that circulate in the region. Commissions of "money doctors" founded the first central banks in the region (Cunha and Suprinyak, 2017; Pérez Caldentey and Vernengo, 2020). Foreign university associations created economic post-graduate programs and nurished the academic exchanges (Montecinos and Markoff, 2010; Fernández and Suprinyak, 2016), from which the Chicago boys are a noteworthy example (Silva, 1991). And of course, International Organizations, specially the IMF and the World Bank, spread the monetary orthodoxy through training and conditional agreements (Teichman, 2001; Kedar, 2013).

The most common approach of dealing with ideas in economic policy making is through the analysis experts ideas and specially economic theories. This approach usually departs from the history of economic thought to analyze how academic ideas become policy. Monetary economists and historians of economic thought have mastered the approach (see Woodford, 2003; Ugolini, 2017), but it is also present in political science studies. In Latin America, the more recent literature investigated how native economic thought, epitomized by the ECLAC, was increasingly dominated by US trained economists (Montecinos and Markoff, 2010; Babb, 2004). Although this literature has brought relevant insights to the analysis of economic policy making, it struggles to incorporate dimensions of ideational evolution that comes from outside the academic world.

Autonomous economic experts have been influential in the adoption of certain monetary policy frameworks (Gómez-Mera, 2011; Dargent, 2015). Experts oriented by a common goal form *epistemic communities* (Haas, 2001) that advance policy reforms leveraged by the scientific consensus. Policy makers tend to delegate to epistemic communities specially after crises, when conflicting interests among possible policy options is stronger (Haas, 2001).[1] The original epistemic community approach was criticized for ignoring competition among and within epistemic communities (Mai'a K, 2013), that could reveal more complex dynamics in the relationship between scientific knowledge and political choices.

Experts' power is conditioned by technical and political factors. Dargent (2015) that experts are more powerful when scientific consensus is able to provide neutral solutions to distributive conflicts and politicians face high costs in the case of a policy failure. Political actors chose to delegate to technocrats when poor policy performance is perceived by the public as politicians' fault. Experts can be presented as a neutral solution to conflicts when multiple stakeholders are too divided to form a coalition. This technocratization can also exclude politicians in policies with a high technical complexity and strong scientific consensus. Technical knowledge leverages experts in political debates, where ideas are used as weapons (Blyth, 2002) not possessed either by politicians or market agents. The legitimacy of experts comes from the neutrality provided by the scientific consensus.

Evaluating these conditions, monetary policy making is usually seen as an area of high probability of technocratization. Central Bank's policies affects a broad range of issues from production and investment decisions, financial development, prices and income distribution, which are usually associated with politicians mismanagement. Importantly, the policy outcomes are divisive, unequally affecting sectors, social classes, regions and genders (Frieden, 1991; Braunstein and Heintz, 2008; Diestch, 2019; Auclert, 2019). Technical factors also contribute to the delegation of central banking, monetary policy is highly complex and

[1] In Europe, the "epistemic community model" was applied, for instance, to explain Delor's Commission work on the recommendations for the creation of the European Monetary Union, and for reforms in the Bank of England (Verdun, 1999; King, 2005). McNamara (1998), although not relying solely on the epistemic community model, shows that, after the inflation control success (specially in Germany), European politicians, informed by experts, reached a consensus around optimal monetary policy. In McNamara (1998) view the neoliberal consensus was the necessary condition for the unification of monetary policy in Europe.

influenced by a cohesive international “monetary consensus” (Arestis et al., 2009). These characteristics are considered sufficient for experts working in Central Banks acquire autonomy from powerful business, politicians and international organizations (Dargent, 2015).

Nevertheless, the focus on local and imported economic *theories* is only one of the possible approaches to understand how ideas affect policy making. Ideas beyond textbook knowledge have also received some attention by the literature on Central Banking. The literature on memories, conventions and practices to show that the research is much richer than the sole focus on economic theories. Works on memories have shown how events and policies are remembered or forgotten by politicians in order to legitimate police choices (Kaplan, 2013; Braun and Downey, 2020). The work on conventions highlight how market interactions are built on confidence and repeated interactions create arbitrary understandings of the world, that are not necessarily grounded on formal economic theories (Dequech, 2018; Modenesi, 2011). Finally, the literature on practices - closely related to that on conventions - brings an epistemology based on action and a legitimating mechanism based on competence, or ability to perform well (Rethel, 2020; Adler, 2019).

A multifaceted comprehension of ideas enhances the understanding of how monetary orders evolve. Campbell (2002) is an important inspiration for his attempt to distinguish different strands of ideational literature (World-views, normative frameworks, world culture, frames, programmatic ideas). Each conception of ideas emphasizes different legitimating mechanisms; different mechanisms for stability and change and different main actors involved in the production and reproduction of the ideas. The focus on only one of the ideational types may lead political scientists to privilege only one set of actors and legitimation mechanism. A full understanding of the monetary policy choices may have to consider the multiplicity of ideas, its audience and its legitimation mechanisms.

Political power in Monetary orders

Beyond market influences and ideational changes, a central agential component of the monetary ordering in Latin America is the political group in power. Especially in the case of Brazilian and Mexico presidential systems, a centralization in the presidential mandate makes the political cycles highly correlated with policy making (Campello, 2015). But the study of how politics affect policy making in the region is much more contested than the simple division between left and right wing politics. Notably, the analysis of the relationship between politics and monetary practices is highly affected by principled beliefs of the analysts.

Monetary policy is often viewed as an apolitical policy arena, but this perception stems from a deliberate depoliticization process rather than its inherent nature. The depoliticization of the analysis of monetary policy often arises from the subtle use of economic neoclassical reasoning for understanding political economy phenomena. This has been largely criticized, and recently Baccaro and Pontusson (2022) made this point clear when explicitly outlining the macroeconomic models behind his political economy reasoning. When macroeconomic theory is employed without being explicitly considered, analysts can fall into the trap of adopting the dominant 1990s neoliberal narrative, which was originally the ideological foundation of the phenomena they seek to explain.

For the analysis of monetary orders in Latin America, it is important to consider that considerable shift away from the belief that monetary policies have real economic consequences, occurred in the 1990's. This shift can be understood in two ways: first, central bankers began to accept that, in the long run, monetary policy does not affect economic activity. Second, they believed monetary policy had no distributive consequences. This move towards the neutrality of money marked a pivotal change. This shift implied a transformation from Central Banks that supported sectoral management of the economy to a centralized paradigm, where the Central Bank's role is limited to using macroeconomic tools aimed at maintaining price stability rather than influencing growth rates. The contrasting logics of allocation are evident when comparing Brazilian Public Banks, which engage in targeted economic management, with inflation-targeting central banks focused solely on price stability. When policy analysts ignore that these two tenets of money neutrality are itself a macroeconomic construct, they may naturalize the evolution of monetary practices, considering that this evolution is the most desirable path, from a development and distributive perspective.

As Widmaier (2016) argues, principled beliefs can precede causal beliefs in politics. Political interpretations of crises are shaped by these principled beliefs, particularly regarding market restraint. These beliefs influence the social relations that underpin macroeconomic correlations. Politicians' interpretations of events can alter the perceived causality of those events. When political decisions are viewed purely as rational optimizations, these principled beliefs are integrated into analyses, potentially obscuring the conclusions. Neoclassical macroeconomic theory deeply embeds the notion of market constraints.

When speaking about monetary politics in Latin America, North-American, rational choice Political Science literature explicitly or implicitly advances the economic narrative that was built in the years of the neoliberal critical juncture. The same narrative adopted during the 1990's reforms is restate as an explanation of the outcomes. The traditional narrative is usually referring to Dornbusch and Edwards (1990), the main proponents of the "macroeconomics of Populism" thesis. The risks incurred in this analysis are twofold: first one ignores the power of those same publications in providing ideological support for the reforms being taken and usually ignore the normative background and biases involved in economic analysis.

An example of this strategy can be found in Kaplan (2013). Kaplan's reading of the conversion of Latin American Politicians to inflation averse politicians involve two seemingly disconnected dimensions: the memory of past inflationary episodes and the changes in shareholders of external debt. For the first dimension, Kaplan relies on cognitive theories to say that inflationary traumas are avoided by risk-averted politicians. The national experience of past episodes of high inflation leads politicians to avoid running the risk of adopting highly risky strategies. On the international market dimension, the increased share of market traded bonds in comparison to bank bonds creates higher "funding constraints". High funding constraints leads to market induced austerity cycles, where markets can pressure governments towards austerity. Those two dimensions would determine the means and the motivations of politicians to adopt expansionary or contractionary policies.

The notable influence of neoclassical macroeconomics can be noted in the support of the political business cycle theories in the absence of market constraints or low inflation aversion. The causes of high inflation are attributed exclusively to bad macroeconomic management and populist governments that are not market constrained. Underlying this view is a functioning of market mechanisms that bring prices to its natural levels when left on its own. The higher welfare equilibrium is achieved when respecting the market discipline. Another example of this can be grasped from the work of Campello (2015). In her book on market discipline in Latin America, rational agents with perfect information would anticipate market responses and would not radicalise discourse during elections. Public rationality is reduced to obeying market discipline.

An alternative political interpretation is based on left-right politics: national party dynamics have been at the center of some explanations on the adoption of Central Banks Practices. The consolidation of rightist parties in Latin America, from the 1990's on would have facilitated the adoption of Central Bank Independence and in appointing conservative Central Bankers (Chappell Jr et al., 1993). This literature was questioned by evidences that in order to respond to crisis, or to adjust to market pressures, both left and right wing politicians appointed Central Bankers trained in *mainstream* economics (King, 2005; Tucker, 2018; Kaplan, 2017). King (2005) shows that left-wing governments may be particularly inclined to rely on experts advice in order to accomplish electoral goals. Flores-Macías (2019) emphasizes that for the adoption of market based practices not only the ideological inclination of the parties, but the level of institutionalization of the party system are relevant. The level of political competitiveness among parties is also a relevant variable for accounting for equitable social policies Altman and Castiglioni (2019).

Party politics can help explain why some Latin American countries, such as Argentina, Bolivia, and Venezuela, did not adopt inflation targeting. In contrast, countries like Mexico and Brazil adopted inflation targeting during periods when rightist parties were in power. This raises a central question: if party politics influenced the adoption of inflation targeting, did the transition to leftist governments affect these practices? This question involves the degree to which monetary practices have become *de facto* independent from political dynamics, relying on established rules and practices for monetary policy decisions. Notable examples include the leftist governments of the Worker's Party in Brazil, which were sometimes criticized for partially disregarding inflation targeting, while maintaining the framework for the whole government period.

Literature Summary

Literature on ideational change, business power or party politics usually seek to demonstrate that these actors generate specific policy outcomes. Scholars writing on experts have made the convincing case that expert knowledge can make autonomous change to the economic order. Business groups literature has shown how macroeconomic policies and development strategies depend on the organization of national business groups. Party politics literature has argued that democratic organizations and left/right axis are the key to understand economic critical junctures.

Insufficient attention has been given to the interaction among these three sets of actors within a single economic order and their contributions to its evolution and stabilization. This study considers that the literature on practical evolution provides an understanding on how these actors interact, creating outcomes. The interaction among markets, politicians, and experts aims to achieve a coherent understanding of the economic order, propose modifications, and implement established practices.

Market Power: The analysis of the influence of markets on policy outcomes must consider not just the homogenization caused by liberalization but fundamentally how domestic political dynamics receive and interpret market influence. This involves understanding the unique ways in which different countries negotiate and translate international market pressures and financial constraints into local economic practices, as well as the role of political coalitions and civil society in shaping these outcomes.

Mediation of Ideas Beyond Expert Knowledge: The translation of economic ideas into policy is mediated by a broader array of ideational types beyond just expert knowledge. This includes the influence of historical memories, conventions, and practical knowledge, all of which play crucial roles in legitimizing and shaping monetary policy decisions within different national contexts. Economic change in Latin America comes from sources different than only translation of practices from developed economies.

Political Contestation of Monetary Practices: Monetary practices have significant distributive and long-term consequences, making them an important arena of political contestation. Political agents actively engage in debates and conflicts over these practices, as they impact income distribution, economic growth, and social equity. In Latin American countries with presidential systems, the president in power is highly influential in monetary policy, even in contexts of high Central Bank independence.

So, to understand the problems at hand, we look at the practices that anchor the interactions among politicians, markets and experts in an specific order - the monetary order. Repeated interactions sustain the monetary order and guide its evolution. Change arises through three mechanisms: practices introduced from outside - translations, the recovery of forgotten practices - recollection, or internal innovations. This proposed theory focuses on the evolution of economic orders.

1.4 Methods

This section outlines the methodological approach adopted in this thesis to examine the evolution of monetary orders in Brazil and Mexico. By combining comparative historical analysis and quantitative text analysis, the research seeks to uncover interactions between macro-level policy changes and micro-level institutional practices.

Inspired by the historical institutionalist tradition, the first subsection delves into the comparative historical method and introduces the practical tracing methodology, which provides a nuanced understanding of how practices within public financial institutions contribute to broader structural transformations.

Finally, a subsection describes the quantitative text analysis employed to analyze the communicational aspects of inflation targeting, used to uncover the themes and strategies embedded in central bank reports. The analysis of inflation targeting as an "anchoring practices" seeks to study the relationships among governments and Central Banks - a relationship at the core of contemporary monetary orders.

Through these combined methodologies, the thesis aims to provide a comprehensive and detailed account of the evolution of monetary practices in Brazil and Mexico.

1.4.1 Comparative Historical Method

The thesis provides detailed case studies of Brazil and Mexico to deepen the understanding of the evolution of monetary orders in Latin America. These historical chapters 4 and 5 trace the evolution of monetary practices from the Developmentalist era to the adoption of inflation targeting. By examining these transitions, the chapters aim to extract key concepts essential for analyzing the practical evolution of monetary policies and institutions. The Chapters 3, 4, 5 and of this thesis compare the evolution of monetary orders in Brazil and Mexico. The analysis begins with a detailed examination of the evolution of the inflation targeting regime in both countries, emphasizing the communicational aspects of these policies. Following this, the focus shifts to the co-evolution of monetary institutions, including central banks and their predecessors, and financial development institutions, such as development banks. The objective is to describe how the practices embedded within these institutions have evolved, identifying the key mechanisms driving their development.

This thesis is inspired by the historical institutionalist tradition and its use of comparative case studies and a concern about the role of the timing of historical processes. The challenges of analyzing big structures, large processes, and huge comparisons are central to this tradition, which has faced these challenges with different approaches. Centrally, the Collier and Collier (2002) book is a core methodological inspiration, for a:

> comparative history designed to discover and assess explanations of change. The method has two components. The first is the generation and evaluation of hypotheses through the examination of similarities and contrasts among countries. The second is the procedure of "process tracing" over time within countries, through which explanations are further probed. We thereby evaluate whether the dynamics of change within each country plausibly reflect the same causal pattern suggested by the comparison among countries. The result is an analysis centrally concerned with the elaboration of concepts and comparisons, but also shaped by the conviction that this elaboration must be anchored in a close, processual analysis of cases over long periods of time. (Collier and Collier, 2002, p.5)

Beyond formulating and generating hypotheses, the goal is the *conceptual understanding* of the case studies through a long-time analysis of the case's evolution. The obvious drawback of this strategy is the trade-off between historical depth and accuracy and the capacity of explanation. To explore this point, it may be worth revisiting another (already) classic of Latin American historical institutionalism Mahoney (2010)'s Colonialism and Post-colonial development. The striking simplicity of the explanation in the book is rooted in the analysis of secondary sources, mainly history books and monographs on the cases. Mahoney (2010, p.34) explains that "the evidence is gathered mostly from secondary sources – books, articles, and monographs by historians and area and country experts." A core methodological argument of the book is the formalization of comparative historical method, where "causal arguments are formally summarized using qualitative comparative methods" (Mahoney, 2010, p.34). This formalization is done through logical statements drawing inspiration from set theory, in which causation is understood in terms of sufficiency and necessity. This line of formalized research is fully developed under Qualitative Comparative Analysis research (Schneider and Wagemann, 2012).

The goal of formalization is arguably to make causal claims recognizable and further testable. Mahoney and Goertz (2004) has argued that many necessity and sufficiency claims are frequently hidden in verbal formulations that obscure the researchers causality claims (Schneider and Wagemann, 2012). The formalization of historical developments appeal to quantitative theorists, but end up in analysis akin to regression analysis, but without the statistical inference tools (Thiem et al., 2016). This thesis avoids the over-formalization of causal claims and adopts a causal framework based on the establishment of qualitative propensities, under certain conditions (Adler, 2019).

Practice tracing

As argued in the previous chapter, understanding practices provides a crucial link between macro-level changes, such as policy shifts or economic reforms, and micro-level actions, such as individual decision-making and daily operations within institutions.

By employing a practical tracing methodology (Pouliot, 2014), researchers can capture the nuanced and dynamic interactions that shape and are shaped by these practices over time. This approach allows for a detailed examination of how broad structural transformations are enacted and modified through everyday activities, revealing the underlying mechanisms that drive stability and change within systems. Thus, Practical tracing helps illuminate the pathways through which macro policies are interpreted, implemented, and adapted on the ground, offering a more comprehensive understanding of the complex interplay between theory, policy, and practices. Practices, as notions of contextually embedded actions and patterns, are particularly useful for this methodological approach because they encapsulate both particular and general characteristics.

Practice tracing differs from process tracing in what regards the objectives and methodology of analysis. Practice tracing focuses on the observable actions, decisions, and events within a specific historical or institutional context, emphasizing real-world practices and their relationship to broader institutional patterns. In contrast, process tracing seeks to uncover and verify the causal mechanisms that connect causes to outcomes, concentrating on the sequence of events and the underlying dynamics that produce specific results.

In the context of practical tracing, social causality must be established locally, with an aim to generate analytically general insights (Pouliot, 2014). This approach acknowledges that no social relationships and practices are so unique as to preclude theorization and categorization.

By starting with comparative studies of two cases, researchers can derive generalizations applicable to the analysis of emerging economies and beyond, suggesting that the mechanisms of evolution central to this thesis are relevant to advanced economies as well. The theoretical abstractions developed by social scientists to categorize practices across cases function as mechanisms designed to achieve analytical generality rather than empirical validation. Similar to typologies, practice theories are evaluated not based on their accuracy but on their effectiveness in interpreting and explaining complex practices.

The dual goals of the practical tracing methodology are, therefore, to demonstrate local causality and produce analytically general insights through the conceptualization of *mechanisms* (Pouliot, 2014). As (Pouliot, 2014, p.251) states, mechanisms are "analytical constructs that result from abstracting practices away from their context. [...] Mechanisms are analytical constructs that help organize empirics; they make sense of history, but do not drive it." Mechanisms do not directly cause social processes, they rather " allow different explanatory accounts to speak to one another in spite of their being rooted in fundamentally heterogeneous contexts."(Pouliot, 2014, p.253)

In this thesis, employing practical tracing means we will be following specific practices in the setting of interest rates, mainly inflation targeting and credit directing. Those two practices have highly different goals and were employed differently across time and country in our case studies. Methodologically, this requires understanding practices from within the community of practitioners. In the case of financial practices, this means engaging with the community of financial professionals, regulators, and institutions to understand the practices that shape financial markets and policies.

In the words of Adler (2019), "There is still much more work to do on the methods necessary for tracing practices' trajectories retroactively and the political learning and contestation processes within and between communities of practice. " This thesis aims to explore the possibilities opened by this approach, while acknowledging that the challenges involved in bridging micro and macro analysis incurred.

1.4.2 Quantitative Text Analyses

The Chapter 3 of this thesis compares Brazil and Mexico's inflation targeting frameworks, with a particular focus on their communicational aspects. Speech acts are crucial social dynamics that can be captured through practice tracing. The chapter explores that speech acts are integral to practices (Pouliot, 2014). To analyze the evolution of communicational practices of central banks over the 20 years of inflation targeting in both countries, Chapter 5 employs topic modeling. This methodology, detailed in the following subsection, reveals how inflation targeting—widely adopted in Latin American countries after the 1990s—serves as a central communicational framework for coordinating expectations among financial markets and political actors. As an anchoring practice of the monetary order, inflation targeting attracts attention from a broad spectrum of stakeholders and influences various other practices, including those related to development finance.

This research employs quantitative text analysis of central bank reports to understand the communicational aspects of inflation targeting in Brazil and Mexico. By examining the inflation target reports from the Central Bank websites of both countries, this study aims to uncover the underlying themes and communication strategies employed by these institutions. The goal is to enrich the corpus of texts with additional data from sources such as presidential speeches and other monetary reports, utilizing advanced web-scraping techniques developed for extracting these documents.

The main corpus consists of the monetary policy decisions by the Mexican and Brazilian Central banks. Inflation targeting reports were obtained from the Central Bank websites of Brazil and Mexico, using web-scrapping techniques. The corpus covers the whole period of the adoption of inflation targeting, formally implemented in Brazil in 1999 and Mexico in 2001. The Brazilian reports range from 1998 to March 2021, covering 216 documents. For Mexico, the reports start on January 2000 and are available until November 2021, totaling 193 documents.[2]

The analysis of inflation reports employed Latent Dirichlet Allocation (LDA), a generative statistical model used in natural language processing to uncover the latent topics contained in a corpus of text. LDA uses Bayesian inference to assign probabilities to each word's association with a topic by modeling documents as a combination of topics and topics as distributions over words. These topics reveal the texts' main threads, issues, and concerns, offering insights into their underlying themes (Hovy, 2020, p.72). LDA and similar methods have been a common way of evaluating the communication of Central Banks (Andrea Ribeiro 2017, Moschella and Pinto, 2020; Baerg 2020; Diessner 2021).

Two metrics are important for the LDA interpretation: the likelihood of each word for each topic and the likelihood of each topic for a specific document. The words per topic indicate the meanings of the topic. The topic per document shows how relevant those topics are for each document.

To obtain meaningful results from the LDA, the text had to be cleaned, and non-relevant words were removed. After, we obtained the common expressions formed by two or three words (bigrams and trigrams). Finally, the LDA model was computed through the library gensim. The researcher chooses the number of topics in a corpus of texts based on the topic

[2] Most of the web scrapping and data analysis was performed in Python, but the web scrapping of Brazilian Central Bank was performed in R.

coherence. A coherent topic should be self-explanatory and easy to interpret by anyone who reads it (Hovy, 2020, p.78). We evaluated two measures of coherence for choosing the number of topics: the UMass evaluation score and the Cv score, as recommended by Hovy (2020). Besides the measures of coherence, various topic numbers were attempted to achieve the best interpretability of the data.

1.5 Thesis organization

This thesis adopts a comparative historical approach supported by the quantitative analysis of texts from Central Banks and other aggregated economic data to scrutinize the evolution of monetary orders in Brazil and Mexico. It commenced with this introduction and literature review to argue that focusing exclusively on specific actors—such as experts, business entities, and politicians might overlook the comprehensive insights offered by an encompassing evolutionary perspective.

Chapter 2 presents the conceptual framework for the practical evolution of monetary orders adopted across the thesis. This framework emphasizes the significance of translations, recollections, and innovations as central mechanisms driving transformation in monetary orders in Latin America, particularly highlighting its recurrent nature characterized by phases of intense adoption of foreign practices followed by periods of introspective consolidation of previously implemented practices.

The chapter 3 examines the 20-year trajectory of inflation-targeting implementation in Brazil and Mexico, through an analysis of the monetary policy committee reports. The analysis deduces a consistent adherence to inflation-targeting practices in both countries over two decades, influenced by the government not through overt interference but via the dynamics of political legitimacy. Central Banks, it is argued, navigate these dynamics by aligning their discourse with governmental expectations to ensure the efficacy of inflation targeting, underpinning its reliance not solely on market operations but also on political legitimacy.

The historical chapters 4 and 5 explore the conditions for recollecting monetary practices. The chapters traces the monetary practices evolutions in Brazil and Mexico, highlighting the periods of Developmentalism, Neo-liberal reforms, and current evolutions after 2008 Crisis. It is evaluated whether in times of heightened crisis and uncertainty, when domestic economic coalitions perceive high international dissensus, they are more propense to engage in recollection, reviving past practices.

The comparative analysis of Brazil and Mexico delineates the longitudinal evolution of their monetary practices. This longitudinal perspective reveals how the monetary reforms of the 1990s reflect each country's historical context and the potential for a recollection to previous practices. In Brazil, the conciliatory reforms of the 1990s potentially pave the way for a recollection of developmentalist practices. Conversely, in Mexico, reforms under an "authoritarian regime"(Etchemendy, 2011, p.17) led to a financial system predominantly controlled by foreign banks and a close alignment with the USA. Mexican's installed practices impede domestic innovation and the resurgence of national practices, which were deeply ingrained in the country's revolutionary past and developmentalist ideology dating back to the mid-19th century. The dissertation contends that in both countries, there is a clash between inflation-targeting and historical developmentalist interest rate management practices, which has rendered governmental attempts at recollecting past practices less feasible in Mexico.

Chapter 2

Theoretical Chapter: evolutionary mechanisms of monetary practices

2.1 Concepts: practices, social orders and evolutionary mechanisms

The discussion in Session 1.3.2 argued that economic orders evolve with ideas that go beyond expert knowledge. In this session, we will explore two interrelated concepts—conventions and practices—which are important for understanding how economic systems are shaped and reshaped through collective actions and shared understandings. Conventions, with roots in Keynesian theory and sociological studies, emphasize the intersubjective frameworks that stabilize expectations and coordinate market behaviors, even in the absence of purely rational foundations. Practices, meanwhile, focus on the socially meaningful and patterned actions that embed knowledge through performance, trial, and iteration.

Conventions The study of conventions in political economy have its origins in the studies of Durkheim on sociology, in John Maynard Keynes and in the American Pragmatists. Here I will try to distinguish two different currents that have different understandings on Central Banking. The first one derived from Keynes and the french-conventionalism is very influential among Latin American Post-Keynesians. The second one is based on American Pragmatism and emphasizes the role of communities of practices and the evolution of practical knowledge. In a very generic way, conventions can be defined as "understandings, often tacit but also conscious, that organize and coordinate action in predictable ways" (Biggart and Beamish, 2003, p.444)[1]. In the context of economic sociology, a convention is a belief or a rule of expectations formation that helps to stabilize the market order (Biggart and Beamish, 2003).

[1] Of course, the conventions literature is divided on the definitions and usage of the term. For deeper discussions see Dequech (2018) and Biggart and Beamish (2003).

Dequech (2017, p.290) explains, conventions have two defining properties *conformity with conformity* and *arbitrariness*:

> Conformity with conformity means that the fact that other agents have adopted a convention, or are expected to adopt it, plays a role in leading someone else to also adopt it, at least when behaving or thinking consciously. Arbitrariness means that a non-inferior alternative to the prevailing rule or system of rules exists or is conceivable.

This definition emphasizes the intersubjectivity in the establishment of order. The adherence to a certain convention depends on the trust among individuals. A convention is not legitimate for its scientific status, but mainly by its common use and by trust among individuals. When others perceive a conventional way of doing something, that way is arbitrarily adopted. The scientific origin of policies is abandoned in favor of an assumptions of *conformity with conformity* and *arbitrariness*.

The work on financial conventions draws on Keynesian insights on the formation of long-term expectations for investments (Blyth, 2003a; Modenesi et al., 2013b; Beckert, 2016). In the Keynesian and French conventionalist theories, conventional expectations are not rational, but rather emotional, subject to *animal spirits* and to herd behaviors. Investors are myopic and short-sighted, always expecting signaling from others to take decisions. Investment decisions are taken following unstable collective long-term expectations.

The stabilization of such chaotic environment is only achieved through conventions. In Keynes' view, the very core of the financial convention being the assumption that the " current state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change" (Keynes, 1991, p.152). In a market, the conventions become the "intersubjective understandings shared by actors that specify how markets are supposed to behave" (Blyth, 2003a, p.257).

The main question is to which extent those market conventions inform public policy. By acting through the market to take policy actions, the Central Bank is part of the formation of conventional behaviour shaping and being shaped by market agents. The literature on conventions has been applied to understand why policy interest rates were permanently so high in Brazil, despite the lack of economic fundamentals (Modenesi, 2011).

Practices Emanuel Adler (2019, p.109) defines practices "as socially meaningful patterned actions that, in being performed more or less competently, simultaneously embody, act out, and possibly reify background knowledge and discourse in and on the material world". Adler (2019, p.200) argues that past experiences are preserved through the practices that carry the new knowledge acquired by action. This is a critic to exclusively memory based theories that ignore that the past is not preserved only on the subjects minds, therefore dying when agents die.

The learning by practice minimizes the effects of exclusively theoretical knowledge and instead focus on how knowledge is acquired through action. Through trial and error, practicioners get closer to reality, both to understand and transform it. Economic theories are considered part of the overall background knowledge that is embodied in the practices. But it is one source of interpretation that influences and is influenced by practices.

A competent performance of a certain practice legitimates both the practice and the practicioner. Rethel (2020) exemplifies that for been considered apt to participate in the capital markets an individual has to show that he has "done a deal". By performing a deal, a practioner proves his competence and reafirms the practices of capital markets.

Practical consciousness is the ability of performing repetitive and meaningful actions (Giddens, 1984, p.49). As Giddens (1984) explains practical consciousness does not require *discursive consciousness*, or the ability to express something in words. In fact, practical consciousness may be found in the form of non-codifiable (tacit) knowledge which is embodied only in the practice itself. Therefore, practical authority is based on the competence certain actions are performed. By being performed repeatedly it changes or stabilizes knowledge.

By interacting in a community of practice, agents learn and influence the evolution of the practices. For instance, each time a Central Bank buys a bond or writes a norm, the participants of the financial community of practice, react. When fine tuning the action, Central Banks will consider not the reactions of the whole society, but mainly of the members of this community. For this reason, the border of the community of practice is central to understanding the changes and stability of Central Banks policies.

In a community of practice, the interactions are bilateral, with actors influencing each other. Rethel (2020) exemplifies how government agencies and market practitioners interact for expanding capital markets. Government agencies provide training and consultation that legitimize financial practices in order to deepen bonds markets. The practices not only have to be introduced and disseminated, but also have "to be bestowed with a certain degree of social legitimacy - as something worthwhile (and profitable) to pursue" (Rethel, 2020, p.2).

This specific epistemology of knowledge has been proved useful for understanding various financial practice, including central banking. A focus on practices is specially relevant for dealing with financial markets since different practices create different power relations between markets and states.

This practical epistemology of knowledge has proven valuable for understanding various financial practices, including those in central banking. Focusing on practices is particularly relevant in financial markets, where differing practices shape distinct power relations between markets and states. A focus on practices sheds light on instances where scientific knowledge lags behind monetary practices. A pertinent example is the implementation of inflation targeting, which emerged through trial and error and political bargaining before being simplified and incorporated into monetary models (Svensson, 2010a; Woodford, 2003). In Latin America, inflation targeting was adopted after countries had already been experimenting with reconciling capital mobility and manageable monetary policy. Although IMF advocacy and U.S. scholars promoted early adoption (Bernanke et al., 1999), legitimizing the practice (Bogdanski et al., 2000), the actual implementation often diverged from the highly simplified monetary rules found in textbooks.

The repeated interactions between markets, politicians, and experts constitute the practices that define an economic order. Economic orders, such as developmentalism or neoliberalism, evolve over time and are not natural phenomena. Both orders have been presented as natural paths to progress, but in reality, their implementation relied on specific practices designed to achieve predetermined goals. Change becomes more likely when crises disrupt the interactions that sustain the existing order. In dependent economies, the evolution of domestic interactions is often shaped by developments outside the system. By contrast, interdependent contexts see reciprocal effects between national networks. In dependent economies, however, the asymmetry in these effects means that changes in global core economies largely determine the trajectory of dependent ones [2].

Social and Monetary Orders Adler (2019, p.122) defines social orders "as fields, configurations, or 'landscapes' [...] of practices and communities of practice, whose epistemic practical authority assigns functions and status [...] thus organizing, stabilizing, and managing social life [...]". In a simpler formulation, Adler (2019) describes social orders as "arrangements of practices." Adler uses the concept of communities of practice to refer to agents who replicate a set of practices among themselves. From this perspective, one might view the "international system as a collection of communities of practice; for example, communities of diplomats, of traders, of environmentalists, and of human-rights activists" (Adler, 2004, p.14).

In turn, the concept of **monetary orders** is often employed in international political economy (Kirshner, 2003; Cohen, 2013; Eichengreen, 2016) with various definitions. Building on Adler (2019)'s notion of social orders, a monetary order can be defined as an arrangement of practices

[2] Nevertheless, Helleiner and Rosales (2017) and others demonstrate that less-developed countries contribute to the formation of the international economic order. For developing economies, the choice to align with this order reflects an aspiration to achieve the development levels of advanced economies. Consequently, there is domestic pressure to adopt and support policies that align with international practices. Achieving development, therefore, is often framed as emulating the practices of already-developed economies.

that organize monetary and financial markets by assigning functions and status to public and private actors. This order comprises specific practices, a shared background knowledge, and a community of actors who perform these practices. Its evolution involves creating new practices, transforming background knowledge, and empowering new actors.

Under financial dependency, a monetary order either further engages with the international system or establishes protective measures to cushion external volatility (Medeiros, 2008). Following a developmentalist order that aimed to guard countries against external shocks, the 1990s saw the consolidation of a new monetary order focused on price and financial stability.

In neoliberal monetary orders, Central Banks are responsible for safeguarding the stability of the system (Blyth and Matthijs, 2017). Acting as intermediaries among politicians, markets, and academia, their role extends far beyond setting interest rates. In emerging markets, Central Banks communicate to coordinate expectations among coalition members, unifying the discourse and practices of politicians, markets, and academic institutions. They are neither solely captured institutions, as Marxist perspectives might suggest, nor purely technocratic bodies, as some defenders of Central Bank independence contend. Rather, they stabilize the order by centralizing interactions among financial markets, the state, and the broader scientific community.

In this context, the revolving door—often portrayed as a one-way avenue of financial-market influence over the state—actually works both ways. As a formative institution, the Central Bank also shapes financial markets. By facilitating movement among academia, financial markets, and the Central Bank, the revolving door strengthens coalition ties, reinforcing established practices and guiding their evolution. It thus serves as a key mechanism for the Central Bank's intermediary function within the community of practice.

To achieve its objectives, the Central Bank relies on practices such as open market operations, exchange rate interventions, and financial regulation. The adoption of any given practice both informs and is informed by background knowledge, which identifies how things work and how they should work (Adler, 2019). In a monetary order, this background knowledge may come from economic theory, collective memory, or market conventions.

In Mexico and Brazil, managing interest and exchange rates through inflation targeting has emerged as each country's *anchoring practice*. As Swidler (2001) defines, an **"anchoring practice"** is a core practice that holds a high position in a hierarchy of practices that organize and constrain others. As an anchoring practice, inflation targeting coordinates agents' expectations and influences financial markets, foreign exchange, and even fiscal policy. Under inflation targeting, Central Bankers bolster market confidence through open market interventions and formal communication, aiming to align market expectations (Svensson, 2010a; Braun, 2016).

Neoliberal domestic monetary orders gain legitimacy from national and *transnational* audiences of markets, politicians, academics, and the general public. The Central Bank is the central public institution in the current monetary order, tasked with ensuring price and financial stability. It manages the system's core practices and interacts with other actors through meetings, speeches, and especially market operations. These operations aim to achieve the Bank's goals but can be constrained if markets fail to converge on the anticipated path.

Transnational audiences of financial markets, politicians, and academics (Seabrooke and Tsingou, 2021) influence monetary practices in numerous ways. Financial markets limit Central Bank actions via structural (Roos, 2019; Campello, 2014; Kaplan, 2013) and infrastructural power (Gabor and Ban, 2016; Braun, 2018). Depending on markets to fulfill its aims also narrows the Central Bank's scope when faced with capital flight. Meanwhile, politicians and academics in transnational networks validate certain practices as more legitimate through mechanisms like revolving doors (Adolph, 2013; Seabrooke and Tsingou, 2021), training (Johnson, 2016; Ban, 2016). Transnational academic networks further shape developing countries by training specialists and legitimizing monetary practices (Babb, 2004; Montecinos and Markoff, 2010).

This relationship between domestic and transnational actors extends beyond financial-market power, as domestic actors themselves substantially shape the transnational sphere (Helleiner and Rosales, 2017). By engaging in negotiations, training, and debates, domestic actors co-create a transnational monetary order, which is then translated into the domestic context. The involvement with the transnational order is not necessarily (neo)liberal; rather, it depends on its ongoing evolution. Notably, Latin American countries' divergent experiences after World War II—when Brazil's collaboration with North American institutions advanced developmentalist initiatives—contrast with more recent engagements involving China, which have also produced varied outcomes (Kaplan, 2021).

2.2 Evolutionary mechanisms

Following Adler (2019)'s framework of practical evolution, this section exposes the theory of the evolutionary mechanisms employed in the case studies. It argues that beyond translation of foreign practices, dependent monetary orders evolve by recollection and innovation. The mechanisms of translation and recollection are species of the mechanism of *selective retention* coined by Adler (2019). **Selective retention** is the mechanism by which certain practices are selected by actors and subsequently reinforced and stabilized. Adler explains that selective retention is a general concept, that encapsulates diffusion, selection and institutionalization processes:

> One reason for not treating diffusion, selection, and institutionalization processes separately but as a single concept of selective retention, or epistemic practical reproduction, is that there is an intrinsic and synergetic relationship between these processes. [...] Institutions' diffusion, selection, and reproduction are the most visible set of processes, behind which lie deeper and more fundamental processes of practices' and knowledge's selective retention. (Adler, 2019, p.234)

Adler (2019, p.4) explains that selective retention involves the spread of practices across states and time, and across members of a community of practice:

> Retention involves the mainly "horizontal" spread of practices across space, for example, across state boundaries, and time – and, as newcomers learn the communities' practices, also the "vertical" spread of practices within communities of practice.

Selective retention is mostly understood in terms of institutional diffusion among states, and the temporal aspect is completely ignored, despite of the brief mention quoted above. Diffusion can be understood as "any process where prior adoption of a trait or practice in a population alters the probability of adoption for remaining non-adopters" (Strang, 1991, p.325). As it will be further exposed in Section 2.2.1, the concept of diffusion has been criticized for not taking into account adaptations that the adopted practice suffers when being implemented in a new context. In order to overcome this shortcoming, authors such as Ban (2016) and Johnson (2016) proposed alternatives, such as "translation" and "transplantation" to describe the adaptation processes that ideas (and practices) suffer when adopted across countries.

While translation is a process of *spatial* diffusion, I argue that a central source of evolution comes from past *times* - through the "recollection" of practices formerly used. The recollection of old practices can be adopted as an alternative to solve contemporary problems. In the recollection process, the distinctive feature is that the practices are selected from the past, what brings different dynamics of legitimization for the practice, as will be shown in section 2.2.2.

2.2.1 The translation paradigm

The study of developing economies institutional evolution has greatly focused on the diffusion of practices, ideas and institutions from the developed economies. The studies of diffusion have become so dominant in the studies of policies in the "developing world" that even studies that seek to show the inborn solutions to development have relied on the so-called "International relations diffusion paradigm" (Eaton and Katada, 2022, see for instance). Eaton and Katada (2022) rely on the diffusion paradigm to explain the surge of developmentalism in East-Asia, giving special attention to the multidirectional flow of ideas and practices. In its analysis of a "diffusion with Chinese characteristics" emphasizing the agency of Chinese experts in shaping the practices imported, as became standard in the translation studies.

Translation (Ban, 2016) or transplantation (Johnson, 2016) have been the central mechanism emphasized by the literature on how peripheral monetary orders evolve. When translating ideas and practices, countries read it through its own lenses, adapting to local needs and previous trajectories. The literature on translation challenges previous studies on policy diffusion that had a mechanistic view of how countries import institutions, that didn't interact with domestic conditions.

The conceptual move from diffusion to translation was necessary to capture subtleties of neoliberal institutional change. Translation is a process of selective retention, where the selected practice or institution is filtered by domestic environment, becoming a hybrid practice. Studies were able to explore how local trajectories and institutions create different paths of neoliberalism (Ban, 2016; Fourcade, 2006). An outstanding example comes from the work of Johnson (2016) where the author shows how in Eastern Europe, countries that had no Central Bank before the fall of communism, had a stronger neoliberal path. The creation of anew institutions makes reforms easier.

Translation is a bounded form of innovation whereby the translators' credibility depends on their preservation of some "core" of the source text (Ban, 2016). In the case of translation of neoliberal economic practices, Ban (2016) argues that the core is represented by the three main goals (credibility, openness, and competition) that adjudicate trade- offs between the contradictory parts of neoliberal hybrids. The preservation of these core goals allows for different local interpretations, leading not necessarily to a strict convergence of practices. Ban (2016) has also questioned the assumption of norms diffusion literature that do not clearly consider the interaction between the diffused ideas and countries former intellectual trajectories. Rather than "'copy and paste' ideas developed in foreign 'labs,' receivers tend to actively filter and even reshape these ideas before "adoption" (Ban, 2016, p.18). When translating neoliberalism to national contexts, its promoters paid little attention to the specifics of the translated ideas, as long as they adhered to core principles such as "espouse the need for institutionalized trade/ financial openness, public finances benchmarked by financial market credibility, and growth strategies based on the relative competitiveness of the national economy." Those three characteristics (credibility, openness, and competition) would discipline states in the direction of the adoption of market-based practices.

Translation is pervasive due to its reliance on transnational legitimacy. This legitimacy stems from the transnational experience, where interactions among international actors—such as

International Organizations, Transnational Companies, and Central Bank networks—serve to validate certain practices. As national institutions are embedded within these transnational networks, the adoption of such practices is often not coercively imposed but rather chosen by network participants. Consequently, translation is frequently voluntary and enjoys transnational legitimacy.

Even in instances where institutions are coercively imposed on other countries, translation is still mediated by domestic institutions. A pertinent example is the conditionalities imposed by the IMF, which are typically viewed as the primary coercive mechanism for neoliberal transformation in Latin America. Despite the coercive aspect of conditionality, the specific outcomes of an agreement are significantly shaped by domestic agency. The case of Argentina exemplifies this dynamic, illustrating how local institutions and actors influence the implementation and results of such agreements (Kedar, 2013).

Ban (2016) outlines the conditions for selecting, retaining, translating, and sustaining the neoliberal order, drawing from sociology, historical institutionalism and rational choice. Key factors include:

- **Timing, depth and pace of integration into Transnational Neoliberalism** The domestic translation of neoliberal ideas accelerates if local economists benefit from permissive institutions and geopolitical environments that facilitate their participation in transnational professional networks where neoclassical ideas circulate.

- **Historical Legacies** Historical legacies shape the pace of the transition to neoliberalism. Different translation outcomes depend on the availability of competing ideas locally and the relationships domestic translators develop over time with global purveyors of neoliberalism.

- **Domestic institutions and International Coercion**

  Cohesion: For neoliberal hybrids to influence policy, their advocates must be part of cohesive policy teams that delegate to them or agree with them.

  Coercion translators' freedom to implement policies is often constrained by their exposure to international actors invested in replicating the source paradigm. The degree of transnational coercion—through international policy conditionality or financial market disciplining—significantly influences the space available for actual policy hybridity.

Policy makers who regularly engage with peers or superiors in the "labs" of neoliberalism are more likely to produce translations closely aligned with the source paradigm (Ban, 2016). This group includes domestic civil servants with frequent IMF interactions, central bankers, fiscal council economists, policy-oriented economists whose careers hinge on mainstream publications, and NGO economists reliant on grants from neoliberal donors. Conversely, hybrids are more probable when translators have looser connections to transnational neoliberal networks and are more influenced by domestic political and professional fluctuations.

The move from diffusion to translation of practices is crucial for understanding how neoliberalism adapted to different regions. However, I contend that the use of the "diffusion paradigm" - including in its translation version - is insufficient for comprehending institutional change in peripheral regions. While the nuanced perspectives on multidirectional influence and the agency of importing countries provide significant insights, it is overly simplistic to assert that emerging countries evolve mainly through external imitation, and sometimes implying a progressive direction of evolution.

A framework centered on practices differs from traditional translation literature by emphasizing learning-by-doing rather than prioritizing principles and ideas' diffusion. For instance, Johnson (2016, p.5-6) suggest that ideas precede practical applications: "The community [of Central Bankers] shared the interdependent principles of price stability and central bank independence, which in turn generated a range of corollary beliefs and practices." From the principles of price stability and central bank independence, a set of best practices emerges:

> Several "best practices" emerged from these principles and corollaries. Most notable was the rise of inflation targeting as a method of credibly committing to price stability. An inflation-targeting central bank publicly states that it aims to use monetary policy to achieve and maintain a predetermined inflation rate over a set term. Inflation targets became popular because they were easy to explain and represented a concrete commitment to pursue a specific definition of price stability. (Johnson, 2016, p.7)

In Chapter 3, we argue that the necessity of coordinating external market expectations and domestic inflation drove countries to experiment with managing interest rates to address both external constraints and inflation simultaneously. Focusing on practices, while acknowledging the role of expert knowledge in formalizing these practices, offers a perspective for understanding how actors interact and coordinate expectations in their daily activities, extending beyond interactions in conferences and meetings.

Translating Economic Ideas in Latin America

In Latin America, the study of the translation of neoliberalism has gained traction in recent decades, particularly in analyzing how ideas from the United States have been filtered through domestic intellectual traditions (Fourcade-Gourinchas and L. Babb, 2015). Economists in the region have followed two distinct paths in relation to North American knowledge, which Montecinos and Markoff (2010, p.15) termed the "critical project" and "economics mainstreaming."These strategies coexist inside countries, but with notable distinctions across countries and a general tendency towards mainstreaming after 1980's. As Dequech (2007) explains, *mainstream* economics is characterized by both influence and prestige within the profession, measured by "what is taught in the most prestigious universities, gets published in the most prestigious journals, receives funds from the most important research foundations, and wins the most prestigious awards".

The critical project emphasizes local specificities and gearing policies towards economic development. The historical-structural method, employed by the original ECLAC's economists is based on the study of "the specific productive, social and institutional characteristics, and international engagement of Latin American and Caribbean countries, which are seen as peripheral, in contrast to those of the "central" economies, viewed mainly from the standpoint of medium- and long-term change" (Bielschowsky, 2009). Raul Prebisch, the Argentinian economist founder of the Argentinian Central Bank and second general secratary of ECLAC, promoted the idea that the main flaw of imported economic theories were the generalizations that did not apply to peripheral countries. Prebisch's started his career at the Argentinian Central Banker as an orthodox monetary economist, but ended his mandate with eminently heterodox views (Caldentey and Vernengo, 2018). His experience would later become a theory of underdevelopment sketched on the report "The economic development of Latin America and its principal problems", most known as "Latin American Manifesto".

Prebisch's idea of an asymmetry between the slow growth of demand for commodities and an increasing demand for industrial products would guide the first years of ECLAC's work (Bielschowsky, 2009). Given the asymmetric outcomes of international trade, ECLAC turned its efforts to the creation of locally oriented economic thought. This challenge against imported knowledge is one of the origins of Post-colonial thought (Go, 2016). ECLAC's historical-structural thought "served as development orthodoxy" for many developing countries throughout the 1970s, providing technical assistance from governments of diverse political orientations (Haas, 2001; Prebisch, 1949). At the time, Central Banking would follow developmentalist goals aiming to increase employment, output and economic diversification (Jacome et al., 2018; Vernengo, 2016).

After the 1990's, the education of Latin American Central Bankers has shifted to international universities, mainly in the United States (Montecinos and Markoff, 2010; Adolph, 2013). Beyond its increasing domain over monetary issues, US-trained economists also filled presidential races across the region (Montecinos and Markoff, 2010). Besides importing

US trained economists, the Americanization of economics involved transformation of Latin American Universities curricula and academic production (Montecinos and Markoff, 2010; Fernández and Suprinyak, 2016). The "americanization" of economist profession developed through exchange programs, conferences, university cooperation and the creation professional associations. The varying degrees of Americanization of Latin American economics has been extensively investigated and provide useful insights on how academic communities organizes around economic policies. It may be worth to quickly look into the experiences of Chile, Argentina, Brazil and Mexico to highlight how different configurations of Academy-Economic Policy exist in the continent.

The first exchange program was developed between the University of Chicago and Chile's Universidad Católica in 1956, and was later followed by similar programs in Brazil, Argentina and Mexico (Biglaiser, 2009). Chilean trajectory is a landmark of the influence of *Chicago Boys* in a broad range of economic reforms (Silva, 1991).

In **Brazil**, the National Association of Graduate Economic studies was founded in the 1970's under the founding and coordination of Ford Foundation and USAID (Fernandez and Suprinyak, 2019). The internationalization of Brazilian economics was led not by Chicago boys, but by "Vanderbilt Boys" Fernandez and Suprinyak (2019). During the creation of Brazilian Association of Post-Graduate Programs in Economics (ANPEC), the effort of Professors from Vanderbilt University, specially professor Werner Baer, was influential in creating a pluralist academy, that persists today. Given this pluralism, the historical-structuralist traditions are still largely taught in Brazilian Federal Universities. The economics post-graduate programs in the country today are polarized between heterodox and orthodox centers, epitomized by UNICAMP and PUC-RIO, respectively (Fernandez and Suprinyak, 2019; Dequech, 2018). This division implies different ties with foreign associations, and different Professor's formation, in which orthodox academics usually hold North-American PhDs. This diversity has provided some room for maneuver during the Worker Party's governments, when scholars from the heterodox camp occupied important positions in the Ministries of Finance and Financial Institutions. Nevertheless, this pluralism was not extended to the Central Bank, where the tradition is to appoint economists graduated in the US, but with a master degree at PUC-RIO or Getulio Vargas Foundation.

In **Mexico**, ECLAC was not as influential as it was in other Latin American countries, but postwar Mexico also adopted import-substituting strategies that resembled ECLAC's prescriptions (Babb, 2004). The breakdown of developmentalism in the 1970's was also accompanied by a polarization of economics program. Universidad Autónoma de Mexico focused on Marxism and dependency theory and ITAM approached the University of Chicago. But as occurred in Brazil, since the 1990's Central Bankers were almost only recruited from

ITAM and North-American universities (Babb, 2004). In Argentina, Biglaiser (2009) argues that government attacks on academic freedom and US training of economists shaped economics curricula and policy making. Nevertheless, a strong anti-US sentiment prevailed at some public Universities, even after the 1990's Vernengo (2016). Peronist governments have usually been linked to more heterodox graduate programs, from the University of Buenos Aires and the Universidad Nacional de San Martin.

The interplay between policymaking and academic communities sheds light on a significant portion of the policies implemented by Central Banks. The preference for appointing US-trained economists as Central Bankers serves as a key mechanism for legitimizing monetary policy. Traditionally, the model for understanding "translation in Latin America" assumes a straightforward flow from consensus in North American academia to Latin American practices, often overlooking internal divisions and disputes. However, as it was argued in the previous section, in adapting ideas to new contexts, "active and purposeful subjects identify ideas that could serve their intellectual aspirations, and subsequently infuse them with a host of meanings that were not part of the original make-up" (Cunha and Suprinyak, 2017, p.9). This process of translation underscores that understanding policies in Latin America requires more than merely examining the adoption of specific North American or European economic frameworks, such as monetarism, new Keynesianism, or the broad umbrella of neoliberalism.

2.2.2 Recollection

> "When it comes to ideas, often what is new is precisely, the reheating, whenever some new seasoning is added to prevent the old ideas from getting stale. Otherwise, it is very difficult to escape the curse of the skeptics: *nihil novi sub sole*"
>
> Fernando Henrique Cardoso, Former Brazilian President

Focusing exclusively on imported scientific knowledge for explaining domestic economic change overlooks other vital forms of knowledge creation and legitimation that play a critical role in policymaking. Domestic practices, for example, can be significant sources of knowledge but are sometimes forgotten or obscured until rediscovered by political actors. Policymakers often face significant economic uncertainty, compelling them to adopt measures that conventional macroeconomic models fail to address. In such cases, they may rely on dormant domestic practices rather than imported ideas.

In the following sections, we introduce the concept of "recollection," which extends the literature on translation by emphasizing domestic practical sources of change, and enriches path-dependency research by demonstrating a non-linear evolution of history. Rather than viewing history as a linear progression toward ever more “efficient” or “rational” frameworks, recollection underscores the ability of political actors to draw upon dormant memories and institutions when current arrangements lose their legitimacy.

From path-dependency to recollection

Path dependency approaches have emphasized how institutions lock countries in a definite trajectory (Pierson, 2004). Those accounts do not have a complete evaluation of how this lock in can be challenged by attempts to return to former conditions. Also in transplantation studies, the process is seen in a linear fashion where countries choose, transform and internalize some institutions (Johnson, 2016). Instead, I argue that traces and memories of past orders coexist with the new order, enabling processes of recollection.

Pierson (2004, p.45) explains that in path-dependent processes “positive feedback means that history is ’remembered”’. The order of events matter for determining the subsequent path. Events that happen early on may have a bigger impact than those that happen at a later stage. Events happening in the beginning of a critical juncture are more strongly remembered than those happening at later stages. In path dependence processes, “previously available options may foreclosed in the aftermath of a sustained period of positive feedback” (Pierson, 2004, p.52). “Particular courses of action, once introduced, can be virtually impossible to reverse” (Pierson, 2004, p.18).

A common critique to path dependency is that the institutional development is too open - or uncertain - in the beginning of a critical juncture, and too closed - or determined - once the new institutions are in place. One answer from this criticism comes from theories of slow institutional change. Streeck and Thelen (2005) ask how change occurs within relatively stable institutional settings, with strong path dependency. Their answer is that change happens slowly, and sometimes, subtly. Change may not always occur through the complete displacement of former institutions. Rather, new institutions may be layered on top of existing institutions. Existing institutions may also be converted to new uses, or “drift”, by being ignored by actors. Slow institutional change may also happen “by stealth” (Schmidt, 2008), without actors being aware of changes.

Mahoney and Thelen (2015) identify four ideal types of institutional change: (i) Layering occurs when amendments, revisions, or additions are made to existing rules; (ii) Drift takes place when rules remain unchanged, but their effects shift due to changes in external conditions; (iii) Conversion happens when actors repurpose institutions, redirecting them toward goals and outcomes that differ from their original intent and focus; (iv) Displacement involves the replacement of existing rules with new ones. Displacement often represents a sudden and radical shift, a form of change frequently emphasized in leading institutional theories.

Most of the literature on slow institutional change would deal with layering of neoliberal institutions, or simply further liberalization through piecemeal reforms. The direction of slow institutional change is presented as a continuation of path dependent processes, where innovation, or reversibility of actions is very limited. Moreover, theories of slow institutional change dot not explore attempts of reversing path dependent processes.

The difficulty of leading with change - and reversion of change - within institutional analysis have led institutionalist scholars to look for inspiration in other strands of literature:

> As institutionalists grapple with change, diversity, innovation, indeterminacy, creativity, and surprising assemblages of institutional artifacts, some have come to question the implicit structuralist foundations and turned elsewhere for help. The catalog is big and growing. Among the other traditions, institutionalists have turned to social studies of science, action theory, ecology, narrative knowing, poststructuralism, constructivism, postcolonialism, pragmatism, theories of entrepreneurship, religious studies, and economic anthropology. (Berk et al., 2013, p. 1)

Conceptual grounds of recollection

The mechanism of recollection evidences that the evolution of a monetary order is not linear. The proposed concept aims to expand the historical institutionalist literature to expose the limits of a linear vision of history, and argue for the possibility of incorporating evolutionary mechanisms that go beyond this linearity. The concept of recollection explores the hypothesis of “irreversibility” of path dependent processes. It investigates to what extent a path dependent process allows returns to previous trajectories. The proposal here departs from the pragmatist approach of Adler (2019) for whom the evolution of social orders is guided by the competition of different practical options.

Walter Benjamin employs *recollection* (Eingedenken) as a central concept in his essay “On the concept of history”(Hartog, 2013, p.129). As Hartog (2013, p.129) explains, for Benjamin, ”recollection is not the sudden involuntary emergence of the past in the present, but an active orientation that, by aiming at a particular moment in the past, transforms it” . Recollection is not seen as a flashback, or an unintended return to the past, but an active action through where the past is brought into present practices with the aim of transforming it.

François Hartog (2013) proposes the concept of regimes of historicity, arguing that societies and individuals alternate between different regimes of living and sharing historicity: some regimes are oriented to the present, others to the future and others to the past. His main thesis is that after a long period of “pastism” we now live in a context of “presentism”, where experiences are less mediated to the past and constantly more instantaneous. Hartog (2013, p. xiv) notes that: "We have heard over and over again that there is a big, bad, short-termist financial capitalism, to be contrasted with a good old industrial capitalism and its managers of yesteryear, or only yesterday." Financial capitalism is commonly seen as short-termist, fast and unstable.

Hartog (2013) argues that there is in contemporaneity an increased fragmentation of collective memories, and the difficulties of creation of past narratives that would make the past a solid space from where to build experiences: "Globalization, democratization, massification, and the media boom all contributed to the demise of "memory based societies" and ultimately to that of memory itself. [...] In other words, it is precisely because there are "no longer milieux de mémoire," environments of memory, that "sites" find themselves invested with residual feelings of continuity."

In this view,"Globalization, democratization, massification and the media boom" hampers the creation of memories, or the solidification of memories in places and practices. Similarly, Jonathan Levy (2021), in his book *Ages of American Capitalism: A History of the United States*, describes American capitalism as a forward-looking economic system where future expectations significantly shape present actions. Throughout history, from the ambitions of seventeenth-century British rulers to modern Silicon Valley innovators, the U.S. has maintained a distinct tendency to focus on future possibilities while often neglecting the past. This *historical amnesia* has led to recurring economic patterns, such as the optimistic beliefs in the 1990s' new economy and the persistent faith in globalization despite crises like the 2008 financial panic.

Jonathan Levy (2021) argues that this neglect of history perpetuates repetition and underscores the need for the U.S. to confront its past to envision a better economic future. In this perspective, emphasizing the importance of learning from past experiences leads to viewing repetition primarily as a negative aspect of evolution, focusing solely on the risk of repeating earlier mistakes.

Although it is true that the capitalist contemporaneity is forward looking, it can be argued that the backlashes against markets often come in the form of recollection. If we consider the Polanyian theory of social change, the counter-movements against the marketization are often backward looking. As Della Porta (2017, p.28) explains, in the Polanyian view, counter movements are "in fact reactive movements - that is, their stance is defensive and backward looking". Della Porta (2017, p.28) argues that

> counter-movements seeking the re-establishment of traditionally guaranteed rights can put forward progressive narratives and offer more inclusive and participatory visions, but they can also draw on regressive models and exclusionary ideas.

In a recent book, Paolo Gerbaudo defines a movement of recoil, whereby countries seek protective policies that affect diverse areas, including security, trade and industry. These policies would also be a response to the former opening proposed by neoliberal reforms. According to Gerbaudo (2021):

> "Recoil is the customary English translation of the Hegelian term *Gegenstöß* used in the dialectic to express the counter-push swinging back and forth between different poles, such as Being and Nothing. This is not simply a moment of regression or backlash, a purely negative retreat. More positively, it is also a moment of re-internalisation, or what Hegel himself described as *Erinnerung*. The term literally means remembrance, but Hegel also uses it figuratively to signify the act of recollection and internalisation, or 'inwardisation'. "

This proccess labelled recollection in this thesis is an attempt to explain a series of other phenomena, that have been called by a range of different names, including *recoil* (Gerbaudo, 2021), re-regulation (Gallagher, 2015), rebuilding (Lavery, 2023), and reinvention (Mertens et al., 2021). The phenomena is also widely share in news, where it is argued that the world is being "reterritorialized", as a response to the delusion with globalization (Vallet, 2022). In the economic policy arena, it is acknowledged a return to Keynesian policies, but in a context of established neoliberal practices (van 't Klooster, 2021).

In the case of dependent economies, the backlash against the incorporation of neoliberal international practices can indeed have a progressive or regressive nature. But a frequent characteristic is the recuperation of older forms of organizations and practices. The backward looking characteristics are usually associated with the reactionary movements, specially from rightist populist movements. But as I will show, since the reforms of the 1980's and 1990's marked a critical juncture for economic policies, the recollection of former practices is also present in leftist movements.

Recollection in monetary orders: between memories and practices

The history of money and monetary policies in Latin America is complex and highly debated. For policy analysts, understanding how these events actually unfolded is as important as examining how political agents interpret and leverage them. The ways in which events are remembered or forgotten play a critical role in legitimizing policies, a topic that has recently drawn attention within the study of monetary policy. Although this scholarship is still evolving, it highlights how interpretations of past events shape current outcomes. While the politics of memory is well-established in sociology, in political economy, "memories" often remain a loosely defined metaphor.

Economic historians have examined how memories and past practices challenge the assumption of linear historical progression towards more rationally efficient processes. Charles Kindleberger (1983, p.129), a prominent economic historian, questions the assumption that economic systems evolves through rational efficiency seeking processes. He argues that people "respond to economic stimuli — at least on occasion — in ideological fashion, or on the basis of some collective memory of past events or outcomes".

Kindleberger (1983, p.130) contends that collective memories "affect some economic responses, but not others, and over periods of time which seem to controvert the simple hypothesis that collective memory in economic questions fades monotonically with the passage of time." The common assumption that the further back in time an event occurred, the weaker its effect on collective memory, is not the only determinant of its influence.

In the Latin America monetary field, official memory is constructed by Central Banks (Díaz, 2015), politicians, and international organizations (Jacome et al., 2018). Former Central Bankers have also written extensively, reinforcing the progressive history (see for instance Franco, 2017). As mentioned in Section 1.3.1, according to Jacome et al. (2018), Latin American monetary history is divided into three eras: the early years of the gold standard, the developmental phase, and the golden years. In the developmental phase, Central Banks turned into "development banks under the aegis of the government" (Jacome et al., 2018, p.12). The golden years are marked by political autonomy and price stability, guided by inflation targeting. This is usually how monetary evolution is remembered in academic circles. Successful inflation stabilization plans, like Brazil's *Real* Plan and Argentina's *Convertibility* Plan, resulted in high approval for presidents and finance ministers. These stabilization events have become mythical critical junctures, celebrated in movies and constantly remembered by the media.

On the other hand, countries that deviate from these practices, such as Venezuela, Argentina, and Bolivia, are seen as nostalgic remnants of former developmentalist policies. The developmentalist past is considered a period to be forgotten. For instance, former Brazilian President and dependency theorist Fernando Henrique Cardoso was also often quoted saying, "forget what we have written in the past because the world has changed, and the reality now is different" (Folha de São Paulo, 1996). Although Fernando Henrique denies the quotation, the sentence still resurfaces in academic discussions about the intellectual changes former structuralist economists have undergone. Similarly, former Mexican President Andrés Manuel Lopez Obrador, elected on a leftist platform, is heavily criticized for "coming from the past and being stuck in the past" (Webber and Stott, 2021). His developmentalist ideas are considered "ideological necrophilia—a passionate attraction to ideas and ideologies which have been tried and tested, and failed, an infinite number of times in Mexico and Latin America" (Webber and Stott, 2021).

These critiques of past practices often stem from normative, linear perspectives on history, which typically overlook the active role of politics in deciding what is remembered and what is forgotten. In contrast, a politics of memory focuses on the process of *forgetting* and how it shapes group identities, reinforcing distinctions and commonalities (Hacking, 1995, p.211). Sociologically, a memory is not just a trace of the past but a part of contemporary experience. Memory is linked to perception, providing "schemata whereby the individual anticipates new incoming information while mentally digesting old" (Giddens, 1984, p.46).

In this line, Kaplan (2013) reveals how memory-based judgments guide politicians in Latin America. The memory of hyperinflationary events constrains both the electorate and politicians, who struggle to maintain price stability. After inflationary shocks, politicians become risk-averse and more willing to embrace conservative macroeconomic governance with an anti-inflationary bias. This conservative consensus blurs partisan lines, convincing both right and left-wing politicians. Drawing insights from psychology and risk aversion, Kaplan (2013) argues that traumatic experiences of hyperinflation have a disproportionate influence on decision-making, making this memory persist. Direct experience of hyperinflation is more compelling than descriptive or theoretical information. Therefore, national experience is more relevant than the diffusion of international norms for adopting conservative policies.

This tension between the diffusion of conservative policies and the national memories evidences the relevance of memories as a distinct kind of idea that inform economic policy making. The change in policies would not reflect a global shift in policy paradigms from Keynesianism to Monetarism, but rather the memory of traumatic experience (Kaplan, 2013, p.198).

In this view, the paradigmatic shift is insufficient to explain the diversity of contemporary relationships with inflation. The very different institutions in Chile and Argentina, for instance, would have to be explained by the national histories, rather than by adoption of an international wave of policies. The paradigmatic shift would follow the traumatic experiences, and politicians would appoint the preferred economists in order to avoid the return to those traumatic times Kaplan (2017).

Despite the persuasive argument that past events have a lasting impact on policymakers' perceptions, Kaplan (2013) does not clearly explain how the memory of an event is produced. His theory holds that the mere existence of a hyperinflation episode is sufficient for triggering subsequent conservative measures. While he thoroughly examines how bond financing pressures constrain governments, this does not fully account for how hyperinflation itself is interpreted. As the famous dictum suggests, "structure doesn't come with an instruction sheet" (Blyth, 2003b). Beyond the shock and various vested interests, an ideational framework is still necessary to make sense of the event. Economic events are not simply understood rationally, with obvious interpretations, and without political struggles.

The example of the German hyperinflation is notable as an non-linear and non obvious effect of collective memory over economic actions and policies. The fear of inflation generated by the hyperinflation of 1923 extended "irrationally" to the exchange depreciation and deflation in that happened years later in the German crisis of 1931 (Kindleberger, 1983, p.130). Kindleberger (1983) suggests that the misremembrance of the hyperinflation - usually associated with the years after 1929 - may be caused by a "sort of metonymy that associated exchange depreciation with hyperinflation and its trauma".

The causes people attribute to the hyperinflation episodes have consequences both for inflation and for the political response to it (Shiller, 2019). The list of possible causes of an inflationary shock is vast: wage-price spirals, excessive private credit, excessive public spending, money printing, external shocks, depreciation, etc. Usually, Latin America presents a combination of these several causes and the cause that will stick to mind is often open to political appropriation.

Key intellectuals debates still occur around the causes of each hyperinflationary episode and current studies point for the necessary condition of external imbalances (Charles and Marie, 2016). Even though high external indebtedness is probably a necessary condition for hyperinflationary episodes, this central fact is usually forgotten by politicians, economists and by society. In his memoirs on combating inflation in Brazil, Fernando Henrique Cardoso mentions only fiscal spending as the main cause of inflation (Cardoso, 2013b), forgetting that his first mandate was of fiscal deficit and that his main strategy for controlling inflation was the pegging of the exchange rate.

The contested nature of economic events brings to light the politics behind the production of memories and the choice of what to be forgotten. The active forgetting is usually ignored in accounts that view history in a teleological or strictly progressive way. If policies are constantly evolving towards more efficiency, the former policies and mistakes are better to be forgotten.

When policies are seen as distributive devices (not only efficient solutions) (Mahoney, 2010), the *politics of what was forgotten* become more relevant. In the words of Hacking (1995, p.213) "forgetting, rather than ordinary remembering, is the present locus of memoro-politics". The politics of forgetting has more to do with hiding information than with losing it (Hacking, 1995, p.214). What is forgotten may represent past power relations that do not hold anymore, or memories that were relevant for powerless groups. As Fernandes (2004) explains:

> The politics of forgetting refers to a political-discursive process in which specific

> marginalised social groups are rendered invisible within the dominant national political culture. Such dynamics unfold through the spatial reconfiguration of class inequalities.

The historical institutionalist tradition has much to say about the politics of forgetting. Among the mechanisms for institutional change, the institutional *drift* (Streeck and Thelen, 2005) represents a process of forgetting and reinterpretation. Drift refers to a form of gradual institutional change that occurs when the formal rules or structures of an institution remain in place, yet their effects shift over time due to evolving external circumstances— or because those rules are enforced or interpreted differently. When some institution drifts its effects may disappear, even if it is still in place. The rules may be forgotten when they loose support of the main coalition. This is specially relevant in situations where the political context presents strong veto possibilities (so actors are unable to displace the current norms) and the rules allow for a high level of discretion in interpretation.

In their book *American Amnesia*, Hacker and Pierson (2016) argue that the neoliberalism in the United States has completely forgotten how the developmentalist institutions were fundamental for the high growth of the XX century. And by forgetting, the country ended up having the opposite outcomes that those institutions were designed to promote: high growth and income distribution.

The forgetting of developmentalist practices created space for building of contemporary central banking. On its inception and specially after the 1940's, a central goal of Central Banks was to finance government and to promote economic development. . The hiding of memory creates limits to policy capacity. The institutional amnesia leads Central Bankers ignore that:

> "monetary policy can be deployed towards social purposes other than controlling inflation, in institutional configurations other than isolation from the rest of the government and with instruments other than interest rate manipulation" (Braun, 2018).

Even the "unconventional monetary policies" resemble older instruments largely adopted in the past (Duarte et al., 2020). Asset purchases, banks bailouts, yield caps on sovereign bonds and quantitative easing have all been part of the Central Banks toolkit in the past (Duarte et al., 2020; Braun and Downey, 2020). Those practices were not extraordinary measures, but the usual actions taken to meet basic central banks goals of the time. More recently, one should mention the direct financing of the government by the central banks, a practice increasingly avoided since the 1970's, but that came back as a last resort measure during the Coronavirus pandemic.

Economic policy analysis must incorporate not only these more intangible memory dimensions but also how its legacy is reified materially over time in economic conditions distinguishing the trauma of those with the resources to "work through" and those without (Lerner, 2019). Collective traumas have economic consequences, like poverty and distrust in former institutions, which have long term impacts on international economic relations (Lerner, 2019).

It is true that those practices are presented in a new format and include innovations and instruments that were not technically viable before. Nevertheless, they can be best seen as evolution of forgotten practices than brand new creations. By calling it unconventional monetary policies, one can bypass the avoidance politicians, bureaucrats, experts and the public have for the old time practices.

In sum, the literature on the political economy of memories is not as cohesive and dense as the literature on how economic theories were translated to Latin America. Nevertheless, it shows paths to understand how political agents uses history to promote or to block institutional change. The literature on memory focus mainly on the political agents, and its relationship with the electorate (Kaplan, 2013). This emphasis is quite different from an exclusive role of experts. Finally, the memory literature is apt to deal with the issue of forgetting. By focusing on what is hidden in history it is able to uncover the power relations at play shaping how a country's history is remembered. In the case of Central Banking this is a very relevant issue, since the former practices are purportedly forgotten, only to be later recovered under new names and new features. This dynamic has no place in an exclusively progressive view of the evolution of economic theories.

2.3 Scope conditions of recollection

The period of intensified globalization and strong international neoliberal consensus was intensely marked by translation of practices from developed to developing economies. This translation involved adapting the practice by blending native features with the original external elements. Translated practices are never entirely stable; they continue to evolve in pursuit of the most legitimate forms. Although a new monetary order may eventually stabilize, it remains open to contestation. Such contestation requires challenging the existing order and proposing alternatives—whether from new translations of practices, innovations, or the recollection of older orders.

Scope conditions for recollection

1. **International Uncertainty**

    (a) The domestic recollection of economic practices tends to accelerate when international economic consensus is weak. For instance, in an era of increased geopolitical fragmentation, global uncertainty, and economic crisis, traditional neoliberal principles are questioned, and developmentalist approaches may reemerge as viable domestic options.

2. **Cohesive political support**

   (a) For any recollection to influence policy, proponents must hold positions within cohesive policy teams. In Latin American contexts with strong presidential systems, a leftist government critical of neoliberal orthodoxy may facilitate the recollection of developmentalist practices.

3. **Existence of dormant practices. Dormant practices must be available and able to adapt to new conditions.**

   (a) **Availability:** Recollection is more probable when past practices have not been entirely forgotten. Institutional changes through layering, drift, and conversion are more conducive to recollection than situations in which previous institutions and practices have been completely displaced. The extent of "forgetting" also depends on the time elapsed since the earlier reforms—longer intervals reduce the likelihood of successful recollection.

   (b) **Adaptability:** For these recollected practices to endure, they must adapt to the contemporary environment. They may conflict with newly established "anchoring" practices and fail to coordinate actors as effectively as before. Brazil offers an illustrative example: while the recollection of credit directing was possible, it clashed with newer mechanisms for managing inflation and financial markets, such as inflation targeting.

Recollection can occur when the legitimacy of the current monetary order is called into question internationally and older practices remain available. For example, during an international crisis, the established monetary order may lose credibility, prompting domestic actors to rebuild former institutions and practices that were never fully displaced. Although this process often leads to new solutions for contemporary challenges, it still draws on dormant frameworks from the past. While neoliberal globalization typically spreads through the diffusion of new practices, the revival of older practices and institutions is a hallmark of anti-neoliberal pushback.

Dormant practices: availability and adaptability When memories of past orders have been thoroughly displaced by a new monetary order, recollection may be impossible, prompting a more linear, path-dependent trajectory. The shift from developmentalist to neoliberal practices, for instance, involved deliberately burying older approaches: financial markets were liberalized, public banks privatized, and practices converted to ensure "market neutrality." However, in the face of a global crisis that challenges the legitimacy of the current monetary order, these older practices can resurface—especially if they remain dormant within public institutions.

To rebuild a developmentalist order, the proponents of a recollection have to face a coherent community of practices, formed not only by the Central Bank, but by domestic financial markets that rely on inflation targeting to form their expectations and actions. When the price stability order is consolidated, the initial translation process has become internalized (Johnson, 2016, p.44). With internalization, what becomes relevant is not the pressure of international financial markets, but the power of domestic supporters of the order and its practices. For instance, the contemporary evolution of monetary order in Brazil and Mexico, recollection of developmentalist practices may clash with a Central Bank and financial markets committed to protect the gains made by the implementation of an order based on price stability.

Innovations As we argued in previous sections, the selective retention processes, including recollection and translation are bounded creative process. Even though selective retention derives some of its legitimacy from the adherence to the original source, the mediations between the imported practice and its application makes practices change.

Beyond the creative processes involved in selective retention, there is always the possibility of creative change, which is not the simple recollecting or translating practices, but the creation of new monetary practices. Beyond temporal and spatial selection, *innovation* may happen through practical learning and through the adaptation to unpredictable new shocks (Unger, 2007; Adler, 2019).

Chapter 3

A focus on an anchoring practice: Inflation Targeting in Brazil and Mexico

3.1 Introduction

This chapter supports the thesis by illustrating how Central Banks in Brazil and Mexico adapt their communication strategies and practices to navigate the political landscapes. By examining the "prudential" and "reformist" communicational strategies employed under different administrations, the chapter demonstrates how Central Banks balance their autonomy with political context. It seeks to reinforce the broader argument that domestic institutions reshape and internalize external monetary practices to achieve their policy objectives in distinct ways.

3.2 Interest rates in Inflation Targeting

As interest rates were liberalized, meaning that development agencies and banks had less control over the credit rates, Central Banks increasingly centralized the management of interest rates. After decades of experimentation within Central Banks, a crucial institutional translation was the adoption of inflation targeting. [1] In what become called as Central Bank's golden age, Central Banks are independent and should target only one variable: inflation. For allowing a macroeconomic regime focused solely on inflation stability to exist, a heavy wave of institutional change had to occur (Blyth and Matthijs, 2017, p.209):

> certain actors were empowered or disempowered by that target, and certain

[1] It is interesting to note that inflation targeting was never adopted to curb inflation, but mainly to maintain it stable (Jacome et al., 2018).

> institutions were privileged over others. Workers and debtors have gradually seen their powers and returns curtailed as inflation has fallen and the ability to bargain for a greater share of value has collapsed as trade unions' wings were clipped while the owners of capital, and creditors, have prospered. Similarly, on an institutional level, to ensure price stability an independent central bank and a flexible labor market, both institutions designed to mitigate inflationary pressures have been widely spread. In contrast, incomes policies and corporatist- type institutions were gradually weeded out.

Deregulated financial markets, disempowered workers and a central role for monetary policy are the three institutional changes required to establish the new regime (Blyth and Matthijs, 2017, p.216). Those pre-requisites resulted in new practices that could stabilize policies around its core constitutive rules.

Inflation targeting was formally adopted by an increasing number of Latin American countries since the first countries started adopting in 1990's (see Table 3.1,). After a first wave that included Brazil, Colombia, Chile, Mexico and Peru, other countries slowly introduced it. Countries with a with a strong developmentalist history, as Brazil and Mexico, adopted in the first wave. Chile, Colombia and Peru would be notable for their liberalized insertion in the world economy (Bizberg, 2019). In the sequence, smaller economies as Guatemala and Uruguay would adopt inflation targeting years before 2008 financial crisis, while Paraguay, Costa Rica and Republica Dominicana adopted right after the crisis.

Ecuador and Venezuela, both oil exporting countries, did not adopt inflation targeting, but followed instead very different paths. In 2000, Ecuador adopted the North-American dollar as the national currency. Meanwhile, Venezuela struggled for maintaining a workable monetary sovereignty. In another interesting history, Argentina is considered to be the only country in the world where inflation target failed, for its adoption in 2017 and subsequent abandonment. Smaller economies, as those from Caribbean, were believed not suitable for adopting inflation targeting, but the more recent implementation by Dominican Republic and Jamaica has questioned this common wisdom.

Inflation targeting from developed to developing economies

Monetary policy in emerging economies is subject to special challenges, due to its higher vulnerability to capital flights. The challenge is increased in a context of flexible exchange rates and a high exchange rate pass-through. In this context, lower growth may lead to high inflation when it is followed by capital flights and depreciation (Végh et al., 2017). Central banks are thus forced to fight against two competing targets in times of crisis: low growth and exchange rate depreciation.

Table 3.1: Monetary Policy Frameworks in Latin America and Caribbean

Inflation Targeting (Adoption Year)	Other		
	Exchange Anchor	Monetary Aggregate	Other
Chile (1999)	Ecuador	Bolivia	Venezuela
Brazil (1999)	El Salvador	Suriname	Cuba
Colômbia (1999)	Panamá	Argentina*	Haiti
Mexico (2001)	ECCU		
Peru (2002)	Guyana		
Guatemala (2006)	Trinindad and Tobago		
Uruguay (2007)	Curaçao, Bahamas		
Paraguay (2011)	Honduras		
Costa Rica(2011)	Nicaragua		
República Dominicana (2012)	Barbados, Belize		
Jamaica (2017)			

Source: Author's elaboration based on Central Bank's websites and IMF's Annual Report on Exchange Arrangements and Exchange Restrictions.
* Argentina adopted inflation targeting for small time frame between 2017 and 2018, during a balance of payments crisis.

Defining how inflation targeting is practiced has to be done in the case specific context. Nevertheless, it may be useful to start with current academic definitions, that can be evaluated on the cases. In an influential Economics Handbook definition, inflation targeting is characterized by "(1) an announced numerical inflation target, (2) an implementation of monetary policy that gives a major role to an inflation forecast and has been called forecast targeting, and (3) a high degree of transparency and accountability" (Svensson, 2010a, p.1238). Similarly, Mukherjee and Singer (2008) defines inflation targeting as "a transparent monetary policy rule in which the central bank commits to using monetary policy solely for the purpose of meeting a publicly announced numerical inflation target within a particular time frame".

As summary definition, the inflation targeting implies a rule of action for the Central Bank, that is committed to achieve a pre-established variation of the general increase in the prices - the inflation. The commitment to a certain inflation level is achieved through the adoption of several policy instruments and techniques, that include the control over the interest rates, the adoption of forecasting techniques, the intervention in foreign exchange markets.

As the main instrument for achieving the inflation target, Central Banks establish a target interest rate for government bonds. Relying on (New Keynesian) macroeconomic models, this interest rate is responsible for fine tuning demand in order to comply with the inflation rate. The understanding of the ways interest rates affects inflation is a heavily debated issue in economics, that has originated a literature on the mechanisms of transmission of monetary policy (Bernanke and Gertler, 1995; Mishkin and Apostolos, 2011).

Whenever economic agents or the Central Bank expects inflation to accelerate, a series of semi-automatic actions are enacted. Interest rates are increased, budget cuts are proposed and exchange rate interventions are performed. A much discussed rule for adjusting interest rates - the Taylor Rule - is central to modern macroeconomic models, prescribing that in order to control inflation, the increases in interest rates have to be more than proportional to the increase in the expected inflation. The adherence to the expected rules is crucial for an institution that legitimates itself by the procedures it adopts.

What is more relevant for our purposes is that the practices adopted by inflation targeting central banks are *market based* (Braun, 2018). For setting the interest rate on the level compatible with the inflation targeting, central banks have to participate in the market, selling or buying government bonds. Therefore, Central banks have to rely on the functioning of market mechanisms in order to accomplish monetary policy goal.

The market based practices are in stark contrast with the former practices, that relied on public banks for setting interest with explicit sectoral divisions. Adopting inflation targeting implied a change that necessarily excluded some actors, due to the new financial market prices used to control inflation. Looking to former accounts of how inflation targeting was adopted in its origins can help to elucidate this point.

Inflation targeting was created in New Zealand in 1990, in a context when former attempts to control inflation failed. Goodhart and Freedman (2010, p.172) noticed that the implementation of an inflation targeting did not come from academic discussions on the best monetary policy framework, but rather from policymakers and civil servants of the Reserve Bank and Treasury that tried to avoid excessive interventionism from past government (Svensson, 2010b, p.1243). During the 1970's and 1980's, New Zealand Treasury was responsible for monetary policy, and acted informed by cost-push inflation theories, especially concerned with cost shocks from imports and wages (Nelson, 2005). The implementation of inflation targeting was part of a overall change on this background knowledge about the causes of inflationary process. From then on, inflation would be seen as a product of excessively lax monetary policy , and not from cost increases (Nelson, 2005).

The Treasury gave way its control over monetary policy, that would be conducted by the Reserve Bank. No instruments for micro management should be employed, and the Bank had to cope with inflation only by changes in its interest rates. Of course, this implied a detachment of monetary policy from other micro policies that influenced key prices such as wages. The independence of Central Bank was not only an independence from Central Government as is commonly depicted in economic modelling (Rogoff, 1985; Alesina and Stella, 2010), but also from companies and unions involved in the former frameworks of monetary policy. This initial evolution in New Zealand evolved from practical concerns outside the academy, but monetary policy experts promptly worked to understand and systematize the practice in terms of its models (Woodford, 2003; Taylor, 1993, p.3).

For example, the central role of exchange rates in Latin American monetary policy is poorly captured by traditional models (Végh et al., 2017) and even by IMF economists (Jacome et al., 2018). Despite a broad consensus favoring free-floating exchange rates, countries in the region employ diverse practices to stabilize or peg exchange rates. These adaptations cannot be fully explained by economic handbooks, indicating that factors beyond macroeconomic models are critical for understanding policy operations.

When the first Latin American countries started implementing inflation targeting, in 1999, scholars had already reinterpreted it, in an attempt to help Central Banks to "develop a conscious and articulate account of what they are doing" (Woodford, 2003, p.3). Therefore, the translation of inflation targeting in Latin America happened in a stage when it had matured, i.e., had been tested in practice and had been reinterpreted by scholars. By that time, several academic books were being released to promote it as a safe and coherent monetary policy framework (Bernanke et al., 1999; Mishkin and Schmidt-Hebbel, 2001). In an account of how inflation targeting was implemented in Brazil the authors cite the literature that actively informed the introduction of inflation targeting:

> Two key books were very useful: Bernanke et al. (1998), Inflation Targeting: Lessons from the International Experience, Princeton University Press, and Taylor, John B. (ed.) (1999), Monetary Policy Rules, University of Chicago Press. Some other articles and books entered a "minimum kit", a mandatory reading for anyone in the group. (Bogdanski et al., 2000, p.9)

In contrast with the original experience in New Zealand, when Latin American countries introduced inflation targeting, handbooks on inflation targeting written by the North-American Academy already existed. They were used as a guide for the newcomers. However, it doesn't mean that there wasn't any degree of experimentation and creation. The political and intellectual struggles to implement certain practice take different forms depending on the past trajectory of the country. Mexican and Brazilian Central Bankers were experimenting with the management of interest rates in a globalized economy since the 1970's and inflation targeting was a standardized way that finely fit with their early experimentations, and had a suitable theoretical framework and international support.

3.3 Communication of Central Banks under inflation targeting

Central Banks adopting inflation targeting increasingly rely on communication strategies to influence financial markets. Their communication also has broad economic policy repercussions. The politics of central banks' communication are still understudied in developing countries. The current chapter analyses monetary policy committee reports in Brazil and Mexico. The two countries have adopted inflation targeting and have suffered similar external pressures, although their use of communication strategies have diverged over time. The research employs natural language processing techniques to identify the main themes of the reports since the implementation of inflation targeting in 1999 in Brazil and 2001 in Mexico. Former studies have investigated the tone of Central Banks' communication by distinguishing hawkish and dovish periods. The chapter overcomes this traditional division by evidencing a rich variety of communication strategies adopted. It shows how and when Central Banks adopt "prudential" and "reformist" communicative strategies. We show that the prudential strategy is adopted during leftist governments and aims to reassure the stability of markets and is usually employed when leftist governments are in power. The reformist strategy is adopted during rightist governments, and try to conditioning interest rate changes on economic reforms. We argue that to protect their credibility towards governments, inflation targeting Central Banks are less likely to push for reforms during leftist governments, but will act as reform catalysts during rightist governments.

Central Bank's communication under inflation targeting regimes is commonly regarded as depoliticized and aiming only for transparency (Svensson, 2010a). Nevertheless, political economy studies have recently shown deep political implications and aims in Central Banks speeches. Political factors drive conflict in Central Banks Committees (Moschella and Diodati, 2020). Bargain among the committee defines how precise is the communication (Baerg, 2020). Central Banks will push for reforms until they see their legitimacy threatened (Braun et al., 2021).

Central Bank's communicational efforts were initially seen with suspicion by Central Bankers (Krippner, 2011, p.114), but were slowly incorporated as part of the policy framework itself - as a discursive practice that has independent effects. As Central Banks become more outspoken, its announcements become guides to market reactions, and politicians become increasingly aware of the details of what has been said. As inflation targeting became the main anchoring practice (Adler, 2019) of monetary policy, its communicational elements became central for the conduct of monetary policy. Krippner (2011, p.131) shows the surprising role of communication in the case of US federal reserve:

> As committee members gained experience with the new disclosure policy over the course of 1994, they observed a curious result. When the Federal Reserve announced where it intended the federal funds rate to go, traders immediately moved the rate in anticipation of the move, and as a result the Federal Reserve actually had to conduct fewer operations in the reserve market to obtain the desired

> rate.93 British central banker Charles Goodhart (2000; emphasis added) referred to this as the advent of "open mouth operations."94 Perhaps more important than the effect of open mouth operations on the federal funds market, policymakers' increasingly expansive explanations of FOMC actions in statements, speeches, and congressional testimony provided opportunities to "condition" responses in the bond market. As a result, it was not necessary to adjust the federal funds rate as frequently or by as much to achieve necessary adjustments in long- term interest rates. As Board Adviser Donald Kohn explained, "Because the bond market anticipates your actions, long- term rates rise to the levels needed to counter the infl ation impulse with much less movement in the funds rate."

By announcing the policy rate changes, Central Banks have to put less effort into the open market operations. By their "open mouth operations" Central Banks can - to some extent - obtain the same results as the the actual bond purchases.

In the cases of Brazil and Mexico, monetary policy announcements have been central to the relationship of the banks with markets and politicians. The Bank of Mexico is obliged under the Article 51 of the "Bank of Mexico Act" to present to the Federal Government and to the Congress a quarterly Inflation Report (Capraro and Panico, 2021). While the Inflation report is a legal obligation with the congress and the federal government, the minutes of the monetary policy decisions are the most widely-repercuted and scrutinized document of monetary policy.

The monetary policy announcement are in general well structured documents, where the Central Bank announce the policy decision, justifies it with macroeconomic data and often offers prospects of future direction of change of rates. Given the forward looking tone of the reports, financial markets follow closely the word choices in each minute released, comparing changes from meeting to meeting. Figure 3.1 shows an annotated minute, from may 2021, where the unknown author has compared the former minute and the current one. This kind of document have broad circulation in WhatsApp groups dedicated to financial markets discussions, and commentators pay special attention to the tone of the forecasts, that can indicate the direction of the future monetary policy changes. For instance, in Figure 3.1 it shows an alteration from a initial recuperation of the pandemic effects to a surprise of the intensity of the recuperation, which could be interpreted - by financial market analysts as a dovish change.

A central tenet of inflation targeting has been the communication of policy targets and the Central Banks' interpretation of economic evolution through inflation reports and the minutes of the committees of monetary policy. Although we have a great understanding of the initial adoption of inflation targeting, much less has been said about its further evolution and the evolution of its comunication. Taylor-Rules estimations have advanced

Figure 3.1: Annotated editions in a Brazilian Minute of Monetary Policy Decision (4-5 May of 2021)

~~237ª~~**238ª** Reunião - ~~16-17 março~~**4-5 maio,** 2021

A) Atualização da conjuntura econômica e do cenário básico do Copom[1]

1. No cenário externo, novos estímulos fiscais em alguns países desenvolvidos, unidos ao avanço da implementação dos programas de imunização contra a Covid-19, devem promover uma recuperação mais robusta da atividade ao longo do ano. A presença de ociosidade, assim como a comunicação dos principais bancos centrais, sugere que os estímulos monetários terão longa duração. Contudo, questionamentos dos mercados a respeito de riscos inflacionários nessas economias ~~têm produzido uma reprecificação nos ativos financeiros, o que pode~~**podem** tornar o ambiente desafiador para ~~economias~~**países** emergentes.

2. Em relação à atividade econômica brasileira, indicadores recentes~~, em particular a divulgação~~ **mostram uma evolução mais positiva** do ~~PIB do quarto trimestre, continuaram indicando recuperação consistente~~**que o esperado, apesar de a intensidade** da ~~economia, a despeito~~**segunda onda** da ~~redução dos programas de recomposição de renda. Em geral, os indicadores de~~**pandemia estar** maior

Source: Document circulated in Brazilian whatsapp group of discussion on Financial Markets and Central Banking

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the understanding of Central Banks' preferences on inflation and output (Moura and de Carvalho, 2010; Modenesi et al., 2013a). But traditional Taylor rules leave aside the evolution and ignore the communicative aspects of inflation targeting (Baerg and Lowe, 2018). This is problematic considering that communication and transparency are central tenets of contemporary monetary policy frameworks (Svensson, 2010b; Holmes, 2009).

Central Banks communication provides a relevant measure of the main ideas influencing policy. When a Central Bank speaks, it reveals their beliefs, intentions and expectations. Central Bank communication coordinates markets expectations and directly affects asset prices. The question become how to interpret the communication of the Central Banks, in a reliable and replicable way. Economists and political scientists have employed a range of natural language processing techniques to understand how Central Banks speak and what are the effects of its speeches.

For instance, Silva et al. (2020) investigates the effects on financial markets of news related to monetary policy news in Brazil. Silva et al. (2020) creates an index of positive and negative news, based on more than 2000 news published by Broadcast, a Brazilian news source widely adopted by financial markets. The work finds that there is a two way relationship between news and financial markets asset prices. While negative news on monetary policy affects exchange rates and stock indices, the change in stock indices and prices also regulates the tone of the news disclosure. The approach adopted by Silva et al. (2020) is less relevant for our purposes, since it doesn't deal directly with the Central Bank policy, but with the way it is interpreted by media sources.

Garcia-Herrero et al. (2019); Aguilar and Pérez-Cervantes (2021) study how the talk of the Mexican Central Bank affects markets. Garcia-Herrero et al. (2019) evaluates the effects of the *tone* of (BdM) on the money markets and find that the more hawkish the tone, higher are money markets responses. As in the work of Silva et al. (2020), in the work of Garcia-Herrero et al. (2019) the tone is assigned by the researcher, giving more room for interpretation and lacking replicability.

Aguilar and Pérez-Cervantes (2021) are less reliant on researchers' discretion, due to the adoption of Natural Language Processing techniques. (Aguilar and Pérez-Cervantes, 2021) shows that the communication of Mexican Central Bank "coordinates" (Schmidt, 2008) the talk of Banks with their clients. Before the communication of the Central Bank, Private Banks are more dispersed in their talks with clients, but after the communication, their talk converge on the evaluation of the outlook of the economy and on forecasts.

These works inspires further investigation not only on the effects of Central Banks over markets, but on the comprehension of Central Banks policies itself. Research on the communication of Central Banks has been fruitful for understanding the evolution of policies in European and North American contexts (Baerg and Lowe, 2018; Diessner and Lisi, 2019; Moschella et al., 2020), but is incipient for Latin American economies.

3.4 Central Banks *frames* in Brazil and Mexico

The sections below presents the interpretation of the topic modelling performed for the decisions of monetary policy in Brazil and Mexico. A first observation is that the topics identified clearly define distinct stages on central banks communication. The phases largely relate to presidential mandates, what allows us to interpret how the Central Bank speaks under different governments. Even in Mexico, a case of high formal Central Bank Independence, it is clear the evolution of Central Bank communication, in different governments.

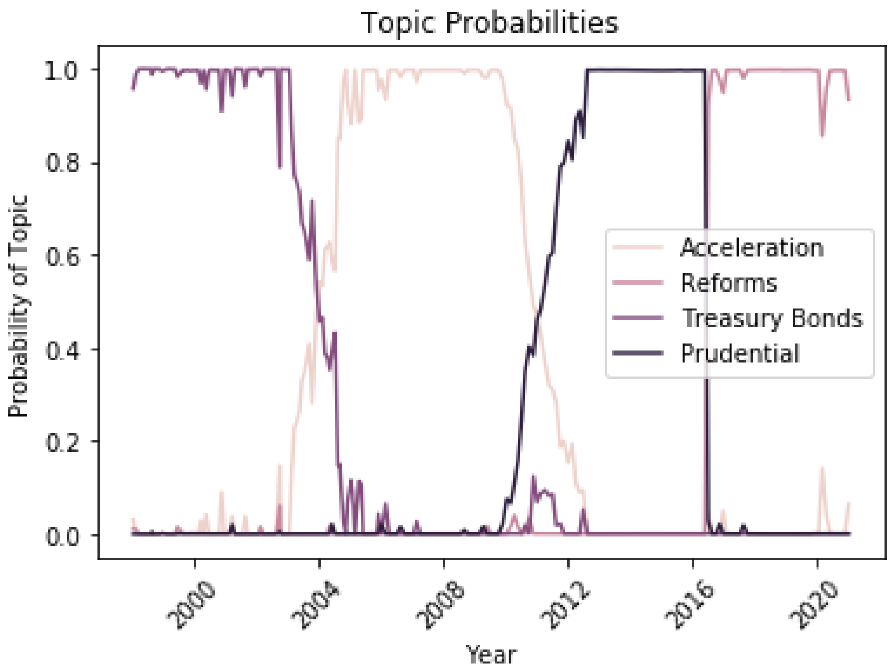
In their communication with markets, Central Banks go well beyond the traditional analysis of inflation expectations and foreign conditions. Under leftist governments, Central Banks - in Brazil and Mexico - Have adopted a "Prudential" discourse, that seeks to reassure markets of the normality of operations, even under complex financial situations. An intensification of the mentions of "reforms" was identified in both countries, in a movement that initiates after the 2008 crisis, but that takes further momentum after 2012.

Brazil

The evolution of monetary announcements distinguishes 4 phases in Brazil, identified by the most relevant topic on each phase. Topics were labeled according to the 10 first words in each topic (see table of topics in the Appendix Table 7.1).

Treasury Bonds Immediately after the implementation of inflation targeting, the main concerns were with conventional measures of monetary policy. The main relevant words include "LFT" and "LTN", which are the Portuguese acronym for the Treasury Financial Bonds and Bonds of the National treasury[2]. Traditional instruments, such as compulsory deposits and bonds auctions, are also distinctively represented at the initial phase of *the sample*. The initial period includes the aftermath of the Russian crisis, and the Brazilian devaluation crisis that led to the adoption of inflation targeting. During the initial period, Central Bankers struggled to consolidate practices of monetary policy and adapt to the highly volatile international financial markets. The organization of the committee of monetary policy, the taxation of speculative capital and the intensification of open market operations occurred under this first phase (Lopes, 2013; Franco, 2017). The period also marks a transition to Workers' Party government, in which the Central Bank performed a role of reassuring markets of a stable transition (do Brasil, 2019).

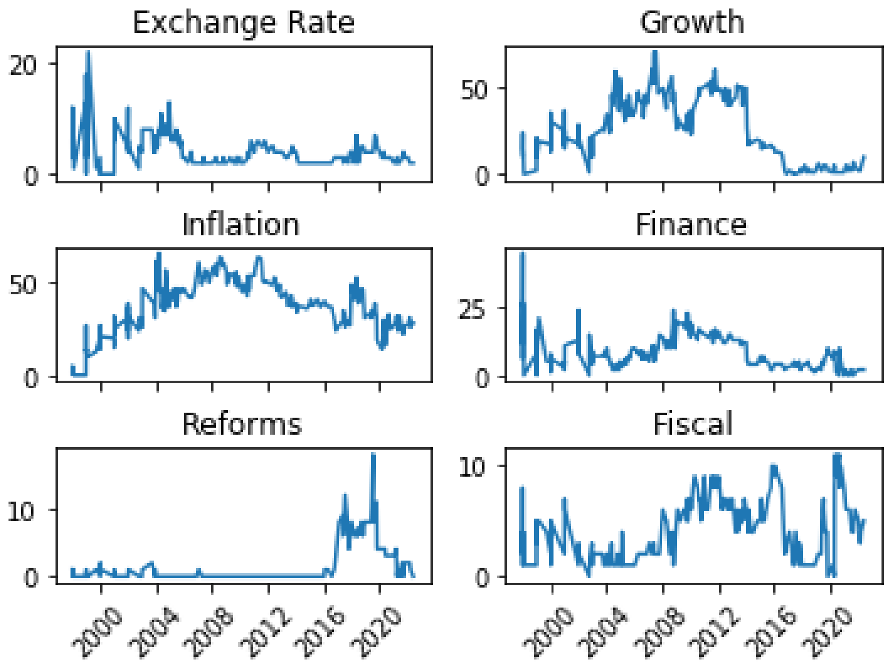
Figure 3.2: The topics of Brazilian Central Bank communication 2000 - 2021



Source: Author's elaboration - based on the minutes of the Monetary Policy Committee of the Brazilian Central Bank.

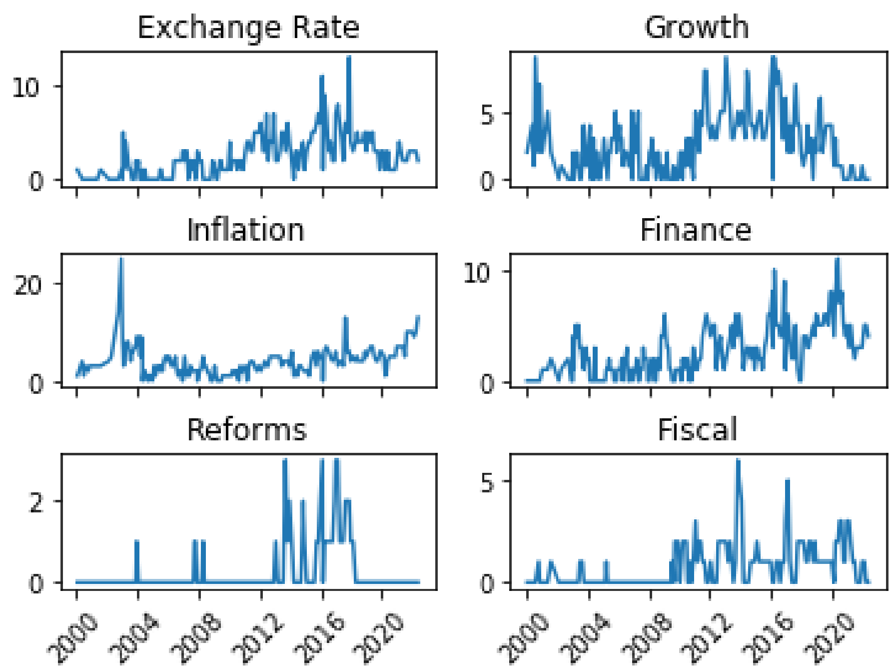
[2] LFTs are indexed to the policy interest rates and the LTN are fixed rate bonds, currently they are named Selic-Treasury and Fixed-rate Treasury.

Figure 3.3: Occurrences of chosen words in Brazilian minutes



Source: Author's elaboration - based on the minutes of the Monetary Policy Committee of the Brazilian Central Bank.

Figure 3.4: Occurrences of chosen words in Mexican minutes



Source: Author's elaboration - based on the minutes of the Monetary Policy Committee of the Mexican Central Bank.

Until 2003: Foreign Finance and exchange dominance

The initial period is marked by the mentions to the pre-inflation target interest rates and inflation measures. A pronounced space for exchange rate and financial discussions. (Diessner and Lisi, 2019) points that the first mention to "financial dominance" is in a text of Brazilian Central Bank. And this is related to the association of financial dominance and exchange rate and external pressures. In the beginning of the implementation of inflation targeting in Brazil the main preoccupation was the alignment of foreign markets expectations (Bogdanski et al., 2000). These expectations were all associated with the "financial dominance".

2004-2008: "Conventional Monetary policy": The two mandates of Luiz Inacio Lula da Silva, a former metalworker elected in a center-left platform. The first years of Lula's government were of high growth and moderate income distribution, what was pushed by the rise in commodity prices (Campello, 2015). The period of international tranquil had a brief interval during the 2008 financial crisis, and bounced back with the strengthened capital flows pushed by Quantitative Easing in developed countries. During this time, the main distinct words from Central Bank communication are deflation and acceleration, which shows a concern with the goals of monetary policy, on inflation and growth.

The period of Lula's government before the Great Financial Crisis was marked by what became called "conventional monetary policy". Normal times were guaranteed by stable international financial markets, increasing commodity prices and stable rates of growth and inflation. The Brazilian Central Bank had its talk focused around the common hawkish and dovish divisions, and the respective focus on "Inflation" or "Growth". Even if inflation was controlled during the whole period, it had an increasing salience until 2012. The actual peak on the consumer price index happened in 2015, when the number of mentions to the term inflation in the reports had dropped.

2008-2014: "Prudential tone - fiscal financial dominance":The former concerns with traditional goals of monetary policy on inflation and acceleration are incrementally transformed after 2010. After the 2010 crisis, and specially, after 2012 and the North American Taper Tantrum, a prudential discourse takes place. Prudence is seeing here as measures to reassure financial markets of the financial stability of the country. The period coincides with Worker's Party Dilma Rouseff government, which attempted the adoption of a new developmentalist project.

2008 crisis generated a wave of comments on the financial and fiscal nexus of monetary policy, that wasn't felt before. After the crisis both the financial issues became more influential in monetary economics and fiscal issues became more salient, both for some influential texts on ricardian equivalence and due to increased fiscal burden for the actions taken (in Brazil) to deal with the slowdown in economic growth. The financial wave inaugurates a new understanding of monetary policy, but in the speech of CB's it doesn't appear the reformism.

2016-2022: "Reformism":

After the prudential tone, an emphasis on reforms takes place at the Central Bank. Those reforms are accompanied by an increased emphasis on "anchoring" expectations and on market expectations through the "focus" bulletin. The period initiates in 2016, after the impeachment of Dilma Rouseff and the comprehends the mandates of Michel Temer and Jair Bolsonaro. During the period, the reforms of financial system included the restrain of public banks, the formal independence of Central Bank, a labor reform and a pensions reform.

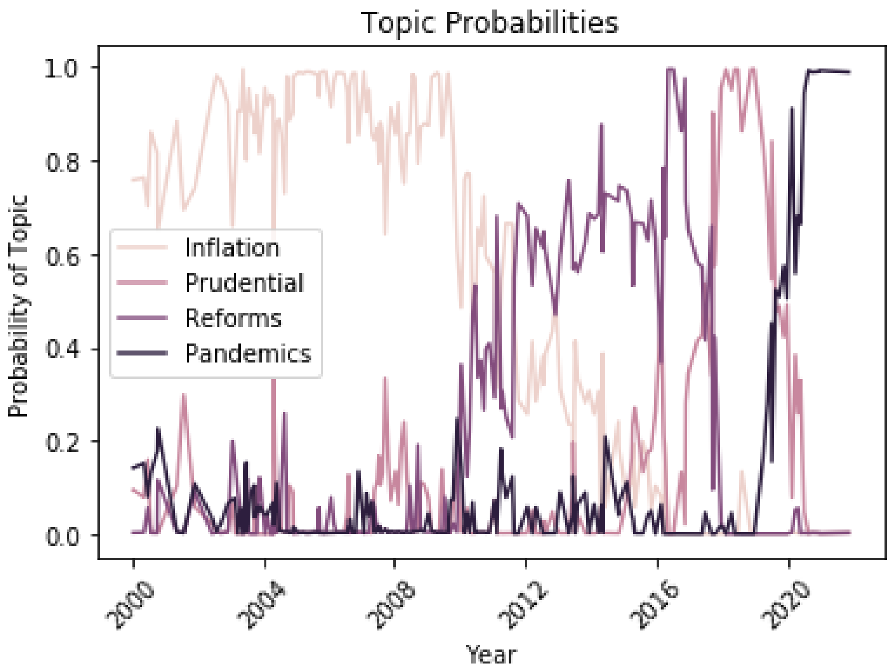
Mexico

Four topics were identified by the LDA algorithm and named according to the main words of the topic (see table of topics in the Appendix Table 7.2). [3].

Figure 3.5 shows the probability that each topic was present on the decisions of monetary policy over time. The technique allows us to evidence a great transformation of monetary policy communication that initiated before the 2008 crisis, but that gained momentum after

[3] Coherence tests have been performed for fine tuning the model and selecting the number of topics.

Figure 3.5: The topics on Banco de Mexico communication 2000 - 2021



Source: Author's elaboration - based on the monetary policy decisions of the Banco de Mexico.

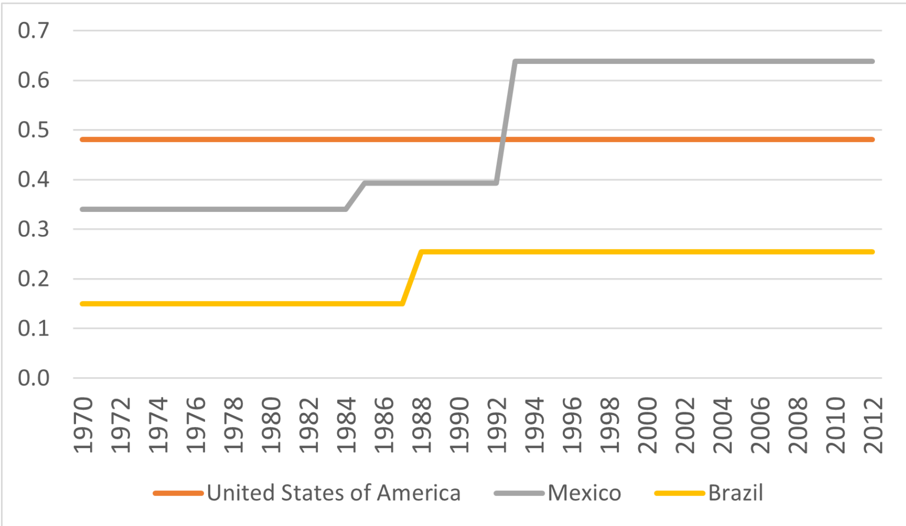
	Hard Times	Stable Times
Pre-2008	Hawkish	Dovish
Post-2008	Prudential or Reformist depending on the party in power	Prudential

2012. This new strategy persists during the pandemic, after a brief interregnum where a prudential communication was adopted. Four communicative strategies where adopted by Mexican Central Bank, under formal inflation targeting. The first strategy focus on traditional inflationary pressures, from food prices and consumer prices. The 2008 crisis inaugurated a strategy in which appreciation and structural reforms took the center stage of monetary policy concerns. Finally, following the election of Andrés Manuel Lopez Obrador, the central bank adopts a prudential communicative strategy. The prudential strategy emphasizes the normality of the banks operations, reassuring the financial stability. Interestingly, the prudential strategy was also present in the beginning of the formal implementation of inflation targeting.

3.5 Inflation targeting in Brazilian and Mexican Monetary orders

Most of the literature on Central Banks in Latin America argues that the lower position in the international currency hierarchy leads Central Banks to push for market-based practices. Although it is true that market pressures are highly influential on the determination of domestic practices in developing countries(Kaltenbrunner and Painceira, 2017; Roos, 2019; de Paula et al., 2017), it doesn't fully explain the evolution of inflation targeting - as show in the analysis of its communication aspects. In Brazil, structural market pressures were high during most of the period post-2014, and the downgrade on its bonds in the end of 2015 increased the pressure. But those structural pressures were not strong in Mexico across the period the Central Bank adopted the reformist tone. Moreover, both Central Banks accumulated large reserves during the commodity super cycle from 2003 to 2014, what largely soothes the external foreign pressures on domestic markets.

Figure 3.6: Central Bank Independence Index Brazil and Mexico (1970-2012)



Source: Data from Garriga (2016), U data included for the sake of comparison.

Central Bank Independence or the training of the Central Bankers also doesn't explain the variations in the tone of Central Bank communication. While Brazil had a less formally independent Central Bank (see Figure 3.6), both Central Banks were *de facto* independent (Jacome et al., 2018). The reliance on interest rates as the main guidance tool was questioned by Brazilian politicians and public bankers, but the Independence of Brazilian Central Bank was barely questioned during the last twenty years. The possible exception is the period when, under Alexandre Tombini's lead (2011-2016), the Central Bank decided to lower interest rates despite the high inflation expectations. This suspicions were later abandoned when the Central Bank restarted a rate hike under the same administration and started mentioning reforms on its speeches.

Both Central Banks were intensely tied with transnational Central Banks Networks during the whole period of the adoption of inflation targeting (Jacome et al., 2018; Vernengo, 2016; Babb, 2004). [4].

The training of Brazilian and Mexican Central Bankers are strongly associated with North-American Universities and the International Financial System. In Brazil, the economics post-graduate programs in the country today are polarized between heterodox and orthodox centers, epitomized by UNICAMP and PUC-RIO, respectively (Fernandez and Suprinyak, 2019; Dequech, 2018). But as we can see on Table 3.2, the Central Bank has been only led by US-trained economists, or by a banker in the case of Henrique Meirelles. After the 1990's the department of economics at PUC-Rio became highly influential in monetary policy due to its strong ties to North-American universities and financial markets (Codato et al., 2016).

Table 3.2: Brazilian Central Bank's Presidents Academic Background

In Office		Central Bank President	Education
Aug-97	Jan-99	Gustavo Franco	M.A Puc-Rio; PhD Harvard
Jan-99	Mar-99	Francisco Lopes	B.A UFRJ; M.A EPGE/FGV; PhD Harvard
Mar-99	Dec-02	Arminio Fraga Neto	B.A and M.A Puc-Rio; PhD Princeton
Jan-03	Dec-10	Henrique Meirelles	B.A UFRJ; MBA UFRJ
Jan-11	Jun-16	Alexandre Tombini	B.A UNB; PhD Illinois
Jun-16	Feb-19	Ilan Goldfajn	B.A UFRJ; M.A PUC RIO; Ph.D MIT
Feb-19	Current	Roberto Campos Neto	B.A and M.A UCLA

Source: BCB website.

In Mexico, the breakdown of developmentalist strategies and the Central Bank reforms in the 1970's was also accompanied by a polarization of economics program. Universidad Autónoma de Mexico leaned toward on Marxist, dependency theories and heterodox economics and ITAM approached the University of Chicago. But as occurred in Brazil, since the 1990's Central Bankers were almost only recruited from ITAM and North-American universities (Babb, 2004), see also Table 3.3 .

Table 3.3: Mexican Central Bank General Directors Academic Background

In Office		Central Bank President	Education
Jan-98	Dec-09	Guillermo Ortiz Martínez	B.A UNAM; PhD Standford
Jan-10	Dec-17	Agustín Carstens	B.A ITAM; PhD University of Chicago
Jan-17	Nov-17	Alejandro Díaz de León	B.A ITAM; MA Yale
Jan-22	Current	Victoria Rodríguez Ceja	B.A Tec De Monterrey; M.A Colmex

Source: Banco de Mexico website.

[4] Moreover, the tie with transnational network could imply that Latin American Central Banks would follow the lead of central countries networks. But the trends in Europe and Latin America diverge, suggesting domestic causes for the reformist tones. The mentions for "structural reforms" in the European Central Bank has its peak in the beginning of the 2000's and has since a diminishing recent salience (Braun et al., 2021). In Brazil and Mexico the reformist tone comes stronger after 2013 in Mexico and 2016 in Brazil.

3.6 Conclusion

The adoption of inflation targeting in Latin American countries can be understood as a "transplantation" (Johnson, 2016) of monetary practices from developed economies to new contexts. During the process of internalizing these practices, it is assumed that the economy will function in alignment with the theoretical frameworks established (Bernanke et al., 1999). However, the challenges and limits of inflation targeting outcomes are often attributed to the inefficiencies of domestic financial markets. Given that Central Banks rely on liquid financial markets to influence economic activity and control inflation (Braun, 2018), promoting market reforms is perceived by Central Banks as essential for achieving their policy goals.

If Central Banks depend on market reforms to meet their objectives, one could expect consistent advocacy for reforms in their communications following the adoption of inflation targeting. However, an analysis of Monetary Policy Committee reports from Mexico and Brazil reveals that Central Banks' support for reforms is not uniform across periods. In Brazil, the Central Bank's endorsement of reforms began in early 2016. In Mexico, this support emerged prominently in 2013 but diminished after 2018. This variability highlights that Central Banks' backing of reforms is shaped by political factors rather than being a constant feature of their inflation-targeting framework.

The evolution of inflation-targeting communication is influenced by the government in power. This chapter aims to demonstrate this relationship by highlighting a key pattern: while Central Banks occasionally reference the benefits of reforms for monetary policy, they tend to avoid mentioning reforms during leftist governments. Instead, under leftist administrations, Central Banks adopt a "prudential tone," focusing on market stabilization. In contrast, they are more likely to explicitly discuss reforms under right-leaning governments. During the governments of Michel Temer (2016–2018) and Jair Bolsonaro (2019–2022) in Brazil, pension and labor market reforms were positively evaluated by the discourses promoted by the Central Bank. Similarly, in Mexico, the structural reforms spearheaded by Enrique Peña Nieto (2012–2018) received positive support from the Mexican Central Bank. In contrast, during periods of leftist governance—such as the Workers' Party government in Brazil (2003–2016) and the Morena administration in Mexico (2019–)— Central Banks tend to adopt a more "prudential" communication strategy. This approach prioritizes market stabilization over the advocacy of structural reforms, reflecting a shift in emphasis towards maintaining economic credibility.

The chapter sheds new lights on the relationship between independent Central Banks and Governments - an essential piece in the overall evolution of the monetary order. It is usually suggested that leftist governments tend to influence Central Banks, and reduce its independence (Dornbusch and Edwards, 1990; Acemoglu et al., 2013). Instead, we show that this relationship is currently complexified by the constant attempts of Central Banks to maintain its independent - and prudential - posture during leftist governments. Central Banks in inflation targeting countries in Latin America are reasonably independent from governments, but the way they exercise this independence is different under leftist and rightist governments. In terms of institutional change, the chapter suggests that Central Banks can act as "catalysts" of market reforms, but not as starters of reforms. During leftist governments, instead of proposing structural reforms, Central Banks will act as conservative and prudential stabilizers

Chapter 4

Brazil: from developmentalism to neoliberalism and back

This chapter on Brazil's monetary history traces the evolution of monetary practices since the developmentalist era. It explains how these practices aligned with developmentalist goals until the 1990s. During this period, public financial institutions, including the Bank of Brazil, were responsible for both monetary stability and development. In the 1990s, the centralization of functions within the Brazilian Central Bank led to a clearer division of roles among public financial institutions. The implementation of inflation targeting in 1999 became the anchoring practice, coordinating various actors and prioritizing institutional goals. The chapter also examines the predominant role of inflation targeting through an analysis of efforts to recollect developmentalist practices, particularly those guided by the BNDES.

4.1 Planning Development: actors, practices and crisis of Developmentalism

4.1.1 The Developmentalist coalition in Brazil

This section will expose the evolution of Developmentalism in Brazil, from the first Getúlio Vargas Government in 1930's until the military period, that ended in 1985. The cohesion within the developmentalist coalition was founded on recurrent interaction of political, economic and technical actors.

Developmentalism can be defined as a project of overcoming underdevelopment through industrialization, by planning and decisive support of the State (Bielschowsky, 1988). Development would result from organized decisions by the state, implemented with determination and discipline (Fonseca, 2004).

At the core of Brazilian Developmentalism are nationalist, industrialist and positivist ideas (Fonseca, 2004). Nationalism remounts to the colonial period, when nationalists criticized the exclusivity of Portugal in managing international trade. At the time of independence in 1822, nationalism and liberalism were not necessarily contradictory: some nationalist elites sought to break Portuguese monopolies, in order to trade freely (Fonseca, 2004). Later, nationalism would become a corner stone of developmentalism in its defence of domestic production and in state-led industrialization strategies. Positivism, strongly ingrained in the military thought, promoted state interventionism as necessary for industrialization and development.

The Brazilian flag holds the dictum “Order and Progress” covering a starry sky. The dictum was inspired in the positivist sentence “Love as a principle and order as a basis; progress as goal”, from the french philosopher August Comte. Positivism influenced military that proclaimed the republic of Brazil in 1889. Order and progress would become the lemma of generations of military that would cyclically rule Brazil, inspiring a developmentalist ideology, where the state, as a rational collective would guide social and economic progress.

In Getulio Vargas’ government (1930-1945) the idea that development is not fortuitous, but state-led gained momentum. Development would be achieved by industrializing domestic production, abandoning the country’s agrarian past. The creed that progress would be aligned with industry became dominant when the agrarian elites were - partially - defeated in the 1930’s revolution. The execution of economic plans sought to guide economic action, towards specific sectors.

Importantly, public banks channelled finance to privileged sectors, aiming to industrialize the country. The stability of external markets was sought through exchange rate and capital controls. The increasing engagement with external financial markets would later make the system ungovernable, specially after the two oil shocks, the Volker shock and the end of Bretton Woods system.

The developmentalist era was an heterogeneous period in terms of international linkages and political regime. Developmetalism oscillated between markedly nationalist periods (1930-1945; 1951-1954; 1961-1964), and higher association with foreign capital (1956-1960; 1964-1985). Most of the time, developmentalism functioned under dictatorship (1937-1945 e 1964-1985), but was briefly conciliated with a democratic experience (1946-1964).

The very diverse experiences during half century of developmentalism do not preclude some generalizations of the era. The concept is useful in contrast with the subsequent neoliberal era, where a new coalition implemented translated practices, transforming market-state-science relations.

Labor incorporation, state and populists The idea that state can guide economic activity towards development coordinated the political action throughout the XX century in Brazil. Developmentalism centred on three core ideas: industrialization, a national project and interventionism (Fonseca, 2004; Bielschowsky, 1988). This core idea was shared by political and economic actors, and was interpreted by developmentalist scholars (Bielschowsky, 1988). From the political actors, military and populists were inspired by planning discussions that developed among socialist and capitalist countries.

The political evolution of Brazilian developmentalism can be traced to the relationship between populists and military governments. In this context, populists are conceived as "a political movement characterized by mass support from the urban working class and/or peasantry; a strong element of mobilization from above; a central role of leadership from the middle sector or elite, typically of a personalistic and/or charismatic character; and an anti-status-quo, nationalist ideology and program" Collier and Collier (2002, p.788). This definition, although contentious, was widespread in Latin American studies in the XX century (see for instance Bresser Pereira, 1985).

The revolution that led Getulio Vargas, a populist leader, into power in 1930's inaugurated the initial steps of the developmentalist cycle in Brazil (Bielschowsky, 1988). Vargas led a revolution against former agrarian elites and would incorporate labour into politics and start-up state-led industrialization. The initial incorporation of labour in Brazil was marked by state control over unions Collier and Collier (2002, p.22). Labour incorporation was not closely tied to a specific political party, nor fruit of electoral mobilization. Instead, under Vargas' dictatorship (1930-1945), the state centralized and financed chosen labour unions. The incorporation of labour was a "project from above"[p.172](Collier and Collier, 2002).

Vargas created "legalized unions", aiming to substitute communist, anarchist and socialist influences. An apolitical labour movement would be created, serving as consultative organs of government. The new social welfare regulations and the Ministry of Labour would work together with the state sponsored unions. The centralized management of labour relations would have long lasting effects on Brazilian politics.

The state-led organization of labour would shape the outcomes of Developmentalism. Instead of a strong welfare state - as present in Europe, the post-World war II era is marked by high economic growth with low redistribution. Whenever labour requirements stretched beyond the established state boundaries, constant threat of military coup would arise. State centralization would be justified by the late timing of development in Brazil. The late development would require centralized and motivated action to put in place in Brazil the same modernization stages as seem in Europe. The centralized incorporation ocurred alognside the centralization of development actions, through development plans and organizations.

Later, the civil-military dictatorship that ruled Brazil from 1964 to 1985 also adhered to developmentalism. Bresser Pereira (1995, p.253) describes a exclusionary tripod based on "military technobureacracy", industrial and banking capital, and the multinationals as the coalition sustaining the dictatorship during 1964-1985. The military rule is therefore based on an exclusionary tripod formed by the technoburacy, local industrialists and multinational companies (Evans, 1979).

The private sector also wasn't always critic to the state interventionism towards development. In 1963, a survey with entrepreneurs revealed that 72% of the interviewees agreed that state owned enterprises contributed to economic development of the country (Resende, 2015, p.167). The military had been central to the formation of developmentalist thought since its inception. Adler (2018) mentions the role of the Superior School of War (Escola Superior de Guerra) in the formation of a technocratic view of the technological advances. The slow process of transition to democracy, formally initiated in 1979, would only lead to direct elections in 1985 when the developmentalist coalition was also losing space. The slow process of transition was also an strategy of long term survival for the military in power(Bresser Pereira, 1985, p.255).

Building developmentalist intellectuals The beginning of the developmentalist era coincides with the formation of the economic profession in Brazil (Loureiro, 1992, p.23). Developmentalist experts were not initially economists, but lawyers and engineers. The university system benefited from the experience of state bureaucrats that had worked in state institutions such as the BNDES and Ministry of Planning. The "space of economists" (Klüger, 2017) would be established in relations between state organizations and the nascent graduate economic schools.

The first economics course in Brazil was founded in 1932. The Faculty of Economic Sciences of the Álvares Penteado was created in São Paulo in 1932. The National Faculty of Economic Sciences of the University of Brazil was founded in 1946 (Klüger, 2017; Loureiro, 1992).

The creation of a technical body able to understand and propose reforms for development of the country provided the initial push for the creation of economics as a profession in Brazil. Technical councils and international economic commissions were the embryos of more organized economic agencies that would train the first generations of economists. Technical councils were created during the first government of Getúlio Vargas (1930-1945) to promote economic studies for trade, planning and war efforts during the 2nd world war. The first of these Councils, the Federal Council for Foreign Trade was founded in 1934, aiming to coordinate economic activities and is considered the embryo of the Ministry of Planning (Loureiro, 1992). In the following years, these councils increased in number and scope, broadening to functions as data collection, control of monetary and exchange policies and budgeting. The military had the Higher War College (Escola Superior de Guerra or ESG) to develop a new professionalism and advise policy making. The ESG developed its own world view "security and development" that included the role of the military in politics and defended economic and technological development as means to achieve a position as a "world power".

The initial burgeoning of economic councils would be the basis of future developmentalist institutions. These institutions were the carriers and producers of developmentalist ideas and practices. A whole generation of economists would build their economic knowledge with practical work inside ministries and government agencies (Loureiro, 1992). As (Adler, 2018, p.202) explains:

> Postwar institution building created the physical environment for these carriers, and for their ideas to develop and "grow" to political relevance. The Getúlio Vargas Foundation became not only a center for economic problem solving but also an ideological factory. Later the Economic and Social Planning Institute (IPEA) would fulfill a similar, and crucial, role, and the Superintendency of Money and Credit (SUMOC) and the National Economic Development Bank (BNDE) would also become strategic places within the government where these individuals could develop their careers and their influence on politics.

Economists were formed inside government institutions. Maria da Conceição Tavares is an example of economic formation between academy and the state. Born in Portugal in 1930, emigrated to Brazil in 1954, fleeing from the Salazar's dictatorship. Her background as a mathematician guaranteed posts in the BNDE and as assistant of Professor Octavio Gouvêa Bulhões, at the National Faculty of Economic Sciences in Rio de Janeiro (which would become the Institute of Economics of UFRJ). Tavares observes that her formal training as economist was consolidated by her studies at the Getulio Vargas Foundation. But her "ideological" formation, the promotion of economic development, was acquired while working at the BNDE. She jokes that "she could be a monetarist in the morning, by working with Bulhões at the university - and structuralist on the afternoon, working at BNDE." (Tavares apud Klüger, 2017, p.85). Tavares would become an important structuralist economist, working on the Target Plan, in 1955, working in the Chilean government of Salvador Allende in the end of the 1960's and later becoming an important reference for the Brazilian Worker's Party.

Geddes (1990) argues that the creation of autonomous organizations inside the state, such as the BNDE and the SUMOC aimed to push further the efforts of development, insulating the technique to external pressures. The insulation of developmentalist institutions had contrasting intentions with the 1990's support for the independence of Central Banks. The technical insulation of BNDE aimed to achieve modernization and rationalization of management and not stabilization of prices.

Beyond domestic institutional creations, international economic commissions shaped the inception of developmentalism. Several Missions between United States and Brazil were created to advance development projects in Brazil (see Moraes, 2020, p.161). Noteworthy, the Joint Commission Between Brazil and United States (CMBEU) would collect data and make suggestions that would be used in the creation of the Target Plan and the BNDE. The President Getulio Vargas wanted that the military negotiations with the United States were compensated by support to economic projects in Brazil (Hirst, 2013, p.45). The CMBEU was agreed in December 1950 under the Harry Truman government in the United States. This Comission elaborated 41 projects, mainly on transportation and energy. The projects would be financed domestically by a Development Bank (to be created) and from loans by the International Bank for Reconstruction and Development (IBRD) and the United State's EXIMBANK. The CMBEU was short lived, because the two governments came to disagree on the remittance of benefits and the repatriation of capitals, of US companies installed in Brazil. Moreover, Eisenhower administration (1953-1961) was less unwilling to apply resources in development projects Brazil, what led to the dismantlement of the Joint Commission in December 1953(Hirst, 2013, p.46). The Economic Commission for Latin American and the Caribbean was another locus for the international cooperation for the promotion of developmentalism and training for Brazilian economists.

Loureiro (1992, p.23) observes that the formation of the graduate courses in economics was a longer process than the consolidation of governmental agencies, further emphasizing the initial influence "practical economists", graduated out of economics departments. Instead of universities, the main intellectual institutions of developmentalism were state institutions. These institutions carried the ideas of modernization, positivism, and industrialization that were at the core of developmentalism. At the same time, those institutions - such as the BNDE - performed central practices of developmentalism. The BNDE financed private and public institutions, prioritizing projects and being at the centre of the analysis of governmental programs(Adler, 2018, p.208).

4.1.2 Financial Practices of Developmentalism

Developmentalist politics was based on the creation of several institutions, focused on guiding the path of economic growth towards industrialization. In the 1930's, economic policy making was dispersed across ministries and much less professionalized (Loureiro, 1992). The initial developments on consultive bodies and international development cooperation led to the creation of a myriad of institutions, importantly the **SUMOC and the BNDE**. Those two organizations would synthesize two conflicting roles of the state: monetary stabilization and economic development. Federal and State Public Banks were central for government finance and development projects. Public Banks coordinated credit lending, but were also a formative space for bureaucrats and economists.

Financial markets under developmentalism were directed by the state to channel resources towards sectors promoters of development. Overall, we notice the creation and spread of public financing institutions, that were the main responsible for directing credit for investment. In the phase of Military rule, a state effort for concentration of banks, that would create a monopolized structure of private banks. Other important practices for the developmentalism were the creation of development plans and indexation, both related to the coordination of expectations of public and private agents.

From the Bank of Brazil to a Developmentalist Brazilian Central Bank The first Bank of Brazil was founded in 1808 initially as way to finance state expenditures (Costa, 2012, p.20). At the time, Portuguese crown had fled to Brazil, escaping from Napoléon Bonaparte invasion and needed a Bank to finance crowns expenditures. Several liquidity crisis during the XIX century led the bank to be refounded multiple times, every time maintaining his ambiguous nature as public-private organization. In the 1920's, the Bank of Brazil consolidated attributions that resembled a Central Bank. In some periods, it was authorized to rediscount bonds from other commercial banks, guaranteeing liquidity in the system. In 1923, it became the effective money issuer, by discounting directly National Treasury bonds. The Bank of Brazil was also responsible for making Treasury bonds convertible in gold, during late attempts to rebuild the gold standard.

The liquidity drop that followed the 1929's Crisis and the 1930 revolution in Brazil led to an increased capacity of generating liquidity by the Bank of Brazil. Besides rediscounting bonds and bearing the exclusivity of foreign currency exchange, the Bank financed the genesis of developmentalism. Four types of operations were part of the developmentalist portfolio of the Bank of Brazil. First, the foreign exchange portfolio executed government's exchange policies, and supervised banking activities. Second, rural and industrial credit portfolio financed production and other financial institutions. Third, import and export portfolio supported companies on its trade and researched on the conditions of foreign markets. Finally, the rediscount portfolio provided liquidity support to the government and to financial institutions. The Bank of Brazil, thus, effectively functioned as the Central Bank and as a commercial bank, with the aim of promoting development through credit concession to agriculture and industry.

The Bank of Brazil functioned as a de facto Central Bank until the creation of the Brazilian Central Bank in 1964. The BCB was created after long disputes and institutional developments

(Corazza, 2006; Maxfield, 1999b). Before its foundation, the traditional roles perfomed by central banks such as management of interest rates, government financing, banking regulation and exchange rate management were scattered across many different public Banks, such as the Bank of Brasil and the BNDE. The creation of the Brazilian Central Bank was controversial because its was seen as a mechanism of monetary control, incoherent with the rapid growth pursued by the Developmentalist coalition.

Dênio Nogueira, the first president of Brazilian Central Bank, noted that the Congress, the Bank of Brasil, rural elites, industrialists and the financial sector were all against the creation of a Central Bank(Corazza, 2006; Maxfield, 1999b). For Denio Nogueira, the opposition from the congress derived from interests of the industrial sector, which supported the low interest rates policies and the exchange rate protections. Bank of Brazil also positioned against the creation of a Central Bank due to interests of bureaucrats and its clients from coffee industry (Maxfield, 1991). In relation to the private banks, Denio Nogueira (2019, p.99) emphasizes that "The Bankers didn't want a Central Bank. They evidently preferred a more fragile institution as the SUMOC. They dominated the SUMOC. But they were dominated by the Central Bank. During my term, I guaranteed this"[1].

Given the resistance from the developmentalist coalition, the process of creation of the Central Bank extended for more than 20 years, since its embryonic institution the Superintendence of Money and Credit (SUMOC) in 1945 (Corazza, 2006). During its existence, the SUMOC was unable to pursue its goal of monetary stability, because it worked mainly as a regulative body, while the Bank of Brazil still remained as the main executive body(Maxfield, 1999b). During the 19 years of its existence, from 1945 to 1964, SUMOC had 15 presidents, showing the low stability in the institution. Th SUMOC was also responsible to the talks with the IMF, what granted it some of its international legitimacy. But its power would be reduced, specially in periods when the ministry of Finance and the president of the Bank of Brazil were political allies (Maxfield, 1999b).

The creation of the Central Bank was possible due to the Military coup in 1964. The military government tried to resist to an economic crisis through monetary restraint, informed by monetarist bureaucrats (Maxfield, 1999b). After its creation, the Central Bank would still share some responsibilities with the Bank of Brasil, until the end of the "movement account" in 1986 and the new constitution in 1988. The initial period of monetary orthodoxy of the Central Bank was turned into a more developmentalist central bank after 1967, when a new military president, Costa e Silva, appointed Ernane Galveas as the new president of the Central

[1] The original in Portuguese reads: "Os banqueiros não queriam o BCB. É evidente que preferiam um órgão mais frágil como era a Sumoc. A Sumoc eles dominavam. Mas foram dominados pelo BCB. No meu tempo, isso eu garanto."

Bank. Besides the change in the Presidency, the National Monetary Council had its statute altered, to include a larger number of government officials. "By 1972 the National Monetary Council included the ministers of industry, agriculture, planning, and interior as well as the presidents of the National Housing Bank and the National Bank of Economic Development. " (Maxfield, 1999b, p.135) This addition also expanded the scope of the Monetary Council and of the Central Bank, which would expand its goals towards economic development, aligned with the proposals of the Finance Minister Delfim Netto.

Planning The creation of development plans was a central practice of Brazilian Developmentalism. Planning guided government actions in industrial and financial markets and on its relations with foreign markets. Even if development plans were not fully followed, or were abandoned in the way, they served as an expectation coordinator for the state, for private investment decisions.

Developmentalist plans were crated at almost every government from 1939 to 1979. Those plans coordinated state efforts in specific sectors and signalled the private markets informations not only on sectoral growth, but on expectations of growth, inflation and public expenditure. The practice of planning was inaugurated in Brazil by the government of Getúlio Vargas, in 1939, in what would inaugurate the developmentalism in Brazil (Fonseca, 2004). In 1956, the Target Plan, written by the government of Juscelino Kubitschek would be the hallmark of developmentalist plans in the region(Sikkink, 2012). Economic plans targeted specific sectors which the government promoted in order to increase economic growth. For instance, the 1956's Target Plan delineated specific goals for energy, transportation, food and basic industry. Notably, the Target Plan included the implementation of automotive industry in Brazil, expecting to produce 170,000 cars in 1960(da República do Brasil, 1958). These goals would be reached by financing from the Federal Government, from the states, from the private sector and from Public Banks, the last would contribute with 14,5% of financing efforts.

During the military dictatorship writing a plan became constitutional duty for the president. The first economic plan under dictatorship - the Program of Economic Action of the Government (PAEG) - aimed to stabilize the economy, but proposed that after stabilization, developmentalist measures would be adopted (Bulhões, 2019, p.172). Octávio de Gouveia Bulhões graduated at the Faculty of Law of the Rio de Janeiro, and would become a pragmatic liberal economist - influenced by Adam Smith and Knutt Wicksell (Bulhões, 2019, p.27). He was the first Finance Minister of the Military dictatorship, responsible for writing the Plan of Economic Action, together with Roberto Campos. He had previously been the director of SUMOC and participant in the prelimary meetings of the Bretton Woods conference. Despite being considered a liberal, the rightist Finance Minister Bulhões defended the incentives to industry. For him, indirect incentives were seing as a better tool than direct government intervention through public ownership of companies. Bulhões(Bulhões, 2019, p.172) affirmed that:

> There is no doubt that state aid to national entrepreneurs is a great boost. If there had not been this aid, it is possible that the Brazilian industrial boom would not have occurred, at least with the same intensity. But I still say that it is preferable to have this aid policy than for the government itself to take the initiative in the realization of the undertakings. The merit of a policy of indirect action is perfectly justifiable. In all countries, there is a policy of government aid to private producers.[2]

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Economic planning was subject to alterations and several of the initial plans were abandoned on the way. Military government aimed to deepen planning practices, in order to avoid past mistakes of "improvisation" on planning. In the first meeting of the National Monetary Council in 1965, The Minister of Finance, Octavio Bulhões observed :

> the difficulties that faced the various attempts, made in successive government periods, to coordinate national finances and lay the groundwork for planning our economy. In all of these cases, the inadequacy of the instruments of action available for the accomplishment of those tasks was evidenced. The result was always the melancholy archiving of plans and the consequent return to the regime of routine and improvisation.[3]

Mario Henrique Simonsen, influential liberal economist, also defended economic planning. In an influential debate with Eugenio Gudin in 1945, Simonsen argued that "planning is a technique, not a government form"(Velloso, 1986, p.96). This framing of planning as a technique would be necessary to differentiate to what was done in Soviet Union. Planning, indexation and segmentation were not considered "communist", when implemented by the military dictatorship, which was strongly anti-communist.

From the 1980's on, the stabilization plans substitute the idea of planning for development for an idea of planning stability. Although a huge leap from the former sectoral development

[2] The original in Portuguese reads: "Não resta dúvida de que um auxílio do Estado aos empreendedores nacionais representa um grande impulso. Se não tivesse havido esse auxílio, é possível que o surto industrial brasileiro não tivesse ocorrido, pelo menos com a mesma intensidade. Mas continuo dizendo que é preferível existir essa política de auxílios ao próprio governo assumir a iniciativa da realização dos empreendimentos. O mérito de uma política de ação indireta é perfeitamente justificável. Em todos os países, existe uma política de auxílio governamental aos produtores particulares."

[3] The original reads: "às dificuldades que se antepuseram às várias tentativas, feitas em sucessivos periodos governamentais, de coordenar as finanças nacionais e lançar as bases para a planificação de nossa economia. Em todos esses casos evidenciou-se a inadequação dos instrumentos de ação disponíveis para a consecução daquelas tarefas. O resultado foi sempre o melancólico arquivamento dos planos e a consequente volta ao regime da rotina e da improvisação."

plans, the stabilization plans didn't include planning of laissez faire. The idea of stabilization plans was an important reframing of the role of planning that had been central for the developmentalist phase. In Brazil the initial stabilization plans didn't include the opening of capital accounts and the privatization policies that would later be unified under the Washington Consensus. But later on, specially in the Plano Collor and Plano Real, stabilization and internationalization would be seen as shared goals.

After 1985, planning development became planning stabilization, with the end of the military dictatorship and the rising concerns with inflation and external debt. Successive stabilization plans tried to create an stable monetary order, instead of increase growth. The attempts of stabilization, culminated in the Real Plan, conceived when Fernando Henrique Cardoso was Minister of Finance. When Fernando Henrique was elected president in 1994, a **liberalization** effort was further pushed in association with stabilization.

The shift from development plans to stabilization plans would later mark a key reform of the neoliberal era, creating new expectations and coordinating actors. Instead of aiming for high growth rates, the future vision became one of stability, which later translated into an inflation target managed by maintaining high interest rates.

Indexation for managing price expectations The technocratic logic grounded a wide range of indexation mechanisms during the military dictatorship. Rules and indexing sought to avoid conflict between labor and capital, and between different capital sectors. Indexation practices were the central tool for coordinating of expectations of domestic financial markets since the 1964 military coup. Military governments had to cope with increasing inflation that created mismatches in public revenues and expenditures. The solution found at the time was to peg public bonds to inflation. Indexation created a mechanism for almost automatic correction of bond prices to the evolution of some inflation index.

The Minister of Finance Octavio Bulhões and his team suggested indexing public bonds as way for bringing credibility to public bonds. Indexation is seen as part of a gradual strategy of reducing inflation, in contrast with the shock therapies that would be employed in the 1980's (Bulhões, 2019). The gradual approach understood that inflation would not be reduced immediately, because its cost-push causes would only fade with time. A share of the cost push shock from the beginning of the military government came from the adjustment of tariffs, which were outdated. Military governments increased tariffs to respond to variations in exchange rates, oil prices and other inputs, that were not considered by the former governments. The "corrective inflation" caused by the increase in public tariffs was expected to fade after some months.

The IMF Director Edward Bernstein initially recommended more strict anti-inflation policies, but was later convinced that the high level of corrective inflation justified a softer approach (Bulhões, 2019, p.171). Economic policies during the military dictatorship were also concerned with the maintenance of the welfare of middle classes. The gradualist approach in the fight against inflation was also a way of avoiding the recessionary cost of adjustment policies.

Public bonds were indexed to the index of prices prepared by the Getulio Vargas Foundation (FGV). Wages, real estate rents, long term credit and liabilities of domestic financial sector were all indexed to some publicly disclosed index(Goldsmith, 1986, p.406). The main guidance for indexation of financial assets was the Readjustable Obligations of the National Treasury (ORTN), the instrument for medium term federal government financing.

The incapacity of foreign banks to deal with indexation practices served as an informal barrier for their entrance in the country (Goldsmith, 1986). The complexity of a financial system with high inflation was succesfully navigated by domestic banks, that were part of the construction of the indexation mechanisms. But for foreign banks, understanding the segmented market was not an easy task. [4] Interest rates for the foreign credit were largely disconnected to domestic financial indexation mechanisms, and not subject to subsidies. Foreign financial markets struggled to maintain their assets in line with inflation and their liabilities growing in a slower pace.

Domestic commercial banks were usually able to profit from inflation, due to the fact that their assets were indexed to inflation, while their liabilities were not. Reforming indexation would suffer resistance from domestic banks, because they extracted part of its rents from the indexation practices. Since the deposits were not generally indexed, the public could not manage well their savings and borrowing. The credit to consumption was restricted due to the high and variable interest rates, while the credit to investment was guaranteed in low - even negative - levels due to subsidies(Goldsmith, 1986, p.419).

The indexation of wages deserves a complete study of its own, but we can briefly mention the initial intentions of indexing wages. Mechanisms of indexation of wages were adopted, for instance, in the already mentioned PAEG, the first plan under military dictatorship. In the PAEG, the centralized negotiation of wages, promoted by former democratic governments was replaced by a rule of wage growth. The application of this rule reduced the official minimum wages every year from 1965 to 1974 (Resende, 2015, p.210). The author of the wage growth rule, the economist Mario Henrique Simonsen (apud Resende, 2015, p.210), thus explained the logic of wage indexation:

[4] In more recent times, the exit of foreign banks after 2015 confirms this point. While domestic banks were able to cope with the increased government intervention, HSBC and Citibank abandoned the country, for the lack of rooting in the domestic financial system.

> There is considerable advantage in creating an arbitration rule for collective wage negotiations. The big problem with these negotiations in the modern world, including with regard to the setting of wages at the level of governmental decision, is that they are aggressively affected by the political power of labour unions [...], by electoral criteria and by many others far removed of any economic efficiency theorem. Such a formula has the advantage of replacing an endless game of strikes and pressure with a simple arithmetic calculation.

The indexation mechanism for wages and public bonds facilitated coordination among workers, the financial sector, and the public sector, even though it contributed to income concentration. It also acted as a shield against external competition in financial markets. Domestic banks, which profited from the mismatch between indexed assets and liabilities, did not fully support the reduction of inflation. The subsequent replacement of indexation with inflation targeting led to higher international coordination of inflationary expectations and aimed to reduce the hyperinflation experienced in the mid-1990s.

Directed credit for development While indexation guaranteed that bonds remuneration was in line with inflation, a central concern of government and business was the high interest rates, that were seen as the main impediment for industrial development. A widespread range of practices for directing credit towards specific sectors was a central tenet of developmentalism.

Segmenting markets is giving private agents incentives for investing in privileged sectors. States promote specific sectors with the rationale that those would be the sectors that will push economic growth. Ideally, segmentation required three steps: choosing privileged sectors, choosing the best tool for targeting the sector and implementing the policy. The choice of sectors to be incentivized was politicized, but also informed by theoretical debates on which sectors would promote a stronger push on the economy.

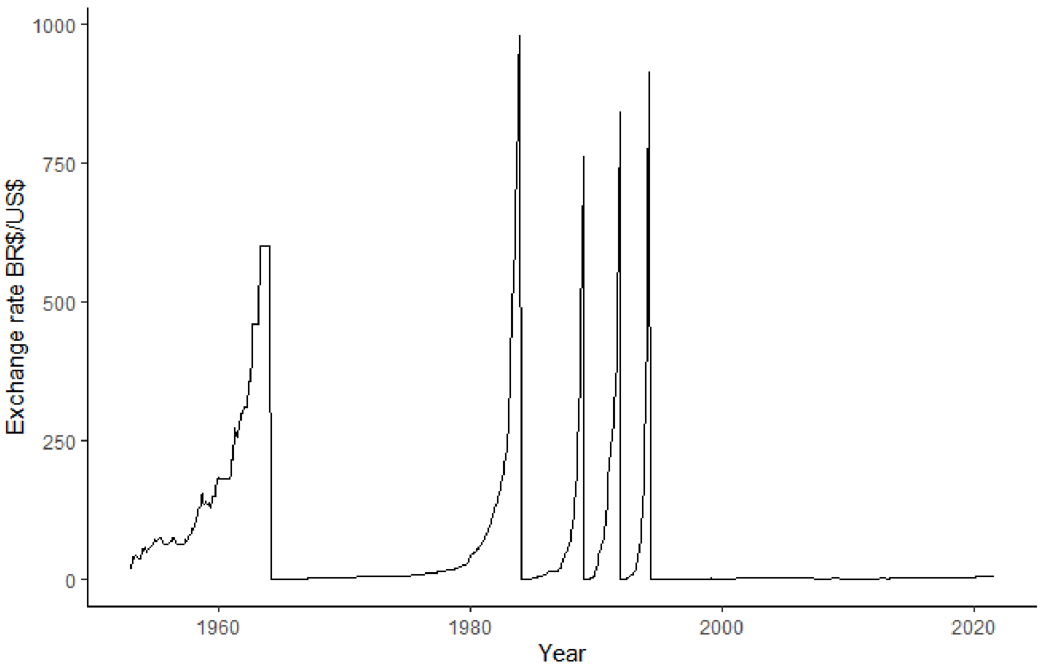
Several interest rates served as a guidance for risk premium, creating a complex and segmented credit markets. The segmentation of markets across a variety of interest rates contrasts with contemporary views of financial markets equilibrium where the policy rate is the sole synthesis of this equilibrium(Arida, 2005).

Until the middle of the 1990's, three main varieties of interest rates were applied: subsidized, indexed and foreign market determined (Goldsmith, 1986, p.416). Subsidized rates were those sustained by the government in a level expected to promote growth in specific sectors. Indexed rates were pegged to inflation indexes or government bonds, such as the ORTN. And finally, public and private foreign debt was pegged to rates determined in the foreign markets. The varieties of interest rates could be combined, so you could have, for instance, indexed and non-indexed subsidized credit.

4.1.3 Crisis of Developmentalism

A new era for Latin America begins with Paul Volcker's monetary shock in 1979. The 1980's would become the lost decade, when Latin American countries struggle to adapt to the international monetary disorder (Tavares, 1973). Brazil had a relatively delayed embark on the neoliberal reforms. The 1980's would be marked by the transition to a democratic regime and by a succession of stabilization plans, that were unable to solve the external debt and the ever increasing inflation.

Figure 4.1: Exchange rate - BR$/US$ from 1955 to 2021



Source: Author's elaboration with data from BCB (series number 3695).

The period of the Brazilian Economic miracle, an era when developmentalism offered fast growth allied with income distribution was a period of relative exchange rate stability. Figure 4.1 shows clearly that between February 1964, when the exchange rate was pegged to the dollar, until the end of the 1970's, the constant devaluation didn't reach critic levels. Things would change after 1979, when the increasing foreign debt and the impossibility to attract sustained finance would lead to recurrent exchange crisis of the 1980's and beginning of 1990's. When the Volcker's shock reaches Brazil, the economic boom presented in the 1970's was already in disarray. The economic miracle that allowed a GDP growth of average 11.3% between 1967 and 1973 would become an average of 5.4% from 1974 to 1981(Bresser Pereira, 1995, p.226).

The most mentioned symptom of the failures of developmentalism is the high inflation.

On the interpretations of causes for the slowdown and high inflation lies the differences between several stabilization plans, that would mark the end of developmentalism. The public discussions on the causes and solutions of inflation would dominate the political and economic debates, both in academy and among politicians.

While it was generally agreed that the solution for the external debt crisis was a precondition for the stabilization, the relative importance of domestic drivers of inflation were more debated. On the more consensual external pressures, a vicious cycle between the increase in external debt, a capital flight and an exchange rate devaluation put pressure on inflation. Several mechanisms are at play on the transmission between the devaluation and the increase in prices - mechanisms know as exchange rate pass through. Usually, economists associate the exchange-rate pass through with the price increases in imported goods after exchange rate devaluations. Since the industry depended on imported goods as inputs, the cost of imports are transmitted across the economy.

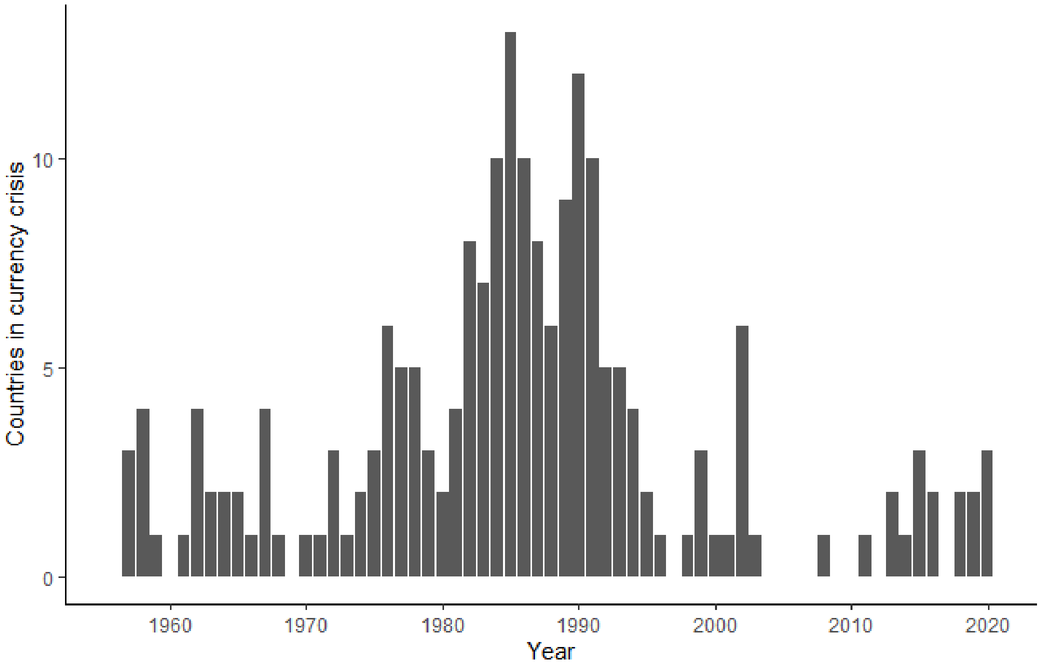
This cycle of increase in external debt, devaluation and inflation was amplified by the by the oil price shocks in 1973 and 1979 and by the US increases in interest rates in 1979. With the increase in oil prices, domestic goods became more expensive and more foreign currency was needed to finance oil purchases. In the aftermath of the 1973 shock, the recycling of Petro-dollars allowed the financing of the increasing indebtedness(Helleiner, 1994). Petro-dollars originated from the large inflow of resources towards oil exporting countries. Those countries were not able to invest on fixed capital in their own economies and started a search for yield, mediated by European and North-American banks. Petro-dollars were thus redirected to peripheral countries, enabling the repayment of the imports and refinancing debt. Currency crisis abounded in Latin America from mid 1970's until the beginning of the 1990's (see 4.2). Interest rates increases and a second oil shock made the repayment of external debt unsustainable all over Latin America. The Mexican Crisis of 1982 further aggravated the problems, since financial markets increasingly distrusted on the capacity of Latin American Economies to repay their debts.

4.2 Translating neoliberalism through planning stability

4.2.1 Agents of Stability: the genesis of the neoliberal coalition

Introduction The neoliberal coalition in Brazil learned how to deal with inflation and a modern financial system in the midst of the stabilization plans since the 1980's. The lessons

Figure 4.2: Number of Countries suffering currency crisis in Latin America (yearly FX devaluation larger than 30%)



Source: Author's elaboration with data from IMF.

from the international debt negotiation and inflation stabilization were translated by a group of economists under the Presidency of Fernando Henrique Cardoso. The president pushed for the necessity of a more integrated country, which means that international practices such as the inflation targeting were incorporated in the monetary management. Domestic academic dynamics, such as the creation of the department of Economics at the the PUC-RIO, had a pivotal role in translating theories from saltwater economic departments in the USA. Foreign international organizations became less important as the indebtedness decreased after mid 1990's. On the other hand, the incorporation of financial market practices by the Central Bank created strong commitments for subsequent periods. The coalition of third way politics and economists was able to impose reforms in the financial markets and strengthen the Central Bank in opposition to the other public banks. The reformism is mild, due to harsh domestic opposition by domestic financial markets and unions, which would remain important actors.

Brazil has been historically marked by its relative isolation from the world, but the cyclical attempts of engagement with international orders gave rise to the translation of practices from the more developed countries. Anderson (2019, p.10), British historian and long term Brazilianist observes that:

> [Brazilian] history and geography have also made [it] more isolated and self-contained than any other state of comparable magnitude. In South America, language divides it from every other country. In a region of republics long before Europe achieved these as a norm, it alone formed an empire, lasting nearly

> a century. Until recent times, dense rainforest, desolate scrub and impassable marsh separated its vast interior from every neighbouring state save on its narrow southernmost border. Culturally and psychologically, Brazilian society in large measure turned its back on the Hispanic world surrounding it to the west, looking away to Europe, and latterly up to the United States.

This isolation is one of the *perceived* barriers to development that Brazilian neoliberals tried to disrupt in the 1990's. The nationalism of the state institutions would be converted to the openness to practices attempted in the centre. The best example is the way the BNDES is converted into a privatization agency. Despite being born for promoting investment by domestic firms, the Bank is converted in an evaluator of state owned companies on their possibilities of privatization - what means the sell of domestic public companies to international buyers.

Third way politics: Who are Brazilian neoliberals? The main political translators of neoliberalism in Brazil were a group of politicians organized under the President Fernando Henrique Cardoso (FHC), who ruled the country from 1995 to 2002. FHC was elected president in 1994, after being the Finance Minister responsible by the last stabilization Plan - the Real Plan. The president was a member of the Brazilian Social Democratic Party, which was created from a leftist branch of the Brazilian Democratic Movement, the opposition party against Brazilian Dictatorship.

Despite considering himself a leftist, Fernando Henrique Cardoso always maintained a critical position towards the socialist regimes as implemented by the Soviet Union. In the end of the 1950's as a lecturer at the University of São Paulo, Fernando Henrique co-founded a "Marx Seminar" aiming to read Marx's writings, which he claimed were misinterpreted by communist parties. Later, as a theorist of dependency, he would argue that his writings were influenced by these readings of Marx, but also and mainly influenced by Max Weber.

The transition from academy to institutional politics was not a surprising move, given the strong political background of his family. His family had a long tradition inside the military, with his father Leônidas Cardoso been a General and Federal Deputy. Fernando Henrique started his political career as an intellectual in the resistence against the civil-military dictatorship that ruled Brazil until 1985. In 1983, yet under the dictatorship, Fernando Henrique took office as a Senator, and later in 1988's he would be elected to the democratic Constituent Assembly.

In the second round of the 1989 presidential election, Fernando Henrique's Brazilian Social Democratic Party (PSDB) didn't support the elected rightist candidate Fernando Collor. Rather, they expressed a hesitant support for the Worker's Party candidate, Luiz Inácio Lula da

Silva(Batista, 2015). Fernando Henrique still criticized the Workers Party saying that "the Workers Party acts as the post-war communist party. (...) Wants to be the great front to end with imperialism and latifundium. This is pre-perestroika"(Batista, 2015). Despite programmatic disagreements, the politicians in PT and PSDB had a shared past of fight against dictatorship and during the Constituent Assembly. This trans-party relations didn't ended up forming a formal congress coalition, but consolidated an opposition for the Fernando Collor Government (Sallum Jr. and Casarões, 2011).

Fernando Collor was elected in a neoliberal populist platform (Weyland, 1996), a platform of corruption control and large support from middle and upper classes(Sallum Jr. and Casarões, 2011). On the economic front his brief government started the wave of privatizations and liberalization that would rule in Latin America in the 1990's. The major economic challenge of Collor's government was the fight against inflation, which averaged 23% per month in 1992. For this challenge, Collor's Finance Ministry adopted a **monetarist** plan, which included a highly polemically seizure of private savings. The economic measures, were fiercely opposed by congress and failed to solve external debt and inflation. Unable to form a supportive coalition in congress, questioned for economic mismanagement and responding for corruption scandals, Fernando Collor was impeached in 1992(Sallum Jr. and Casarões, 2011).

The impeachment of Fernando Collor led to the government of Itamar Franco, a centrist former senator. The government of Itamar would be later recognized mainly for initiating the Real Plan, the monetary reforms that, associated with the resolution of external debts would put an end to the hyperinflation. Collor's vice, Itamar Franco would assume the government in 1992 and initially appoint Fernando Henrique as Foreign Affairs minister. The indication to Finance Minister would only come in may 1993, when Itamar Franco realized that the former plans to contain hyper-inflation wouldn't work.

In his memoirs, Fernando Henrique Cardoso tells that he became president of Brazil by accident(Cardoso, 2013b). His election for the presidency had only been possible after he coordinated the stabilization plan that curbed inflation in Brazil. But in fact, his ascension to the presidency wouldn't probably have happened so quickly if Fernando Collor, the former elected president had not been impeached.

As a Finance Minister, Fernando Henrique would build the group of economists for formulating and executing the Real Plan, that finally gave and end to inflation. The success of the Real Plan would guarantee his election for the presidency, and the continuity of the work of a small community of economists.

At that point, Fernando Henrique had already been president of the senate, and had become famous as a sociologist of dependency theory. With Enzo Faletto he wrote the book "Dependency and Development in Latin America", which is the cornerstone of dependency theory from the late 1960's. Dependency and Development aimed to analyse the goals and interests that guide the conflict between interest groups, classes and social movements in developing economies, under given structural conditions. As Fernando Henrique later recognized, the reception of Dependency Theory in the United States ended up overemphasizing the "given structural conditions" and ignoring the conflict between groups that lies at the core of his theory (Cardoso, 1977).

In Dependency and Development, Cardoso and Faletto proposed the possibility of a dependent associated development in the periphery. Dependency theorists can be categorized in two main types: a marxist and a weberian strand(Ferreira, 2016). Marxists would emphasize the impossibility of development in peripheral countries, in the case they kept in subordinated positions in the world system (Santos, 1970). Fernando Henrique Cardoso would pertain to the Weberian strand, for its reliance on historically grounded country configurations, instead of structurally determination associated with dependency Marxism.

Cardoso and Faletto write against fatalist views that consider the international integration an insurmountable barrier to development. Integration with the international capitalist system would enable stagnation or development, depending on how domestic "social forces" would act to reproduce the *status quo* or bring change (Cardoso and Faletto, 1970, p.38). "Creation of the national states and control of the local economies together establish a 'legitimate order' based on the associated interests of the economically oriented classes. This order commands the consent of classes, groups, and communities excluded from the dominant nucleus" (Cardoso and Faletto, 1979, p.28).

Cardoso's analysis follows a logic of the evolution of overarching orders, supported by an association of powerful business interests. For instance, the developmentalism would be based in an association between landholding, exporting sectors, or sectors linked to non-durable consumer goods. On the other hand, "internationalization" would be based on the increased power of multinational corporations and financial sector linked to domestic companies(Cardoso and Faletto, 1970, p.166).

The overall tension, faced by "technobureaucracies" inside states' would be between proponents of a "rational and modern development" based on industrial-financial association and a nationalist populist alliance, that would avoid international integration (Cardoso and Faletto, 1970, p.168). The dilemma between modernity and nationalism would be the defining tension of dependent economies. Dependency would not be an anathema of development, but could occur in hand with it. The rising phenomena of multinational companies would increase dependency but, at the same time, bring industrialization to the periphery. The opportunities brought by transformations in global capitalism could open up opportunities or threats depending on how states and its technobureaucracies chose to engage with the international order.

The intellectual proposals of Fernando Henrique are better exposed in his concept of "associated dependent development". FHC realizes that entrepreneurs from São Paulo supported an association "with capitalism, with imperialism"(Cardoso, 2013a). These associated interests would not only be a relevant concept for understanding development economies, but would also provide a route for overcoming underdevelopment. His argument is not against the financial capture of the state, but against a state technocracy, heir of the authoritarian regimes. Development would require the displacement of statism, inherited from authoritarian regimes. FHC considered statism a creation of the economic bureaucracy, and not a response to pressures from popular sector.

Developing Brazil would require a reform of the state, along with an increased integration with the world. The effects of globalization could increase dependency, but at the same time right choices by domestic politicians could make the best or worse from the engagement with globalization. Later, this trust on the possibilities of globalization - or neoliberalism - to dependent economies would be the defining feature of Cardoso's government. The project would be to free the state from an economic bureaucracy that hindered integration with an world led by financial capitalism.

From the Plano Collor to The Real Plan team The Real Plan was the last of a long list of economic plans aiming to reduce hyperinflation. The real plan benefited from more than ten years of experiences with stabilization plans. Gustavo Franco, president of the Central Bank during FHC presidency, tells that the creation of the Real Plan was a process of knitting memories of old bureaucrats and lawyers that participated in other stabilization plans. "It was necessary to find out how former plans solved specific questions, and there is always someone who know, who still remembers this information"(Franco, 2019).

An important characteristic of the creation of this plan was the formation of a cohesive community of economists that were mainly associated with the Pontifical Catholic University of Rio de Janeiro (PUC-RIO). The creators of the department of economics of PUC-Rio aimed to distance themselves both from structuralist economists and from monetarists (Arida, 2019). Structuralists were mainly associated with the Federal University of Rio de Janeiro and the State University of Campinas. On the other hand, Monetarists were associated with the Getulio Vargas Foundation (FGV). The economic department at PUC-Rio was founded with the aim of breaking this dichotomy and bringing to Brazil the academic economic thought being produced at salt-water economics department in the US.

In the formation of the team that led the real Plan, the two main figures were Pedro Malan and Edmar Bacha, both were part of the creation of the Department of Economics in PUC-RIO (Cardoso, 2013b). Initially, in 1993, the group met every Tuesday morning in the Finance ministry in order to organize the Plan and announce the next measures. The economic core of Fernando Henrique Cardoso government is born out of this Financial Ministry meetings to write the Real Plan.

The government had the support of the Social Democratic Party, but the traditional economists of the party were virtually excluded from the economic decision making. Fernando Henrique Cardoso, himself a world known Dependency Theorist, was less involved than expected in economic affairs. Another example is José Serra, founder of the Social Democrat Party, that worked in the ECLAC and wrote famous Dependentist papers, but was virtually excluded from the decisions of the Real Plan. His main role during the FHC presidency was as Health Minister. When he was candidate for Presidency in 2002, when he lost against Lula, he was a critic of Economic policies of Fernando Henrique Government. An alternative - structuralist - path existed inside the Social Democratic Party but was excluded by articulated action of the epistemic community. José Serra, the original economist of the PSDB was an outsider to the meetings and was not later included in the design and promotion of the plan, or in economic ministries. Serra was an important figure during the FHC government, occupying the Ministry of Health, but was virtually excluded from the discussions of monetary and financial issues.

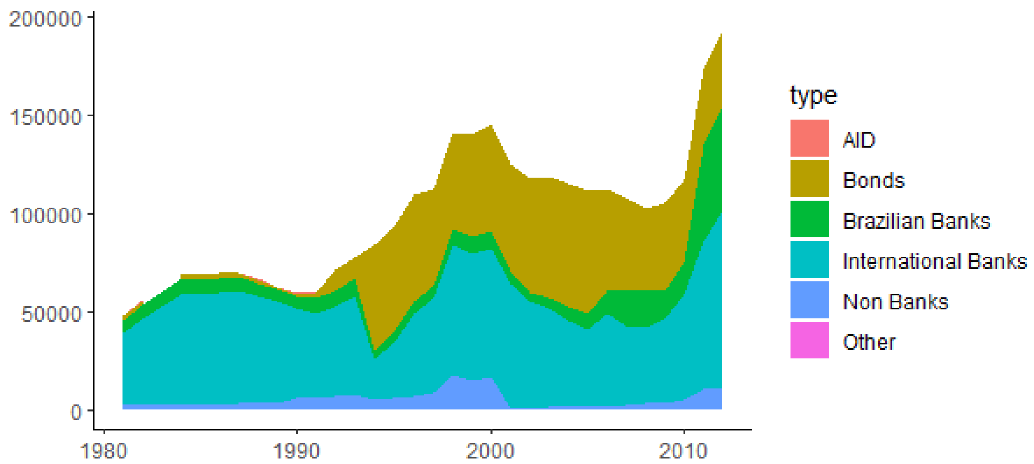
International actors were important for shaping the evolution of the monetary order in Brazil. But the translation was done by domestic actors, trained initially in Brazil and that experienced a long evolution of planning and stabilization during the 1980's. The lost decade was an undeniable lost in terms of low growth, chaotic markets and declining levels of quality of life. But it wasn't a lost decade in terms of economic experimentation for Brazil. A wide array of policies was attempted and abandoned. None of these worked mainly due to the external constraints, that created price spirals and ultimately led the economic order to a complete chaos.

The several rounds of external debt renegotiation, that ended with the Brady Plan, were the real school for Pedro Malan and his team during Fernando Henrique's mandates. Differently from domestic debt, that can be reissued, external debt implies a real economic constrain, which a developing country has to learn how to handle. Economic stabilization was not only a fight against hyperinflation, but against the external constraints and the impossibility of importing relevant goods, due to the lack of dollars.

4.2.2 Reforming the financial system

The renegotiation under the Brady Plan changed the nature of Brazilian creditors from banks to bond holders. Figure 4.3 shows how until 1994, International Banks were responsible for the biggest share of international debt. In 1989, 82% of foreign debt was held by international banks. From then on, it was substituted by international bonds, traded in international markets. In 1994, International banks would hold 24% of foreign debt, while 64% would be in the hands of bond holders. **As explained by Roos (2019), the terms of renegotiation changes depending on the nature of the creditors. While it was possible to negotiate with syndicated banks, the negotiation with disperse, and sometimes unknown bondholders is more complex.** The school of the 1980's and 1990's created politicians scared not only of high inflation, but of capital flights. The practices constructed at the time aimed to coordinate expectations of domestic and foreign financial markets, in order to avoid external shocks that repeated the 1980's crisis.

Figure 4.3: Medium and long term registered debt by type of creditor (Million of US$)



Source: Author's elaboration with data from BCB.

Public Banks Reforms The National Bank for Economic and Social Development (BNDES) was reformed, both for becoming the coordinator of privatization plans and for embodying market practices. Persio Arida, president of the BNDES from 1993 to 1995, had clear market-oriented goals for the bank. Persio Arida took his PhD in the MIT, having studied under Paul Samuelson, Robert Solow, and Franco Modigliani. At the MIT he had colleagues such as Mario Draghi (former president of the ECB), Ben Bernanke (former president of the FED), Kenneth Rogoff, Olivier Blanchard and Larry Summers. Arida was also teaching assistant of Albert Hirschman in Princeton, where he started studing behavioral finance and bounded rationality . His PhD thesis, supervised by Michel Piore, was refused by the committee for not being considered an economics thesis(Arida, 2019, p.17-18). He would later resubmit another thesis to get the PhD title.

Coming from previous work in the Central Bank and in a private bank (Unibanco), Arida sought to inculcate in the BNDES a "culture of credit" (Arida, p. 37), by creating risk evaluation committees and procedures. A fundamental conceptual change in the credit concession was proposed: instead of looking for the job generation and multiplier effects of the financed projects, the BNDES would first evaluate the credit risk and justify the existence of market failures in the project, only in a later stage would consider the positive externalities in terms of employment and growth.

For advancing market mechanisms within BNDES, Persio Arida proposed the creation of the "Long Term Interest Rate" (Taxa de Juros de Longo Prazo, TJLP, in Portuguese), which in its inception attached the bank's lending rates to the cost of long term government bonds in international markets. Setting the long term interest rate in accordance with the international rates aimed to achieve efficient allocation of resources (Arida, p.66) and constrain political influence on the lending rate.

The relation with private banks has also changed in the meantime. The former experiences with stabilization plans involved "heterodox" or monetarist shocks, that had as a central element the surprise to the markets. The heterodox shocks, as advocated by Francisco Lopes, and tried in the Cruzado, Bresser, Verão Plans, involved a price control that aimed to reduced immediately the inflation by price controls. The real plan succeeded in coordinating with the market the steps of the plan, in a context where the external debt was – at least temporarily – solved. This coordination was based on a continuous learning by the Central Bank and by the market, of the new financial instruments and internationally adopted monetary and financial practices.

Transitioning towards inflation targeting Low inflation was not strictly preferred by financial companies and banks (Adolph, 2013), Brazilian commercial banks adapted to high inflation and profited from the inflationary tax. Banks were able to protect itself against high inflation by reinvesting non remunerated deposits. The burden of inflation was thus assumed by depositors, who were not able to keep its savings in pace with the increase in prices. Pedro Malan (2016, p.61), president of the Central Bank in the initial steps of the Real Plan (1993-1994), estimated that by that time 30% of Banks' revenues came from inflationary tax. To end with inflation implied to cease the benefits that inflation brought to some banks. The reduction in inflation, and the reforms in the financial system made clear unsustainability of some public and private banks in the new environment. For the Real Plan, a great effort of the Central Bank was to coordinate with the public and private banks that they had to adapt its expectations of revenues for the new scenario of low inflation. The experience of the Cruzado Plan in 1986 was an important reminder of the reduction of revenues in the period of disinflation (Malan, 2016, p.61). For the Federal Public Banks, it was created a Comittee

Persio Arida (2019, p.71) narrates that there was a potential banking crisis after the inflation stabilization. Banks had lost the revenue originating from the short term deposits, which were not indexed. Some banks would overcome this loss of revenue with additional bank fees, but others would have liquidity problems. Besides, there was a potential exchange rate crisis due to the Mexican crisis. Finally, government economists believed that a sudden increase in demand could lead again to the price spiral. To deal with these concerns, a Committee (COMIF) was created to coordinate with public banks the next steps, and make clear that curbing inflation would lead to the loss of inflationary revenues.

The coordination of expectations involved two steps: erasing the indexation practices that organized financial markets and translating inflation targeting as the new coordination practice. This path is intermediated by exchange rate anchors that fail in 1999. The lack of coordination of inflation had formerly led to a domestic banking crisis and the migration to inflation targeting also risked ending up in a domestic banking crisis. The maintenance of an undervalued exchange rate currency during the ten years of FHC presidency was a contested measure, and an important step towards the adoption of inflation targeting. Some government economists more inclined towards developmentalism supported a more devalued currency. In this group were José Serra, Planning Minister, José Roberto Mendonça de Barros, secretary of Economic Policy, Francisco Lopes, Director of Monetary Policy at the Central bank, and Bresser-Pereira (Gustavo Loyola, p. 68). This group argued that the overvalued exchange rates reduced the competitiveness of domestic industry and required a too high interest rate, that which would make national industry unsustainable.

On the other hand Pedro Malan, Minister of Finance, and Gustavo Franco, the President of Central Bank were fierce defenders of an undervalued exchange rate. Gustavo Franco later argued that the reasons for maintaining the valued exchange rate were due to the high entrances of foreign capital at that time. In case one allowed the exchange rate to float, it would lead to more valued real, instead of depreciation. In his account, the Central Bank, was instead maintaining the currency in a higher valued than if it was allowed to float. Malan (p.65) pointed that sustaining a more valued currency was important in order to maintain the purchasing power of the population. The belief that the increase in purchasing power would boost demand and lead to the return of inflation concluded that a valued exchange rate was necessary. This assumption of constant fear of the return of hyper-inflation would endure in the monetary policy from this moment on .

The discussions ended up in the adoption of a crawling band, that implied a nominal devaluation of the exchange rate, that occurred from 1995 until 1999, an experiment inspired by the Israel experience. The stability provided by this crawling band were sustained until the election of 1999. The government expectation was that the maintenance of an stable exchange rate was a condition for being reelected. The passage from the two systems is usually a moment of realignment of expectations and the conduction is crucial for the aftermath. The long discussions on the substitute framework for monetary policy were to be conducted by Francisco Lopes. Lopes had built his academic career at the UFRJ, EPGE and Harvard, where he was supervised by Lance Taylor, a structuralist economist. His work, while Professor at PUC-RIO was influential both for the implementation of the Cruzado Plan , that implemented a heterodox shock and for the Real Plan.

The proposal of Lopes for the transition was based on an idea that is until now considered confusing by most analysts. An endogenous diagonal band was an attempt to transit from fixed to a free floating system, without having an overshoot in the interest rate. The transition was a long time challenge for the Central Bank and had also divided economists abroad . The complex device invented by Francisco Lopes consisted in maintaining a band with an increasing roof, but which the increase of the roof would endogenously increase as the exchange rate approached it . The proposal was not well received by the markets, by the press or by the politicians. The incomprehension of the plan, evidences that at that point there was no clear definition of a monetary framework. Inflation targeting was not yet seen as an unavoidable practice for monetary policy. The whole of interest rates and exchange rates was not clear, both could be used as intermediary targets, and no clear option was set. Nevertheless, inflation was seen still as the main goal.

4.2.3 Third way politics as neoliberal translators

Neoliberal reforms in Brazil were conducted mainly by a Social-Democratic party, identified with “third-way politics”, which ruled from 1994 to 2002. The initial reforms in Collor's government were followed by a series of monetary reforms led by **centrist** economists working under Fernando Henrique Cardoso.

The reformist community of economists was closely tied to salt-water North-American economic universities, and had a large experience inside International Organizations. The scholar background was complemented by long experience in financial markets and in public positions in negotiating external debt. The main intellectual guidelines for the reform are linked to the Washington Consensus measures, but Brazilian Neoliberals tried to circumvent influence from the IMF through .

At the time Fernando Henrique was elected president, his team had a cohesive plan that the evolutions in global capitalism required not only adaptations of the productive structure, but mainly in the way of dealing with international finance. Central Bankers were not anymore focused with conditions for industrialization led by the state but on the creation of instruments for dealing with “hot money” and derivative markets.

The political support of Fernando Henrique Cardoso was not only based on financialists and multinationals, but the continuation of reforms in the second term were possible only due to the success of the Real Plan, that was largely seen as a positive evolution by the middle classes[5].

The relatively short reformist period, allied with a nuanced view on the power of globalization weren't able to completely displace the developmentalist institutions. The National Development Bank was not privatized, but became a tool for privatizing other companies. The two main federal public banks weren't also privatized, although had a big reduction on budget and on its regulatory powers, that were centralized in the Central Bank. The Central Bank became the main regulatory body of the monetary order, by incorporating functions formerly performed by other public banks or by the ministry of finance.

The reforms were also central in redefining the way price expectations were formed. Indexation was almost completely abandoned in favour of inflation targeting. A formal, contractual mechanism for price expectations was replaced by a internationally understandable framework. With inflation targeting, not only domestic banks were allowed to compete, but international markets could closely follow domestic economic expectations.

4.3 Recollecting developmentalism

4.3.1 Introduction

The observation that Brazil is a "socio-developmentalist" economy (Bizberg, 2019) can hardly be used to explain Brazilian macroeconomic and financial policies since the 1990's. Specially after the implementation of inflation targeting, in 1999, the country has established a neoliberal economic order, with the Central Bank seeking to control inflation and financial stability through high interest rates. The level of interest rates in the country has been high even when comparing with its emerging markets counterparts (Segura-Ubiergo, 2012).

The neoliberal economic order is legitimized by the reduction of inflation rates, in comparison with the XX century average, even though it is accompanied by a substantially lower GDP growth rate. Conservative policies often led to procyclical interest rate hikes, and the increase of interest rates when the country is facing a recession. The paradigmatic example of conservative monetary policy choice in Brazil was the continuous increase in interest rates in 2015, even when the country was headed to the worst recession of its recent history. The interest rate hike, combined with restrictive fiscal policy and declining commodity prices pushed the country towards a depression from which it has yet to be recovered (Serrano and Summa, 2015; Sicsu, 2019).

[5] In any case, it is important to note that the reelection was only possible after a very debatable approval of the reelection in 1999.

Even during the leftist governments of Lula's Workers Party, monetary policy mostly followed the strict conservative rule-book(Modenesi, 2011; Segura-Ubiergo, 2012). High interest rates and pro cyclical increases didn't require formal Central Bank Independence, which was only pushed forward by Jair Bolsonaro's government in 2021. During the last decades, the country did experience strong external shocks, such as the 2008 crisis and the Taper Tantrum, but none of them threatened to become a foreign debt crisis. Large reserves and a declining foreign debt prevented that external shocks became a debt crisis, as was the rule during the XX century. Since there was no external debt crisis in this period, no IMF conditionalities or debtors renegotiations forced Brazil country to adhere to the strict monetary restraint.

Economists also had a hard time in trying to understand the puzzle of the high interest rates in Brazil (Segura-Ubiergo, 2012; Barboza, 2015). After 2008 crisis, some economists converged on the idea that *the low power of monetary policy* caused the conservative approach of the Central Bank. Monetary policy wasn't powerful enough to bring inflation down to its target, so the Central Bank had to maintain high interest rates and make higher increases when inflation was expected. This argument was built on the idea that Brazilian economy was plagued by practices from the developmentalist era, which curtailed monetary policy power. The remaining practices included a segmented credit market and the indexation of prices. Credit concession was segmented among public and private banks, what impeded that monetary policy hikes were converted in falls in inflation. Even if the Central Bank decided that it was time to slow down economic activity, public banks would be there to guarantee a stable source of credit, blocking the credit channel of monetary policy.

Remaining practices from developmentalist era were seen as the main reason for adopting conservative policies. Developmentalist inheritance were considered a threat to price stability by curtailing the power of the Central Bank. From these interpretations, the reason for the conservative monetary policy was to be found on the relations between the Central Bank's policies and the developmentalist practices. This view became highly influential and ultimately ended up in a reform of the public financial system. The Central Bank had an active role in promoting these late reforms and in communicating to the markets the centrality of the reforms for the economic stabilization.

4.3.2 New developmentalist coalition after 2008 crisis

Pre Lula exchange rate crisis The macroeconomic liberal order in Brazil is anchored on inflation targeting, fiscal responsibility and floating exchange rates. The relative stability of this order was perturbed in the upcoming victory of the workers party in the 2003 presidential election. Lula, a former metal-worker and labour union leader, was set to win the next election. Before the election, Lula moderated his tone, promising the maintenance of the macroeconomic tenets in a letter called "Letter to the Brazilian People". The letter, commonly interpreted to be addressed to international financial markets, is seen as a conversion of a former labor unionist to the neoliberal practices and discourses. The letter didn't have the immediate effect of easing the exchange rates or risk perception, but gave a glimpse of the policies that Lula would follow in the first years of his government. In the letter to the Brazilian People, the Lula affirmed that:

> [...]We are aware of the gravity of the economic crisis. To solve it, the PT is willing to dialogue with all segments of society and with the government itself, in order to prevent the crisis from worsening and bringing more distress to the Brazilian people.
>
> By overcoming our external vulnerability, we will be able to reduce interest rates in a sustained way. We will be able to recover the public investment capacity that is so important to leverage economic growth.[...]
>
> Nobody needs to teach me the importance of controlling inflation. I started my union life outraged with the process of corrosion of the purchasing power of workers' salaries.
>
> Now I want to reaffirm this historical commitment to fight inflation, but accompanied by growth, job creation and income distribution, building a more solidary and fraternal Brazil, a Brazil for all.[...]
>
> The current government has established a precarious fiscal balance in the country, creating difficulties for the resumption of growth. With the policy of artificially overvaluing our currency in the first mandate and with the absence of industrial policies to stimulate productive capacity, the government has not worked as it could to increase the competitiveness of the economy.
>
> The biggest example was the failure to construct and approve a tax reform that would banish the regressive and cumulative nature of taxes, an unbearable burden for the productive sector and for Brazilian exports.
>
> The bottom line is that, for us, fiscal balance is not an end, but a means. We want fiscal balance in order to grow, and not only to be accountable to our creditors.
>
> We will preserve the primary surplus as long as necessary to prevent the internal debt from increasing and destroying confidence in the government's capacity to honor its commitments. [...]
>
> We will sort out the public accounts and keep them under control. But above all, we will make a commitment to production, to employment, and to social justice.

6

The letter affirms a compromise with debt repayment, to achieve growth, employment and social justice. The transition from radical left rhetoric to a conciliatory discourse was supported by the FHC government. Seeing that Lula would win, the Central Bank prepared an agreement with the IMF, and arranged meetings with the Worker's Party (Brasil, 2019). The Central Bank, once more acted as a bridge between the standing neoliberal practices and the upcoming government, bridging the IMF and the Worker's party through a debt agreement. Moreover, the choice of not acting during the exchange rate depreciation was a demonstration of adherence to the tenets of the neoliberal order. The exchange rate depreciation, which was until 1999 avoided by the Central Bank, was from now on interpreted as a external markets threat to the possible "non-market" policies promised by the Worker's party. From then on, the free exchange rates are not only an equilibrium price, but an indicator of the success of the president.

Brazilian Government, guided by Fernando Henrique Cardoso, acted politically to ensure the continuity of the practices of debt and inflation management. FHC acted to establish policy continuities also in the foreign policy arena, where he was influential in building bridges between the worker's party and North-American government(Spektor, 2014). Arminio Fraga, president of Central Bank from 1999-2003, held preliminary talks with possible finance ministers among the contenders for election(Brasil, 2019). His goal was to explain the difficulties of the Bank in rolling debt over. A central message was that the country was under "a confidence crisis". From the Worker's party, Arminio Fraga initially talked to Aloizio Mercadante, who was a historical economist for the worker's party and expected to assume the Finance Ministry at that time. Later, Fraga talked to Antonio Palocci, who would in fact be chosen for the Ministry. Fraga tells that those talks with Palocci were reassuring that PT would

[6] Author's translation. The original excerpt reads: Estamos conscientes da gravidade da crise econômica. Para resolvê-la, o PT está disposto a dialogar com todos os segmentos da sociedade e com o próprio governo, de modo a evitar que a crise se agrave e traga mais aflição ao povo brasileiro. Superando a nossa vulnerabilidade externa, poderemos reduzir de forma sustentada a taxa de juros. Poderemos recuperar a capacidade de investimento público tão importante para alavancar o crescimento econômico. [...] Ninguém precisa me ensinar a importância do controle da inflação. Iniciei minha vida sindical indignado com o processo de corrosão do poder de comprar dos salários dos trabalhadores. Quero agora reafirmar esse compromisso histórico com o combate à inflação, mas acompanhado do crescimento, da geração de empregos e da distribuição de renda, construindo um Brasil mais solidário e fraterno, um Brasil de todos. [...] O atual governo estabeleceu um equilíbrio fiscal precário no país, criando dificuldades para a retomada do crescimento. Com a política de sobrevalorização artificial de nossa moeda no primeiro mandato e com a ausência de políticas industriais de estímulo à capacidade produtiva, o governo não trabalhou como podia para aumentar a competitividade da economia. Exemplo maior foi o fracasso na construção e aprovação de uma reforma tributária que banisse o caráter regressivo e cumulativo dos impostos, fardo insuportável para o setor produtivo e para a exportação brasileira. A questão de fundo é que, para nós, o equilíbrio fiscal não é um fim, mas um meio. Queremos equilíbrio fiscal para crescer e não apenas para prestar contas aos nossos credores. Vamos preservar o superávit primário o quanto for necessário para impedir que a dívida interna aumente e destrua a confiança na capacidade do governo de honrar os seus compromissos.[...] Vamos ordenar as contas públicas e mantê-las sob controle. Mas, acima de tudo, vamos fazer um compromisso pela produção, pelo emprego e por justiça social.

follow the compromisse around inflation and fiscal stability. Besides, economists as Marcos Lisboa and Joaquim Levy - suggested by the Central Banker would be part of the Economic team of Lula.

During his two presidential terms, Lula would have Henrique Meirelles as the president of the Brazilian Central Bank. Meirelles in the Central Bank would be the bridge between the goverment and the financial markets. Henrique Meirelles had no training as an economist, but became influential in Brazil for its role as world president of the BankBoston. Before becoming entering the Central Bank, Meirelles had been elected federal deputy, running with the Brazilian Social Democratic Party, the party of FHC.

As the incoming president of the BC, Meirelles decided to maintain the same directorship of the Bank, only changing it on the course of the next eight years. The transition inside the institution was considerably smooth. The first measures as CB president was to hike interest rates, seeking to avoid a further increase in inflation.

The hawkish position of the Central Bank during the workers party's government suffered constant internal and external critiques. Internally, critiques came from the vice president José Alencar and from the president of the BNDES, Antonio Barros de Castro and Guido Mantega, who would later become Finance Minister.

The Worker's Party was born in the 1970's aiming to create an independent labor movement in Brazil. The traditional state-sponsored labor unions and the traditional centrist parties weren't fit for the strong labor movement born in the industrial belt round São Paulo.

The support coalition of the neo-developmentalism is associated to companies in industrial sector, agriculture and non-financial services, by formal labour and by the Worker's Party Government. Public companies led by heterodox economists were a central organizing institution of the neo-developmentalist coalition.

4.3.3 Discursive justifications to the new-developmentalism

After a Presidential term of mostly austere economic policies, a policy change came in the second term of Lula. In 2006, in the end of Lula's first term, the government had written the "Growth Acceleration Plan", which would be released on January 2007, the first month of the second term. In the inaugural speech for the PAC, on 22nd January 2007, Lula noted that in his first term they had implemented a development model based on stability, employment and wage growth and poverty and inequality reduction(Da Silva, 2007). The new challenge would be to accelerate growth. The change in route towards accelerated growth would be based on the stability built on his previous government. The two architects of the Plan, who would announce its technical details, were the Ministers of Finance Guido Mantega and the Chief of

Staff of Presidency Dilma Rousseff[7].

The additional focus on growth of Lula's second term was not seen as a contra-cyclical effort, as is commonly associated to Keynesian Plans. Instead, it was focused on increasing the long term - or potential - Brazilian growth rate. The PAC was implemented in five blocks of measures: investment on infrastructure, stimuli to credit and finance, institutional development, tax cuts and tax management, and long term fiscal measures. Since Brazil was growing at high rates, no mentions to crisis were adopted as justification to the PAC. Instead, it was seeing as an obvious step since the "fiscal conditions allowed the increase of federal government investment without compromising stability".

The international crisis initiated in middle 2007, gave an additional argument for the increased focus on growth. The crisis was read by President Lula as a collapse of dogmas against state intervention. In international fora, like the G20 and the United Nations General Assembly, President Lula explained his views on the end of the dogmas of free markets:

> For many years, speculators have made excessive profits, investing money they did not have in miraculous business. We are all paying for this adventure. This system, just like a card castle, collapsed and ceased the dogmatic faith in the principle of no government intervention in economies. [...]Decisions that were once from the private sector have to be brought to the public level. (da Silva, 2008)

The president also emphasized the fiscal surpluses that Brazil had presented since 2004 and promised that Brazilian public will continue falling. In his discourse Lula also emphasizes the necessity of coordinated international actions, but doesn't mention the financial capabalities of Brazilian Public Banks, that would be the hallmark of Brazilian recovery plan after the crisis. In the United Nations, on September 2009, Lula continued arguing that a global ideational change was started after 2008 crisis. To bring the "world-wide disorder under control", Lula defended that actions had to be taken by political "leaders, rather than arrogant technocrats".

> More than a crisis of big banks, this is the crisis of big dogmas. [...]
>
> I refer to the absurd doctrine that markets could regulate themselves, with no need for so-called "intrusive" state intervention, and to the thesis of absolute freedom for financial capital, with no rules or transparency, beyond the control of peoples and institutions. It was an iniquitous defense of a minimal, crippled, weakened state, unable to promote development or fight poverty and inequities. It included the demonization of social policies, an obsession with precarious labor relations and an

[7] From 21 June, 2005 to 31 March, 2010, Dilma Rousseff was "Ministra da Casa Civil", a similar role to a President Chief of Staff.

irresponsible commodification of public services. (da Silva, 2009)

In the end of his second term, Lula launched the "Growth Acceleration Plan 2", which would be implemented during Dilma Rousseff's first term. In the inaugural speech of PAC 2, Lula reminded the public that "the last great investment in infrastructure was made by Geisel", the Military dictator that ruled from 1974 to 1979. Lula stated that after the military dictatorships "no one had the competence or possibility to move forward, because the country was indebted. We spent two decades debating only the problem of debt"(Da Silva, 2010). The military, despite the dictatorial character and the large indebtedness, were seen as the last development planners, an image that Lula sought to recover for himself. Announced before the elections of 2010, where Dilma Rousseff - in Lula's words the mother of the PACs (Da Silva, 2010)- would be elected, Lula didn't once again mention that the PAC 2 was meant to act counter cyclically, but was an attempt to continue the successes of the PAC 1.

The connection between the international crisis and the developmentalist stance, would come with Dilma Rousseff government. The deepening of the developmentalist strategy after the recovery from the 2008 Crisis was justified by the international environment that Brazil lived. Initially, the main critic was to the "currency wars" and subsequently to the European Crisis. In both moments, the international financial system is seen as a threat to domestic industry, and state actions were need to protect employment.

Guido Mantega's alert of a *currency war* made headlines in the main financial journals. In a speech to industrial leaders, Mantega's stated that "we're in the midst of an international currency war, a general weakening of currency. This threatens us because it takes away our competitiveness."(Wheatley, 2010). A Financial Times report also stated that by September 2010, the only Brazilian policy against the currency war was the intervention in foreign exchange markets, through the acquisition of dollars(Wheatley, 2010).

Through the concept of currency wars Guido Mantega characterized the ease money policies in developed countries that ended up overvaluing developing country currencies. Guido Mantega later argued that the subsequent rounds of quantitative easing were useless for stimulating the advanced economies where there was no liquity crisis, but would have a strong impact on developing economies.

Smaller developed countries also suffered with currency appreciation, with some Central Banks acting to avoid it. For instance, the Swiss National Bank (SNB) intervened in the foreign exchange markets and introduced an exchange rate floor. Moschella (2013) argued that the Swiss National Bank profited from a new international monetary consensus that allowed for macroprudential policies aiming at financial stability. The new consesus was approached in the Swiss case to achieve a more devalued currency, protecting domestic interests.

A central piece of Dilma Rousseff's neo-developmentalism came in the form of a new development Plan, called Plano Brasil Maior. In the launch of the Plan, on August 2011, Rousseff explained the context, motivations, goals and tools to achieve higher growth in Brazil. Rousseff argued that emerging economies lived a long period of economic tension, partly caused by the excess of liquidity imposed by rich countries(Rousseff, 2011). The excess of liquidity is seen as a threat to Brazilian exports and domestic market. The economic tensions could be contained by protecting industry and employment from the unfair competition and the currency wars. The proposals are mainly aimed to rebuild the industry:

> We do not conceive our development without social inclusion, as we do not conceive our development without industry, without a strong industry, innovative and competitive. We do not believe that development can give up on industry and focus primarily in building a services economy.[...]
>
> Brazil has two obstacles to guarantee its perennial and sustainable development: overcome the risks to national industry, caused by the unbalanced currency, and to diversify its export basket in the direction of manufacturing with high added value.[8]

Dilma Rousseff argues that the experience acquired during the international crisis in 2008 and 2009 inspires bold actions when facing tense times. In the Plano Brasil Maior, the bold actions appear as a variety of tools: subsidies to labor intensive investments, stimulus to tecnological innovation and manufacturing exports, financing of working capital and state acquisition of technologies produced by Brazilian Industries. The access of credit to public banks – BNDES, BNB, Caixa, BB, Banco da Amazônia - would be conditioned to the prospects of aggregated value and development of R&D and innovation. The president was always careful to assure that the developmentalist plan would not ignore the control of inflation and the fiscal rigour, but without ignoring the necessity of developing new technologies and innovating.

Dilma Rousseff's Government Two developmentalist economists disputed the Brazilian presidential elections in 2010. Both José Serra and Dilma Rousseff were trained as developmentalist economists. José Serra, the candidate from the Brazilian Social Democrat Party, had been an influential figure at ECLAC and had worked in the economic team of Chilean socialist president Salvador Allende. Even though José Serra had **third way** views on

[8] The original in Portuguese reads: " Se nós não concebemos o nosso desenvolvimento sem inclusão social, também não concebemos o nosso desenvolvimento sem a indústria, sem uma indústria forte, inovadora e competitiva. Nós não acreditamos que o desenvolvimento possa abrir mão da indústria e se dedicar prioritariamente a construir uma economia de serviços. [...] O Brasil tem dois obstáculos a vencer para garantir seu desenvolvimento perene e sustentável: superar os riscos à indústria nacional, decorrentes de um câmbio desequilibrado, e diversificar sua pauta de exportações em direção a manufaturados de maior valor agregado."(Rousseff, 2011)

economic policies during the campaign, he was one of the converted towards neoliberal views, not an original Chicago Boy as it is usual in other Latin American countries. His name was seen with suspicion among other some democrat economists, Gustavo Franco was especially annoyed by a perceived overemphasis from José Serra views on devaluation of exchange rates to protect industry. It is for sure uncertain which path economic policy would have followed under a José Serra government, but regardless the result of the elections Brazil wouldn't have a Chicago trained economist as president.

Ellected president, Dilma Rouseff followed most economic policies from Lula's government, and accelerated the developmentalist path. Singer (2018) called Dilma Rouseff government a developmentalist *rehearsal* since the developmentalist push didn't last long. Dilma, supported by the political capital accumulated by Lula, pushed further the state-led strategies of inducing economic growth. Singer (2018, p.25) summarizes Rousseff's economic policies as guided by four principles: reindustrialization is the path for ending poverty; market is unable to promote reindustrialization; the state must plan the process; and planning will coordinate the expansion of economic sectors, its instruments and its execution.

As the neo-developmentalism in Brazil layered liberal economic priorities and interventionist policies, Ban (2013) called the regime as "liberal neo-developmentalism". In this regime, the economic goals prioritized by the Washington Consensus are conciliated with stimulus packages during crisis and industrial policies targeted at high employment sectors.

The term neo-developmentalism can be traced to the works of **Luis Carlos Bresser-Pereira**, a political economist who was Finance Minister in 1987 and Minister for state reform in 1995. The neo-developmentalism proposed by Bresser-Pereira focus on industrial change, through industrial policy and exchange rate devaluation. The main goal is achieving a superavit in the current account of the balance of payments, especially through the export of manufactured goods. Although the neo-developmentalism as expressed by Bresser-Pereira is the most cohesive set of principles, its relationship with the policies by the worker parties are loose. Undoubtedly, the central thesis of neo-developmentalism - the necessity of an undervalued exchange rate to achieve industrialization - was taken serious by the government. For instance, Dilma Rousseff justified her Development Plan (Plano Brasil Maior) as a tool to contain the effects of the currency war that was overvaluing Brazilian Real. A more loose set of economists, grossly organized under the label of social-developmentalism were involved in the Worker's Party governments. Instead, a more influential set of economists from the UNICAMP and the UFRJ were influential during Worker's Party government.

In the Central Bank, Dilma Rouseff appointed Alexandre Tombini, a bureaucrat from the Central Bank. Tombini entered into office with a speech on full commitment of Central

Bank Independence and inflation centered mission to the Central Bank. Tombini has a PhD in economics in the US, where he was supervised by Werner Baer. Baer was a Brazilianist, who was one of the central links of Brazilian economists with the US academy, initially in the Vanderbilt University and later in the University of Illinois at Urbana-Champaign. Alexandre Tombini wrote his PhD thesis in *1990*, defending a stronger focus of Central Banks on financial issues, that he saw lacking in the traditional analysis.

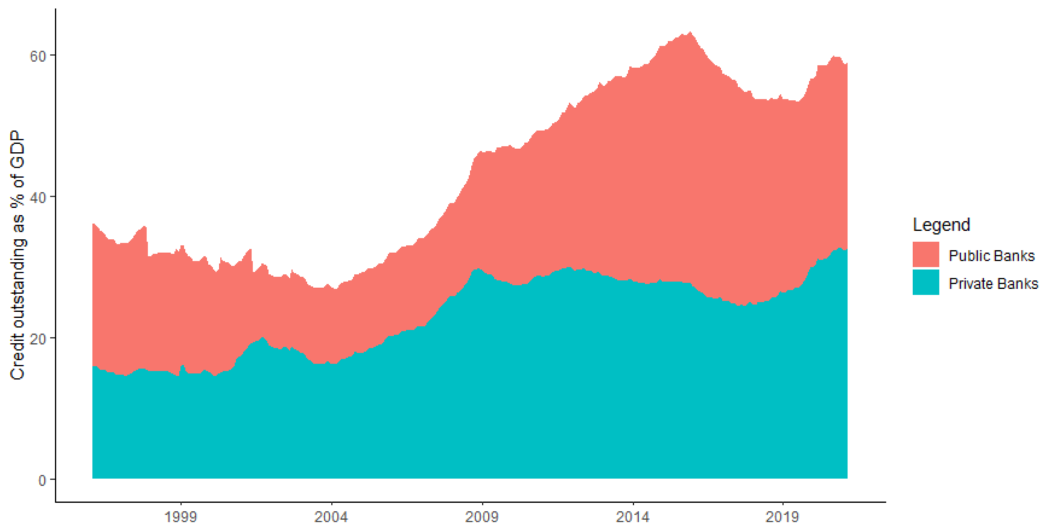
At the Central Bank, Tombini conducted the reduction of the basic interest rate, and a fight against banks spreads. Tombini affirmed in a hearing at the congress that the reduction of spreads between the basic interest rate and the lending rates of the private banks were seen as a priority of the government, determined by the presidency of the republic **(Carvalho, 2018, p.75).**

For the development banks, the appointment of heterodox economists remained as a rule. The intensification of developmentalist strategies in credit promotion came in the form of higher financing to Public Banks.

4.3.4 Public Banks comeback

After the 2009 crisis, Public Banks were empowered in Brazil. Figure 4.4 shows the percentage of the credit stock **lended** by public and private banks. Before 2009, the increase in credit stocks in Brazil was led mainly by private banks. After 2009, and until 2019, the credit stock of private banks remained stable in relation to GDP. In contrast, the lending by public banks increased 20 percentage points, becoming the main type of credit in the country.

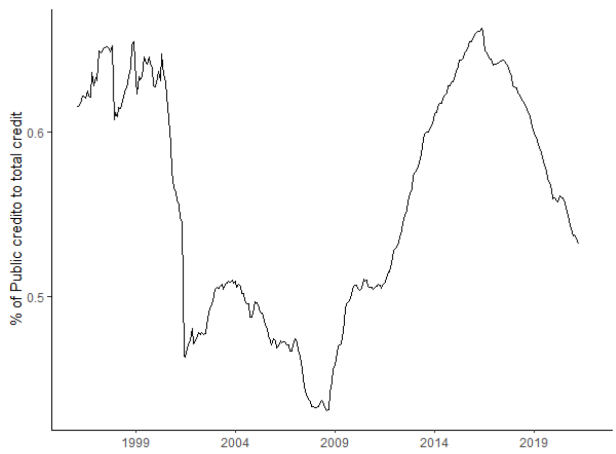
Figure 4.4: Credit outstanding by type of lender as a % of GDP



Source: Author's elaboration with data from BCB.

The credit lended by public banks achieved 66% of total credit stock in May 2016, and started decreasing since then. Figure 4.5 shows the percentage of public credit in total credit. The sharp decline in public credit in the beginning of the 2000's had been caused by the reforms of the public banking system, specially the PROEF, mentioned in the previous section. The public banks had part of its assets privatized or securitized by other public security institutions. The lowest share of public banks credit in total credit was in August 2008, when public banks held 43% of total credit stock. After this, the share of public banks began to increase, initially due to the fall in private lending and after due to the acceleration in public bank's lending.

Figure 4.5: Share of Public Banks' credit in total credit



Source: Author's elaboration with data from BCB.

In Brazil, government intervention in the credit market occurs through direct an indirect mechanisms (Torres Filho, 2009). Direct mechanisms are operated by public banks, which lend credit with lower interest rates to companies in priority sectors and regions. Indirect mechanisms are a series of incentives given to private banks to channel their lending to priority sectors.

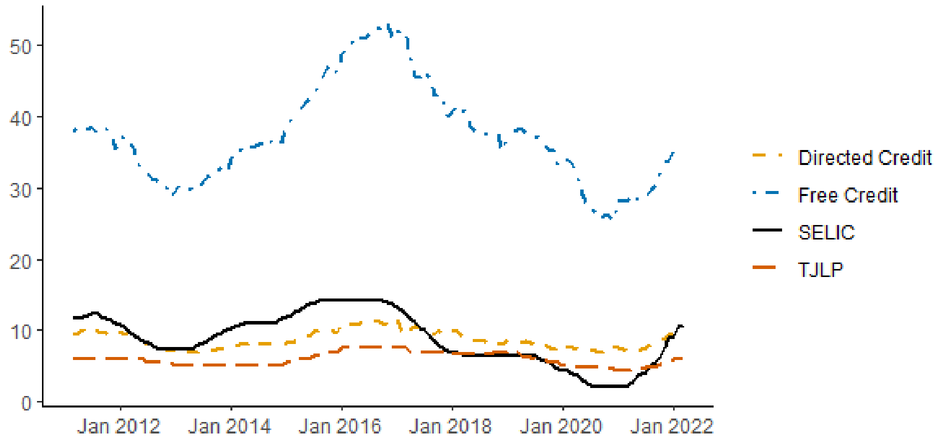
The three largest public banks account for the largest share of subsidized credit. In 2016, the Banco Nacional de Desenvolvimento Econômico e Social (BNDES)was responsible for 72% of the directed credit granted to investment; Banco do Brasil was responsible for 61% of rural credit and Caixa Econômica Federal (CEF) for 74% of real estate credit. [9].

The credit of public banks is focused on long term lending, avoiding the high volatility lending of private banks. The average term of directed credit is more than four times longer than that of free credit. Since 2011, both directed credit and free credit have shown a lengthening in average terms. In this period, the average term of free credit increased from 15.6 months to 20.2 months, while that of directed credit increased from 55.1 months to 85.2 months. The difference in average terms explains why directed credit reached half of the total credit balance

[9] More detailed descriptions of the performance of public banks and the market for directed credit can be found in Bonomo et al. (2018); Torres Filho (2017). With the maintenance of high interest rates on free credit, the supply of long-term credit is concentrated in directed credit, granted under the leadership of these three federal public banks (Lundberg, 2011; Araujo and Cintra, 2011)

in 2016, but accounted for less than a fifth of new concessions.

Figure 4.6: Interest rates by type of credit



Source: Author's elaboration with data from BCB.

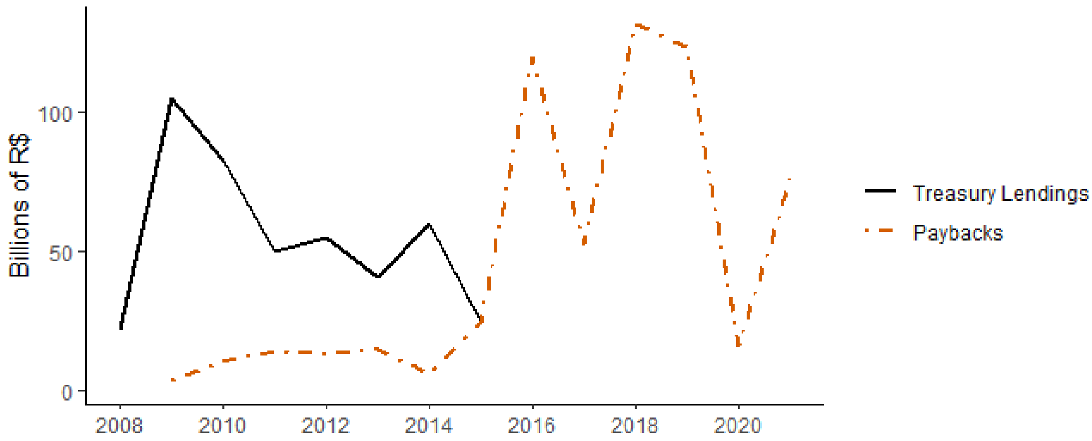
Besides the notable difference in terms, directed credit has considerably lower interest rates and spreads than free credit. As we can see from figure 4.6, the average rates of directed credit floated around a quarter of the average interest rates of free credit. Moreover, until 2017, the interest rates of directed credit were lower than the basic interest rate (SELIC). The TJLP, the guiding rate for BNDES lending, was also consistently below the basic rate.

The proponents of a lower interest rate for Public Banks argued that by reducing the interest rates for investment, the existence of the TJLP aimed to increase the share of investment in output and a reduction in the share of consumption. For this reason, it was argued that maintaining the TJLP at low levels positively affected the potential output in the long run, by allowing a higher growth of the capital stock. Thus, the short-term impacts of directed credit on the power of monetary policy could be offset by allowing potential output to expand in the long run, reducing the impact of demand pressures on inflation. In this sense, Feijó and Sousa (2012) argues that by acting on the supply side, public banks contribute to a structural anti-inflationary policy, raising not only the productive capacity but also productivity.

The response of public banks to the 2008 crisis was an important factor in the economic recovery (Paula et al., 2013; Bonomo et al., 2015). Barros et al. (2018) show that public banks ensured the softening of the external shock by expanding both free and directed credit concessions. State ownership of the banks was what significantly softened the impact of the crisis, with indirect credit targeting mechanisms being of secondary importance (Barros et al., 2018).

The expansion of public banks was possible due to the support of the National Treasury, which lent money to the BNDES. The first lending from the treasury happened in 2009, during the international crisis (Carvalho, 2018, p.77). But the lending continued and increased after the crisis, reaching a total of R$412 billions. The first lending from the treasury to BNDES occurred in 2008, and continued until 2015. Since 2015, the BNDES accelerated the devolution of the resources, while reducing the lending.

Figure 4.7: Lendings and Paybacks from Treasury to BNDES



Source: Author's elaboration with data from BNDES.

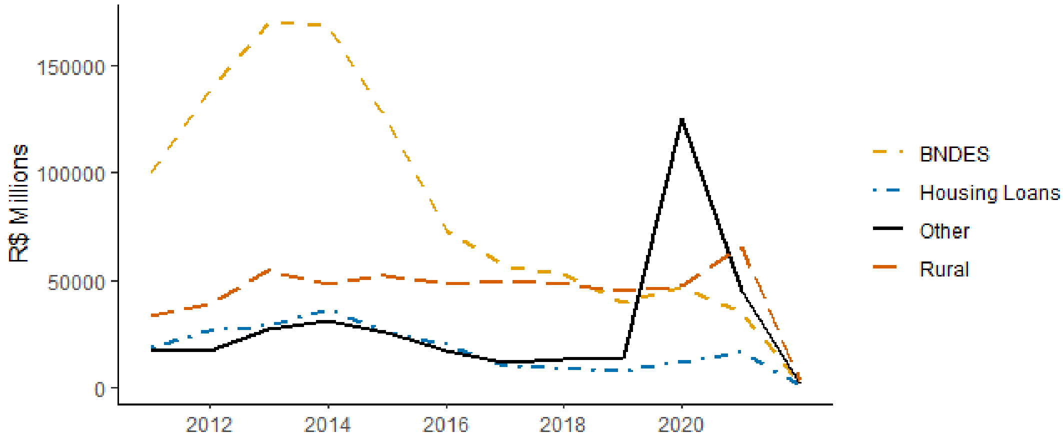
The idea of increasing the lending by public banks was to increase competition and lead to a reduction also in the spreads of private Banks. Guido Mantega, the Finance Minister, argued that:

> The Central Bank made an important step yesterday [reducing the interest rate] and the banks are already reducing its rates. Also the compulsory deposits were reduced by the Central Bank. For this reason, the banks are in good condition to reduce its spreads. The public banks act first, but we expect that the private banks will also do it. (Martello, 2009)

The main bank involved in the increase of public banks lending was the BNDES, as shown in Figure 4.8. While other types of credit remained reasonably stable after 2011, the lending by the BNDES increased substantially. The housing loans, generally associated with the Caixa Economica Federal and the rural credit associated with the Banco do Brasil, increased initially, but not in the same pace as the BNDES.

In 2020, the sudden increase on the "Other" type of credit, in the Figure 4.8, reflects the creation of the National Program to support Small Companies (Pronampe)) during the Covid crisis, under the Law nº 13.999, in 18 May 2020. Interesting to note, the program, created by Bolsonaro's government, was not handled by the BNDEs, but by the Banco do Brasil, the CEF, regional development banks and private commercial banks.

Figure 4.8: Earmarked credit by type



Source: Author's elaboration with data from BCB.

4.3.5 Critics to Public Banks and neoliberal comeback

Starting in mid-2017, the Long-Term Interest Rate (TJLP), which remunerates part of the BNDES loans, converged to the SELIC and the average interest rate of directed credit became higher than the SELIC. These changes were part of a set of reforms introduced by the government of President Michel Temer, which approved the end of the TJLP, the advance payments of BNDES to the National Treasury and the deceleration in the granting of credit by public banks.

The measures of the Temer government came in response to criticism of the strengthened performance of the Public Banks after the 2008 crisis. Before the US crisis, credit from private banks grew faster than credit from public banks, reaching two-thirds of the credit stock (Figure 4.5). Since the crisis, the concessions of private banks have not resumed their growth rate. Until 2016, public banks led credit growth in the country, making up 57% of the national credit balance. Since then, the growth of the credit stock has stagnated in the country, interrupting the growth trajectory that began in 2004. The TJLP had been created in 1993, when Persio Arida was president of the BNDES, with the goal of tying the lending rate of the bank to the market rates of long term public debt.

The continued strengthening of public banks was criticized soon after the initial effects of the crisis ceased (Bonomo et al., 2015; Segura-Ubiergo, 2012). One of the recurring criticisms points to negative effects of public banks for the inflation targets. Arida (2005) has argued that the lower response of interest charged by public banks to changes in the Central Bank interest rate, causes a reduction in the power of monetary policy. The lower power of monetary policy would require the maintenance of a higher basic interest rate than in the case of no government intervention in the credit market.

The power of the Central Bank in achieving the goals of inflation targeting depends on the functioning of financial markets as expected by New-keynesian economic theory. During the implementation of the inflation targeting in Brazil, the main study released by the Central Bank on the transmission mechanisms of monetary policy pointed out that the low leverage of the corporate sector and the history of restrictive credit and monetary policies led to a low effect of monetary policy through the credit channel (Bogdanski et al., 2000). The credit channel would not be relevant for the transmission of monetary policy. The basic interest rate was considered unable to affect economic activity by contracting domestic credit. The channel responsible to maintain the low inflation would be the exchange rate channel, whereby rises in interest rate creates an incentive for incoming financial flows, which would value the exchange rate and reduce exports and inflation.

The Central Bank would, nevertheless, fight to make an efficient credit channel, whereby changes in interest rates would lead to fall in credit and demand. The search for a well working credit channel required the deepening of financial markets and the lowering of the public interventions in the credit market. The first factor pointed out for the low relevance of the credit channel is the low ratio of the credit balance to GDP. A larger quantity of credit relative to the size of the economy reveals that a larger share of consumption and investment depends on the credit market. In this context, the larger the quantity of credit relative to the size of the economy, the greater should be the expected effect of monetary policy on inflation.

Despite the relevant growth of credit as a proportion in GDP until 2016, the effects of the credit channel on economic activity were still controversial. Sato (2013) evidenced that monetary policy shocks are able to affect credit supply and the *spreads* charged. Despite this, Sato (2013) finds no evidence that tightening credit affects industrial production. Evangelista and de Araújo (2018) also present evidence that changes in the credit balance do not significantly affect industrial production, on the other hand, changes in interest rates on credit operations affect production. Bonomo et al. (2016) argue that more recent studies tend to corroborate more strongly the action of the credit channel.

Among developed countries, differences in the power of monetary policy were credited by Borio (1996) to differences debt maturities and the adjustability of interest rates in credit contracts. Countries like Germany, Switzerland and the Netherlands, (with a great banking tradition and low inflation) have a high proportion of higher maturity credits and less adjustable rates. In contrast, Anglo-Saxon countries usually have higher proportions of short-term credit and variable rates. Borio (1996) points out that the more adjustable the interest rates of loans and the shorter their terms, the greater and faster the effects of monetary policy on economic activity. More recent work such as Rubio (2011) and Garriga et al. (2017) confirm that economies whose loans have more adjustable rates are more vulnerable to monetary policy shocks.

Criticism of the Public Banks arose from questions about the incompleteness of the banking liberalization carried out in the country. The incorporation of these results in the Brazilian discussion was mediated by the existence of relevant governmental intervention in the credit market. In Brazil, government action was considered responsible for ensuring less adjustable interest rates, and therefore less vulnerable to monetary policy shocks. The argument that credit market imperfections in developing countries are due to government action dates back to the 1970s studies conducted by Ronald McKinnon and Edward Shaw on the relationship between finance and development. According to these authors, underdeveloped countries suffered from a lack of depth in the financial system and from financial repression, caused by government action. Governments would be responsible for executing restrictive policies on loanable funds, limiting corporate financing. Policies such as credit targeting, high compulsory reserve rates, regulated real interest rates, low bank competition, barriers to entry for international banks, and the existence of public banks would prevent real interest rates from being determined by the market and would be at a lower level than that of equilibrium (McKinnon, 1993, p.12). Low interest rates, conditioned by state action, would lead to a low level of savings and reduced investment. Liberalization of financial markets would eliminate such frictions and allow the market to be driven to the desirable equilibrium. To the extent that interest rates were raised toward the equilibrium rate, there would be a positive effect on growth. As interest rates rise, savings, capital accumulation, and resource allocation efficiency would increase. The theoretical model proposed by McKinnon and Shaw was widely used by the World Bank and the IMF to justify financial liberalization processes in developing countries in the 1970s and 1980s (Studart, 1995, p.21).

Arida (2005), former president of the BCB and of the BNDES, argues that the lack of density of the Brazilian capital market is not softened by the existence of public banks, but rather accentuated by it. In this sense, public banks would be responsible for reducing the power of monetary policy, which would hinder macroeconomic stabilization:

> The cost of loans granted by both BNDES and CEF has been systematically lower than the Selic rate or the cost of money in the very short term. This reduces the power of monetary policy compared to an alternative situation in which the Selic rate would also affect the credits coming from the CEF and BNDES. As a consequence, the Selic rate necessary to make a given inflation target feasible has to be higher than it would be if the CEF and BNDES credits were priced in an unsubsidized manner.

The criticism of Arida (2005) would also apply to the other public banks and to directed credit, such as housing credit and rural credit, granted mostly by Banco do Brasil. Segura-Ubiergo (2012), for example, shows that the level of interest rates in Brazil is high relative to other countries with similar economic structure. The author suggests that such a high level could be explained by the segmentation of the credit market and inflationary inertia. To the extent that directed credit is granted at a rate that does not respond to the rate controlled by the Central Bank, Selic would affect only part of the credit market. Thus, increases in the basic rate to contain an increase in inflation would have to be higher than those in the absence of directed credit. As expected, the validity of such logic depends on the fact that inflation stems from above potential output, creating a positive output gap. Once the borrowers of directed credit were not hit by the increase in interest rates, in order to reduce the gap, further contraction of the sectors without access to directed credit would be required. Thus, the equilibrium interest rate compatible with price stability would be a function of the directed credit rate and the Selic rate, standing above the former and below the latter (Segura-Ubiergo, 2012).

Besides being maintained at a level below the basic interest rate, the interest rates for directed credit show less response to changes in the basic interest. The average interest rates of free and directed credit are highly correlated with the Selic rate (68% and 65% respectively). Nevertheless, the correlation of the Selic with the TJLP, with the average interest rates of the BNDES, and with the Spread of directed credit is low (30%, 28%, and 0.03%, respectively). This result reflects the search for stability in interest rates in regions and sectors considered as priorities (mainly capital goods, housing and agriculture).

The argument that directed credit reduces the power of monetary policy was brought to the fore due to the strengthening of the countercyclical role of the Public Banks. In the period after the 2008 crisis, the Brazilian government intensified the role of Public Banks aiming to prevent international financial instability from affecting domestic production. Although the intervention was successful, its continuity was criticized soon after the initial effects of the crisis ceased (Bonomo et al., 2015; Segura-Ubiergo, 2012).

The Central Bank produced the main scientific paper that supported the thesis that Public Banks credit hindered monetary policy, and supported the subsequent institutional reforms. In the paper, Bonomo et al. (2016) argued that firms with access to credit from public banks are less affected by monetary policy, both in relation to the volume of new loans and employment. Moreover, these companies are less sensitive to external shocks, such as the increase in international risk. Corroborating such evidence, Perdigão (2018) shows that there is less response to monetary policy in industrial sectors with a higher share of directed credit in total credit.The main reason given by Bonomo et al. (2016) for these results is the lack of sensitivity of the interest rate on directed credit to the basic rate. Directed loans would not be entirely linked to banks' funding costs, nor to borrowers' financial fundamentals, which would allow for a decoupling between the rate charged and the funding rate. It is argued that public banks, being guaranteed by the state, would not have the market discipline of other banks, which would result in a misallocation of resources (Bonomo et al., 2016).

In September 2017, the critics led to the approval of Provisional Measure 777, which instituted the Long-Term Rate (TLP), replacing the Long-Term Interest Rate (TJLP). The TJLP was created in 1994, when Pérsio Arida was the BNDES' president, with the objective of linking the BNDES' loans to the Federal Government's long-term funding cost. The absence of long-term debt securities required that the long-term interest rate be defined by the National Monetary Council, which would use the inflation target plus a risk premium to establish the TJLP. Since there was no clear rule for setting the rate, the TJLP was kept permanently at a level below the Selic, due to the government's effort to keep the cost of credit for investment (in sectors of public interest) below the average cost of credit in the economy.

The introduction of the TLP aimed to eliminate discretion in determining the long-term rate, tying it to the yield of the IPCA^{+} Treasury Bond (NTN-B). The TLP's yield is, therefore, composed of the National Broad Consumer Price Index Broad Consumer Price Index (IPCA), computed by the Brazilian Institute of Geography and Statistics (IBGE), plus a prefixed real interest rate, according to the yield of the National Treasury Notes Series B (NTN-B) for a five-year term. During the five years after January 2018, the cost of BNDES' loans will be calculated as a weighted average of the TJLP and TLP. Starting in 2023, the TLP will consist only of the IPCA plus the real interest of the five-year NTN-B.

The crisis disrupts the interaction among the CB, the market, the politics and experts. The upcoming actors are a new set of actors composed by a popular party, developmentalist economists and public banks.

4.4 Brazilian developmentalist recollection

In late 1980', the shift from development plans to stabilization plans marks a key reform in the neoliberal era, creating new expectations and coordinating actors. Instead of aiming for high growth rates, the future vision became one of stability, which later translated into an inflation target managed by maintaining high interest rates.

Even before 2008 international crisis, the Workers Party prepared a change of course in economic policy making, pushing state-led accelerated growth. The 2008 crisis was understood as a failure of free market dogmas and was approached with an increased activity of the Public Banks, especially the BNDES. The comeback of the public banks was initially seeing as positive advance by Central Bank and orthodox economists. Nevertheless, the maintenance of strong public intervention in credit markets was criticized by the Central Bank and by financial markets.

Attempts of a recollection of developmentalist practices would be based in Brasil in three factors: international uncertainty, domestic political cohesion towards recollection and the presence of dormant developmentalist practices within public banks. These three factors mirror those Ban (2016) used to analyse the translation of neoliberalism. The first factor reflects the transnational dimension and its linkages with the country. The second factor the cohesiveness of the political actors towards a policy goal. And the third factor the historical legacies. This mirrored theory reflects the fact that both recollection and translation are mechanisms of selective retention.

The subsequent backlash against recollection, can also be interpreted through similar lenses. The historical legacies, while strong in Brazil where not coherent with the new anchoring practice in place: inflation targeting. In the case of Brazil, since a large share of debt was detained by Public Banks, these public banks were seen as infrastructural impediments to the conduct of monetary policy. The power acquired by the Central Bank during the neoliberal transition was questioned by the action of other Public financial institutions. After the impeachment of Dilma Rousseff in 2016, the view that the Central Bank had the priority of setting the interest rates prevailed. The efforts of rebuilding a developmentalist order was therefore short lived.

Chapter 5

Mexico: from desarrollo estabilizador and to neoliberal stability

5.1 Abstract

Contrary to what is commonly remembered, Mexico has a long history of developmentalism, comparable to that of Brazil. The reforms of the financial development system in Mexico started before the Brazilian, and were deeper. Paradoxically, the Mexican neoliberal reforms were catalysed by the statization of the financial system in 1982, when the state could centralize the reforms towards free interest rates. The Central Bank assumed functions formerly developed by the main development bank, Nafinsa, such as the management of foreign debt. The long time passed between the start of the reforms in 1982, and the depth of these reforms, and the continuity of neoliberal governments until 2018, difficult the recollection of developmentalist practices.

5.2 Stabilizing development

5.2.1 Long term roots of Mexican Desarrollismo

Mexico has a long history of desarrollismo - or fomentismo. This history is often ignored or underplayed because the desarrollismo in Mexico was simultaneous with strong private financial networks (Maxfield, 1991) and followed by deep and rule erasing reforms. Liberalism in Mexico is transferred from Spain before the independence, and paradoxically contributes to the independence from Spain in the wars that lasted from 1810 to 1821. In the XIX century, liberalism was the main ideology of the reforms that sough to separate church from state (Sotelo, 2005). In the XIX century, the main proposals for economic progress came from “reformists and fomentistas” - also associated with the liberal/conservative cleavage. Reformists, associated with the liberal independentist movement, promoted the a rupture with ecclesiastical rights over land, and - at the same time - private property as the main institution for economic progress(Sotelo, 2005). For the Liberals the disentailment of goods from the church should be used to the amortization of public debt and reignition of economic growth. Liberals emphasized the need for redistribution, pointing that the wealth inequality in Mexico was higher than in Europe. In some proposals, the confiscated goods from the church could be used for the redistribution of land. Redistribution of land was another step in overcoming colonial inheritages, that hampered social progress in Mexico. The Fomentistas - epitomized by the Foreign Affairs Minister Lucas Alaman - would support state intervention towards structural change, with focus on manufacture, mining and agriculture. The fomentism departs from conservative sectors supporting industrialization. Support for improvement in workers income and social conditions are absent from the conservative/fomentist tradition (Sotelo, 2005). While the reformists inspire a great deal of the reforms in the XIX century, the fomentistas became known for their role on the creation of the first state institutions of development. Among those institutions, the Banco de Avío for the promotion of the national Industry is proposed by Lucas Alaman and created in 1830.

5.2.2 Desarrollo Estabilizador

Mexican developmentalism is mainly equalled to the period of the “desarrollo estabilizador” that ranged from 1950’s to 1978. After 1979, the fluctuations in oil prices and the reforms of the financial system in neoliberal terms guided economic policy. But the experiences in trying to guide credit and interest rates have a much longer history, and at least since middle of XIX century, there are proposals of creating a public financial development system.

In the beginning of the XX century, the Mexican financial system was historically concentrated and privately owned (Martinez-Diaz, 2011, p.44). During the regime of Porfirio Diaz (1876-1910), the Banco Nacional de Mexico (Banamex) and the Banco of Londres, México y Sudamerica held over half of the financial assets in the country. Banamex functioned as “semi-official superbank”, financing the government and precluding the necessity of the creation of public banks (Martinez-Diaz, 2011). The Porfiriato was also the apogee of international banks in the country, which after the Mexican Revolution (1910-1917) were gradually squeezed of the Mexican system.

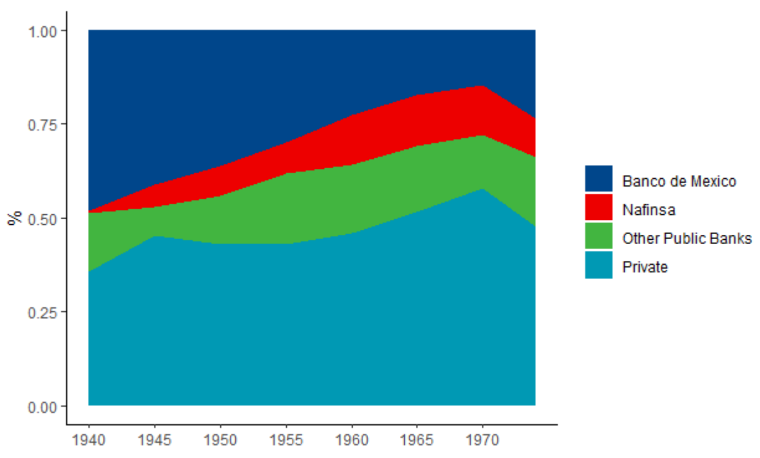
Until 1931, Mexico had only three public financial institutions, the Bank of Mexico, the Banco de Crédito Agrícola and the Nacional Monte de Piedad. In 1932, the new Law of Credit institutions introduces the concept of “National Credit Institutions”, which would be the framework under which many development banks would be created.

NAFINSA was founded in 1934 during the government of Abelardo L. Rodriguez, with the main goal of providing liquidity to private banks, that had most of its collateral tied with real estate. Therefore, the initial role of Nafinsa was to sell properties that had been frozen in the accounts of the Mexican credit institutions from the years of the Revolution until 1934 (Isidro, 2014). The private banks were not allowed to hold significant amounts of real estate, and they had to sell the real estate formerly used as collateral of non performing debt after 1929 crisis.

During Lázaro Cardenas government NAFINSA was still on its initial years and wasn't involved in industrial development. The first example of a development Plan in Mexico was the Plan Sexenal, used as campaign platform by Lazaro Cardenas in 1934 and later adopted as guidance for his government. Cardenas didn't mention Nafinsa during his speeches to Congress from 1935 to 1937, mentioning instead the Banco Nacional de Crédito Agrícola and the Banco Nacional Hipotecário. Cardenas focus on the development of agriculture deviated the attention from the newly created financial institution.

Instead of using Nafinsa as the industrialization Bank, Cardenas created in 1937 the Banco Nacional Obrero de Fomento Industrial, which in 1941 would become the Banco Nacional Cooperativo. In the speech to congress in 1937, Lázaro Cardenas atributted to the Banco Obrero the goals of granting a decisive impulse for the industrialization of the country and to grant credit to companies managed by their own workers and cooperatives. The Banco Obrero had the goal of supporting a specific industrialization, associated with labour managed companies and cooperatives. The Banco Obrero also assumed some credits from the NAFINSA, what almost led to its liquidation. Second world war accelerated the needs for the domestic production of manufactured goods. The President Manuel Avila Camacho (1940-1946) would redirect Nafinsa towards the industrialization goals.

Figure 5.1: Share of resources of Mexican credit institutions in the banking system 1940-1975



Source: Extracted from Villa (1976, p.93)'s tables who used data from Banco de Mexico.

After its creation, Nafinsa had an important influence in Mexican financial markets. Nafinsa reached a share of total assets comparable to that of the Banco de México in the apex of its influence, in the end of the 1960's and beginning of 1970's. Figure 5.1 exhibits the share of assets in Mexican Banking system by type of institution. The growth of Nafinsa assets is noteworthy, reaching 13.5% of all assets in the Mexican credit system. The other public banks present a relatively stable share across the period, ranging in the four decades from 7.4% to 19%, but with no clear trend.

The central Bank had a substantial fall in the share of assets from 1940 until the beginning of the 1970's. In 1940, the Bank of Mexico held 48.5% of assets of the financial system, reaching a low of 14.5%, around the same time Nafinsa reached its apex in 1970.

Until 1970's the private banking had a strong a sustained growth, increasing also its share in total assets. Reaching in 1970, 57.7% of total assets in the financial system. The strong growth of private banks support the hypothesis that development banks worked as a supporter rather than a competitor against public development banks(Isidro, 2014).

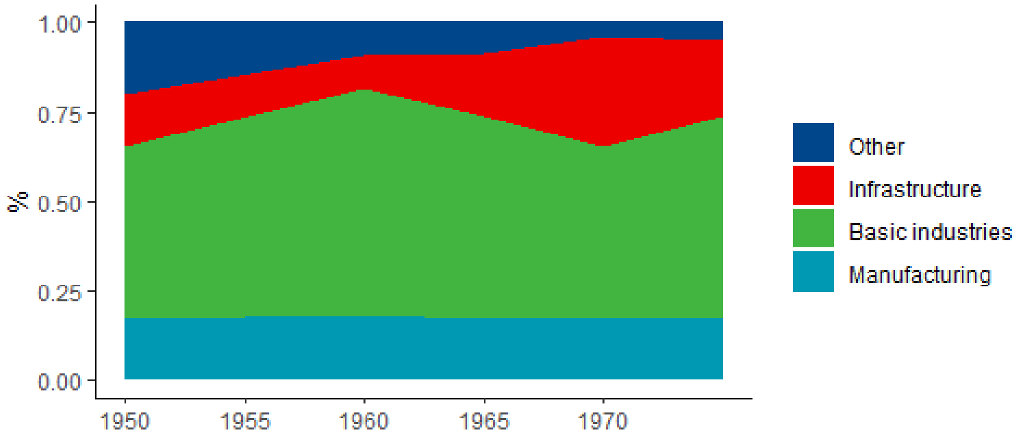
In 1974, Nafinsa was the most important financial group in Mexico, surpassing the big private groups such as Bancomer and Banamex(Villa, 1976, p.95). Nafinsa's influence was substantial specially in credit to economic activities and to industrial sectors. Around 1960, Nafinsa was responsible for 30% of the credit lended to private companies(Villa, 1976, p.111). Besides, if we consider only credit for industry, Nafinsa reached 50% of all credit in 1955, and in 1975 still lended more than one third of the all credit for industry.

The finance by Nafinsa was mainly directed to industrial sector. Figure 5.2 shows that the lending to basic industries and manufacturing averaged around 70% of total Nafinsa's lending from 1950 to 1970. It is noteworthy that the main lending was directed basic industry, with manufacturing maintaining a stable share of around 17% of total lending. Relevant lending to infrastructure was also noticed, specially in the beginning of the 1970's.

Nafinsa as government external agent Nafinsa worked as financial agent of the public sector, as contractor and negotiator of the external public debt. As financial agent of the Federal Government, Nafinsa would obtain debt from the World Bank and the Interamerican Development Bank, for projects of agriculture and infrastructure (Kolbeck, 1985). Besides, it would lend money from the EXIMBANK the import and export bank of the USA, aiming to finance machinery import from the US.

The Bank would take short term debt and lend long term, in order to finance public and private sector (Kolbeck, 1985, p.199). Due to its international ties, NAFINSA would not be financed by the government. This is a central distinction from the Brazilian BNDES, who has had a stable source of resources through the "Fundo de Amparo ao Trabalhador". Once the international

Figure 5.2: Nafinsa lending by sector 1950-1975



Source: Extracted from Villa (1976, p.40)'s tables who used data from Banco de Mexico.

interest rates had increased considerably in the 1980's, the source of funding for Nafinsa was not available, and obviously the government would not be able to help. Nafinsa would then be displaced from its role as government financial intermidiary, a role that would be taken by the Central Bank.

Before the 1980's crisis, in the years of high oil prices and low interest rates, NAFINSA registered its best financial results, specially in the years from 1974 to 1976. In 1976, 64.5% of its lended resources came from foreign sources (Kolbeck, 1985, p.203). These foreign resources came mainly from private financial financial institutions (56%), but also from International Organizations (28%) and other agencies, public organizations, other bonds (16%). This foreign debt was nominated in Libor, in fixed rates revised every six months. Having a short term character, with almost half of it presenting a maturity of less than 5 years.

Another function of the Nafinsa was to manage a wide range of development funds, that were created either with a sectoral or for a temporary reason, aiming to estabilize the economy in crisis times. One example of sectoral fund is the Fonatur, created in 1974, with the fusion of the National Fund of Turistic Infrastructure, managed by the BdM, and the Fund for the Guarantee and Development of Turism, managed by Nafinsa. The creation of the Fonatur, illustrates the overlapping roles of the BdM and Nafinsa, both which administered development funds aimed to develop the turistic sector.

The creation of the fideicomissos was further employed during the 1982, for instance with the creation by the Central Bank of the FICORCA - the fund for exchange covering - aiming to cover the private external debt (Aguayo, 2010). The Centralization of the FICORCA in the Central Bank and not in Nafinsa, is a further evidence of the transfer of control of this area from the development bank to the increasingly neoliberal Central Bank.

5.2.3 Developmentalist decline

Managing interest rates and credit during 1986 crisis In the 1980's crisis, also reached Mexico in 1986, when a devaluation was caused by massive cash outflows. The management of interest rates was heavily discussed as a means of containing capital flights - not as a means of containing inflation. Ernesto Fernandez Hurtado, who had been president of the Bank of Mexico from 1970 to 1976, exposed a developmentalist view while serving in the **Junta de Gobierno** of the BdM as a representative of the Bancomer. In his words:

> the use of high interest rates, whether in real or nominal terms, as the primary means to defend the reserves of the Bank of Mexico, is only advisable as long as the petroleum crisis and balance of payments deficit are of a short-term nature. He believes that the use of high nominal interest rates as a long-term fundamental instrument, predominating over other instruments, generates increasing and unhealthy inflationary forces by excessively raising the financial costs for companies and the overall public sector deficit. This does not favor the current account balance and leads to growth in financial and monetary liquidity far surpassing real economic activity, resulting in subsequent inflationary effects.
>
> There is recognition of the immense benefit that export and import substitution sectors have derived from the high exchange rate devaluation, especially since late 1985 and in 1986. This recent favorable experience of a high peso devaluation rate, combined with quantitative credit restrictions in the current situation, should be properly utilized in the future policy of the Bank of Mexico. It fundamentally explains Mexico's demonstrated ability to withstand the new petroleum crisis that began at the end of 1985 without depleting its gold and foreign exchange reserves.

(Banco de Mexico, 1986a, p.179)

Ernesto Fernandez Hurtado who had led the transition inside the BdM from the deserallo estabilizador to the crecimiento instabilizador, had studied at the UNAM, and defended a devalued exchange rate and low interest rates in order to promote exports. The contrast is stark with the position held by Miguel Mancera Aguayo, who was then the president of the BdM and had made a career inside the Bank and the ITAM. Mancera Aguayo held that in order to achieve such increase in exports through devaluation would cause inflation, and would require very low interest rates (Banco de Mexico, 1986b, p.180-181). Mancera's view would prevail in the years to follow, even within the Inflation Targeting regime. It is worth noting however, how the interest rates here are seen by both schools of thought as a way of coordinating foreign capital flows, and not inflation through credit and demand. As a matter of fact, developing countries Central Banks have a clear idea that the Inflation Targeting works more through the Balance of

Payments than through domestic credit.

> Mr. Mancera also mentioned that in order to attempt to balance the balance of payments in 1986 with lower interest rates, the depreciation of the exchange rate would have had to be much more pronounced, resulting in a more acute inflationary impact than what was observed with the devaluation that occurred. He added that with a more pronounced depreciation and without a corresponding increase in interest rates, foreign investments would have been more attractive than they were, which could have encouraged capital flight and made it even more challenging to restore the balance of payments and finance economic activity, both public and private. He suggests that if interest rates had been more rewarding, the growth of M5 monetary aggregate would have been higher, and capital flight would have been less pronounced. (Banco de Mexico, 1986b, p.180-181)

The contrast between Fernandez Hurtado and Mancera Aguayo illustrates the generational change, that happened within the Mexican elites, among people that shared personal and work ties. When Mancera Aguayo was appointed as general director of the BdM, Fernandez Hurtado was his supporter, despite the conflicting views both held on monetary policy. Another worry during the 1986 crisis was the maintanance of sustainable credit markets, which Mancera answered that was a task for the fideicomissos, and not of the Central Bank.

Romero Kolbeck was the CEO of Nacional Financiera from 1974 to 1976 during the presidency of Luis Echeverría Álvarez, and the General Director of the Bank of Mexico from 1976 to 1982 during the presidency of José López Portillo. When director of the NAFINSA, Kolbeck was part of the administrative council of the Central Bank, where he opposed the credit limitation for the government proposed by BdM Director General Ernesto Fernández Hurtado (Kolbeck, 1985). The argument against it is the constraint that Nafinsa would face in its role of promoting growth through the provision of credit to companies, which was its mission at that time. The Central Bank exerced some independence from the Secretary of Finance and the presidency, while it was counterbalanced by two executive financial institutions: Nacional FInanciera and the National Bank of Public Infrastructure (BANOBRAS), both of which were closely linked to presidential directives.

But Kolbeck's position as a developmentalist didn't make an obvious connection between the interest rate and the unemployment rate, but as closely tied to the international interest rates, as can be noted in the excerpt from October 1979, already as BdM General Secretary:

> Increasing interest rates on deposits with a maturity of one year or more requires careful analysis, taking into account, among other factors, the trend in international rates, which, on the one hand, in the current situation, clearly indicates higher

> returns for short-term deposits than for those with medium-term maturities. On the other hand, it seems to lead to predictions that the rise in the mentioned rates is reaching its maximum levels. Regarding the unemployment problem, he insisted that it is related to workforce training and not to a higher rate of development.

(Banco de Mexico, 1979, p.11)

By that time, the Central Bank was experimenting with the auctions of **credits** as a means of controlling the interest rates, and considered that "auctions constitute a good experience to consider for the implementation of a rediscount system to be operated by the Central Bank". But as the excerpt makes clear, the relationship between these auctions, the different interest rates and its effects on the economy was not clear. Answering his colleagues from the council of administration of the Central Bank, Kolbeck evaluates three important points: the yield curve; the international rates and the relationship with unemployment. There was no established practice for which maturity on the yield curve should the Central Bank act. It is important to remind that the contemporary inflation targeting Central Banks in Latin America usually have as instrument very short term interest rates - e.g. the Brazilian CB using the overnight interest rate (SELIC). In 1979, the Mexican Central Bankers were discussing how to best tune the yield curve to the market requirements. Besides, these considerations should be related to the international rates, and especially to the U.S. monetary policy. And finally, Kolbeck is not afraid of rising interest rates because it would not affect the unemployment - which is diagnosed as a training - or supply-side issue. The excerpt makes clear the experimental nature of the procedures of the Central Bank, where the maturities, international relations and effects over employment are being tested and discussed.

Pre-Crisis Financial System The Banking system in Mexico is increasingly concentrated in the end of the 1970's and beggining of 1980's. With the consolidation of the banking system in multipurpose banks that aggregates diverse types of financial intermediaries such as stock exchanges, insurance companies, investment societies, etc (Tello, 2011, p.580). If in 1976 there were 240 banks in the country, in August of 1982 there were only 68 (Tello, 2011, p.581).

This evolution in the private financial system was accompained by the maintanance of the main established practices in the operation of the monetary policy(Tello, 2011, p.581). Carlos (Tello, 2011, p.581), former General Director of the BdM wrote that:

> For many years, the government, through the Ministry of Finance and the Bank of Mexico, chose to rely on, as instruments of monetary and credit policy, the legal reserve requirement and the selective allocation of credit (i.e., channeling private banking resources into activities the government wished to promote, through rediscount and guarantee operations carried out by various trusts established by the

federal government, especially within the Bank of Mexico and Nacional Financiera).

The reserve requirements were used by the government to make available its debt in the financial markets. The reserve requirements deposited by multipurpose banks in the Central Bank were used for purchasing government bonds. Carlos Tella (p.582) argues that this mechanism was responsible for the growth of public expenditures without inflation increase after the 1950's and until the end of the 1970's. By its turn the president Lopez Portillo sees the crisis as less affected by the functioning of the financial system is less affected than by unexpected volatilities in two external prices: oil and interest rates.

> I don't quite understand what's happening. It's a strange psychosis. I don't know if external forces are starting to act, trying to destabilize us. There's something odd going on. Of course, until the oil prices dropped, everything was confidence and praise. As soon as the prices fell, the system started being criticized to justify the outflow of dollars, masking it with the lack of trust, they say, should be attributed to the government. ((Portillo, 2008))

Later, Lopez Portillo (2008, p.67) would recall that "money interest rates surged in late 1980 and in 1981, without our consent or involvement, from 6% to 20%". In fact, since the foreign debt was the most important source of indebtedness(4.3), the shortage of foreign capital has substantially risen the interest paid by the government, leaving small room for government action, other than the renegotiation of foreign debt. The debt crisis of the 1980's would extend for several years, only being solved in Mexico after the 1995's crisis, when the economies interest rates were increasingly guided by the monetary policy set by the Central Bank.

In 1982, the negotiations with the IMF on a intentions letter exposed the ruptures inside the government, especially among the Finance Secretary, Jesus Silva Herzog y Carlos Tello, Central Bank Director. Herzog (2010, p.336) exemplifies the disagreements by telling that "to conclude the negotiations [with the IMF], the director of the Bank of Mexico, Carlos Tello, resisted committing to raising the domestic interest rate, contrary to his previous decision. This was necessary, not for its immediate effect, but as a signal of a return to rationality and the need to continue the fight against inflation and attract savings. It was essential to turn to José Andrés de Oteyza, a mutual friend, and use his good offices to persuade the director of the Bank of Mexico." This showcases the discretionary manner in which interest rates were set at the Central Banks, what is likewise in the case of Brazil. The 1980's crisis and the debt renegotiations in the 1990's presented a solidification of practices in setting interest rates, and consolidating the understanding that in a context of less dependence on foreign debt, the Central Bank would be able to control interest rates, focusing on the combat of inflation.

Moreno-Brid and Ros (2015) summarize the causes of the crisis:

What went wrong? The whole strategy had been based on (1) the premise of long-term foreign exchange and fiscal abundance from oil exports—and the 1979–1980 oil price hike appeared only to confirm expectations that the era of high real oil prices had come to stay; and (2) the notion that the external debt problem was over, given the low real interest rates that had so far prevailed.

5.3 Neoliberal reforms

5.3.1 Nationalizing private banks

After the drastic outflow of capital in August 1982, Lopez Portillo announced two fundamental financial measures: the nationalization of the private banking system and the adoption of full exchange controls on capital flows. The exchange controls had been suggested as a solution for a long time, but met with suspicion due to the large amount of money flows through the border with the USA (Mancera, 2010, .p350). Mancera (2010, p.350) recalls that he had been "sent to visit some European central banks with experience in that field. The objective was to learn in detail about the procedures they followed and the results they achieved. I made visits to technicians who were working or had worked in the central banks of the United Kingdom, Denmark, and France, countries that at that time still had exchange controls."

The nationalization of the banks was made with a pressure that the banks kept market practices and profitability measures. In the aftermath of the 1982 crisis. In discussions at the BdM administration board, Enrique Creel de la Barra, President of the National Comission on Banking and Insurance "stressed the need to present a new image of Mexican credit institutions, emphasizing that, although they will not have the profits they were obtaining, due to the new criteria to which they will have to adhere to carry out the public service of credit intermediation, they will maintain an adequate profitability and operate subject to strict banking techniques.". The president of the board added the "need to maintain adequate profitability criteria in nationalized credit institutions, as well as for these institutions to adjust their operations to sound banking techniques, avoiding that they be inconveniently influenced by political commitments." (Banco de Mexico, 1982, p.3)

The nationalization was not thought as a way of socializing the banking system, but as a way of saving it, while maintaining the profitability criteria and credit evaluation techniques.

The statization has put the development banks in a strange situation between the period of 1982 and 1991. With private banks controlled by the government, some support to priority sectors was channelled to these banks (Maydon Garza, 1994, p.27). The initial pressure during the statization reforms was that the commercial banks should be sectorally specialized under the guidance of one of the existing development banks (Maydon Garza, 1994, p.25).

Nevertheless, under the government of Miguel de La Madrid (1982-1988) the subsidies through the commercial banks were controlled.

And during the Salinas government (1988-1994) banking regulations were liberalized. Carlos Salinas was elected in a highly contested presidential race, and its rule became famous for the epithet of "perfect dictatorship", for its electoral fraud and democratic appearance.

Salinas' government was market by a technocratic government, led by North-American trained economists, with a strong free market belief, that would substitute the traditional domestically trained technocratic elites(Babb, 2004). (Etchemendy, 2011) considers that the neoliberal reforms in Mexico were taken under a dictatorship, what explains its intensity and direction.

An initial step of the liberalization was the elimination of the "compulsory investment", which required to commercial banks a specific amount of investment in priority sectors, such as housing. In 1989, the investment in housing was substituted from the compulsory bank investments to the "Fondo de Operación y Financiamiento Bancario a la Vivienda" (FOVI). FOVI provides financial support and collateral to building and purchases of social interest housing, channelling its resources through financial intermediaries. Initially FOVI was administered by the Bank of Mexico, but in 2002 the Sociedad Hipotecaria Federal (S.N.C) was created, in order to assume the role of administrator.

Another important reform during the Salinas government was the redirecting of Public Banks towards indirect lending, they became "bancas de segundo piso". In indirect lending, the development banks can raise money from different sources, such as the government or international organizations, but the final lending is done by private banks(Maydon Garza, 1994, p.33). The idea behind indirect lending is to avoid that the public banks compete against the private banks. Instead, by providing credit at better conditions to private banks, the development banks will nurture the development of the private financial system. Private banks will evaluate projects, sometimes in collaboration with the development bank, and acquire in the meantime capabilities of credit analysis. The development bank will also stimulate certain banking practices as it can benefit intermediaries that are able to correctly characterize risks and profitability of credit (Maydon Garza, 1994, p.37).

In August 1990, the Mexican government announced its plan to reprivatize the financial system. This announcement boosted a wave of optimism, which grew even further with the NAFTA in 1993 (Moreno-Brid and Ros, 2015). The financial reforms coincided with a decrease in international interest rates, a reduction in country risk premiums, and debt relief agreements, which were financed by privatization revenues in 1991 and 1992 (Moreno-Brid and Ros, 2015). As a result, the peso appreciated, which was associated with very high domestic interest rates. The surge of short-term capital created a spiral of increasing appreciation and domestic consumption financed by credit. The lending increased the financial fragility of families, but also of inexperienced banks, which faced an increase in the non-performance of loans. Banks progressively borrowed in foreign capital markets to lend domestically. The situation was sustainable with the trend of an appreciating exchange rate but heavily increased domestic vulnerability to external shocks.

The 1994 financial reforms in Mexico have been significantly linked to a renewed outlook on the US alliance, which has been consolidated through the North American Trade and Financial Agreement (NAFTA). The Salinas government achieved various reservations concerning the banking sector regulations of NAFTA. Initially, it was reserved that foreign capital could not exceed 30 percent of any Mexican holding company or commercial bank. Additionally, the aggregate control of all foreign banks could not surpass 8 percent of total bank capital (Marois, p. 94). The intention was to increase these limits annually, but they were rapidly augmented following the banking crisis.

The opening in the banking sector was a proposal of the Mexican government, during the Nafta negotiations. Mexican government was both convinced that bank opening would bring efficiency and that the opening of financial sector could be exchanged for concessions in sectors valuable to Mexican industry and agriculture(Martinez-Diaz, 2011, p.48). Guillermo Ortiz, who was deputy secretary of finance and then would become central bank governor, considered that:

> the benefits of opening the financial sector would hardly materialize if the opening was undertaken abruptly. [...] it was essential to find a balance between two conflicting objectives: on one hand, to use the opening of the financial system as an instrument for its modernization, but at the same time, to avoid putting at risk the reform process as a whole. This is why the opening of the financial system was conceived as a gradual process, with the purpose of minimizing the risk of bank failures before the reforms could consolidate.

(Ortiz, 1994, apud Martinez-Diaz (2011, p.49))

Due to these considerations of gradualism, the process of financial opening proposed in the NAFTA agreements followed a schedule from 1994 to 2000 (see Nafta's treaty Annex VII). Initially, during this transition period, no foreign bank could own more than 1,5% of the banking system's total net capital. This cap would increase annually until reach 15% in 2000.

The capital surge ended in the beginning of 1994. From then on, the current account deficits, which had been growing in the previous years, had to be financed by foreign reserves. The immediate reaction of the Central Bank was to increase the rates of the Certificados de la

Tesorería de la Federación (CETES) (Treasury bills) and Tesobonos (government bonds indexed to the dollar) (Moreno-Brid and Ros, 2015). The peso-denominated CETES were increasingly converted into US-dollar indexed peso payable Tesobonos (Marois, 2012). The conversion of domestic currency into foreign debt initially reduced capital flights until late 1994 when President Ernesto Zedillo was about to take office. The entry into effect of NAFTA was accompanied by multiple crises in Mexico. In an electoral year, the armed revolt of the Zapatistas was launched on January 1 in the Chiapas region. The revolt was accompanied by widespread popular dissent around the agreement, which didn't impede the agreement from coming into effect on the same day as the revolt explosion. The devaluation of the peso on December 20, 1994, led to capital flight, a drop in foreign currency liquidity, a rise in interest rates, and a fall in economic activity (Moreno-Brid, Ros, Marois). The Tequila Crisis, as IMF managing director Michel Camdessus labeled it, quickly spread to other Latin American countries. The banking crisis in 1994-1995 marked changes in the international financial system. The boom-and-bust cycle that culminated with the banking crisis of 1994–1995 was a consequence, at least in part, of an excessive reliance on financial deregulation and capital market liberalization.

During the crisis, NAFTA's formula of gradual opening was abandoned in favour of a quick sell for foreign banks, aimed at recapitalizing troubled institutions. Early on in the crisis, the government of Ernesto Zedillo believed that eliminating ceilings on foreign investment would allow the banking sector to achieve the external capital necessary for its recovery (Martinez-Diaz, 2011, p.57). Zedillo's government, despite being from the PRI, same party of his predecessor, had a less gradualist opinion on the opening of the banking system, since he was minister of planning and budget in early's 1990's. The financial crisis allowed him, now elected president to put into play the complete liberalization.

The banking crisis demolished the former gradualist approach, and consolidated what would become a long term belief that the access to foreign finance through foreign banks would guarantee a stable national financial system.

Meanwhile, reforms in the PEMEX would guarantee that the Central Bank would continue accessing the liquidity generated by oil exports directly, what would become a central pillar of exchange rate stability (Marins and Prates, 2019).

The evolution of the Central Bank

The Mexican Central Bank is institutionally reformed 2 times in crisis contexts. In 1982, during the nationalization of the Banks, and in 1993, before the Tequila crisis. When the Bank of Mexico was founded as a Sociedad Anónima (public limited company), its management was under the supervision of a board of directors. In 1982, with the nationalization of the banking sector

Translation conditions			Neoliberal Reforms
Anchoring institutions and practices	Central Bank	Independent and coordinator of development funds. Increasingly in control of interest rates.	Reforms based on the centralization of financial practice in the Central Bank. Development banks lose its centrality in debt management and industrialization. The role of development banks in negotiating the international interest rates (through international debt) is substituted by the inflation targetir which attempts to control the rate internally, inspired by the US inflation targeting practices. Private Banks are acquired by multinational banks, which are able to deal with the new internationalized order.
	Development Banks	Fragmented, involved in the foreign exchange crisis. Displaced from the foreign debt management.	
	Private Banks	Nationalized and reprivatized	
Timing	Crisis	Reprivatization followed by banking crisis	
	Government	Carlos Salinas: neoliberal PRI	
International Socialization	International linkages	Deep interest in Nafta	
	Expert Training	Experts trained in the USA	

Table 5.1: Translation conditions in Mexico

decreed by President José López Portillo, its legal status was changed to that of a decentralized public entity. Consequently, the position of Director General of the Bank of Mexico became part of the Mexican Cabinet. In November 1982, a board of governors was established, presided over by the Secretary of Finance and Public Credit and composed of nine members, each with their respective alternates appointed directly by the President of Mexico.

Through a constitutional reform in 1993, the Bank of Mexico was granted autonomy from the Federal Government and was established as a constitutional autonomous body with its current Board of Governors. The Board of Governors is responsible for the autonomous exercise of the functions and administration of the Bank of Mexico. It consists of five members: the Governor of the Bank, who presides over the Board for six-year terms, and four Deputy Governors with staggered eight-year terms. Members of the Board of Governors can be reappointed, as long as they do not exceed sixty-five years of age at the start of the corresponding term. All members are appointed by the President of Mexico with the approval of the Senate or, if necessary, the Permanent Commission of the Congress of the Union. The Governor's term begins on January 1 of the fourth year of each presidential administration, while the Deputy Governors' terms follow a two-year cycle, starting in the first, third, and fifth years of the presidential term.

Domestic financial sector after the 1990's The privatization of Mexico's banking system had a profound impact on its internationalization, as Stallings and Studart (2006) notes. Rather than relying on domestic markets for funding, large Mexican companies obtain their financing from international banks installed in Mexico, through intercompany loans or Foreign Direct Investment The increase in foreign financing in Mexico is closely tied to NAFTA. Firms involved in exporting were even better positioned to exploit the new economic environment and could more easily access foreign credit. Stallings and Studart (2006) argues that the privatization of Mexico's banking system had a transformative effect on its internalization. In lieu of domestic sources of financing, large Mexican firms now turn to international banks established within Mexico, as well as intercompany loans and Foreign Direct Investment, for their funding needs . This shift has engendered a trend toward greater reliance on foreign financing within Mexico, which is inextricably linked to the advent of NAFTA. Empirical studies conducted by the Bank of Mexico reveal a discernible rise in foreign borrowing activity after NAFTA's implementation, with export-oriented enterprises emerging as the principal beneficiaries of this paradigm shift (BdM, 2015).

5.4 Neoliberal Stability

Andrés Manuel Lopez Obrador has always been accused of trying to return to the "populist past". During the 2006 presidential election the PAN cadidate Felipe Calderón painted Lopez Obrador as an attempt to return to the policies that "harmed" the country during 1971 to 1982(Tello, 2011, p.607). A journalist would argue that "an important group of entrepreuneurs [...] considers If AMLO becomes president, we will have a reenactment [*reescenificación*] of the 'Tragic Dozen [1970-1982],' that is, populism, state interventionism, financial disorder, and corruption, just as we experienced during the presidencies of López Portillo and Luis Echeverría." (Tello, 2011, p.608) Lopez Obrador was expected to recollect the developmentalist policies, which was always seen as a negative feature of his possible future governments.

Similarly, the PRI candidate Roberto Madrazo in the 2006 elections, stated that "The wheel [Lopez Obrador] is proposing, we already rolled it in the 1970s, and I'm not asking people to vote for the 1970s in the PRI again; we've seen it. We experienced our most serious economic irresponsibility problems back then."(Tello, 2011, p.607). As Madrazo notes, the wheel of developmentalism was rolled by the PRI itself, the party in which AMLO initiated his political career and from which he departed to fund the Party of the Democratic Revolution (PRD).

PLAN NACIONAL DE DESARROLLO 2019-2024 The National Development Plan proposed by the Lopez Obrador government focused on three axis: politics and government; social policy and economy. On the axis of politics, it gives a major focus on corruption (mentioned 35 times), which is associated with neoliberalism. The economic goals are to be achieved with austerity, fiscal discipline, low indebtedness, respect to Central Banks decisions and without corruption. The main economic goals are the creation of jobs, the stregthening of domestic market, the push to agriculture, science and research and education(Mexico, 2019, p.9). A great focus is also given to the concept of bienestar (mentioned 49 times) and to sustainable development, which is seen as an unavoidable factor to achieve population's bienestar.

The plan is presented as a continuation of development plans inaugurated by Lázaro Cardenas, but as a rupture with the neoliberal practices instituted since Miguel de la Madrid (1982-1988). The plan also introduces the concept of the "Fourth transformation", which has become an important discursive framework that justifies AMLO's policies in terms of Mexican history(Mexico, 2019, p.8). The Fourth transformation would be an answer to neoliberalism, following the former great transformations of the Mexican War of Independence (1810–1821), the Reform War (1858–1861) and the Mexican Revolution (1910–1917). AMLO promises to replace neoliberalism in the same way the independence fought colonialism, the reform fought conservatism and foreign interventions and the revolution fought the Porfiriato. The Plan doesn't mention international crisis as its raison d'être, but it is an answer to the domestic trajectory of neoliberalism.

The strategy of recovering the former revolutionary heroes is also present. For instance, the development plan affirms: " As Benito Juárez [president during the XIX century reforms] separated Church and the State, the Fourth Transformation has proposed to separate the political power from the economic power."[1] And on its cover pays an homage to Emiliano Zapata, the leader of Mexican Revolution in 1910.

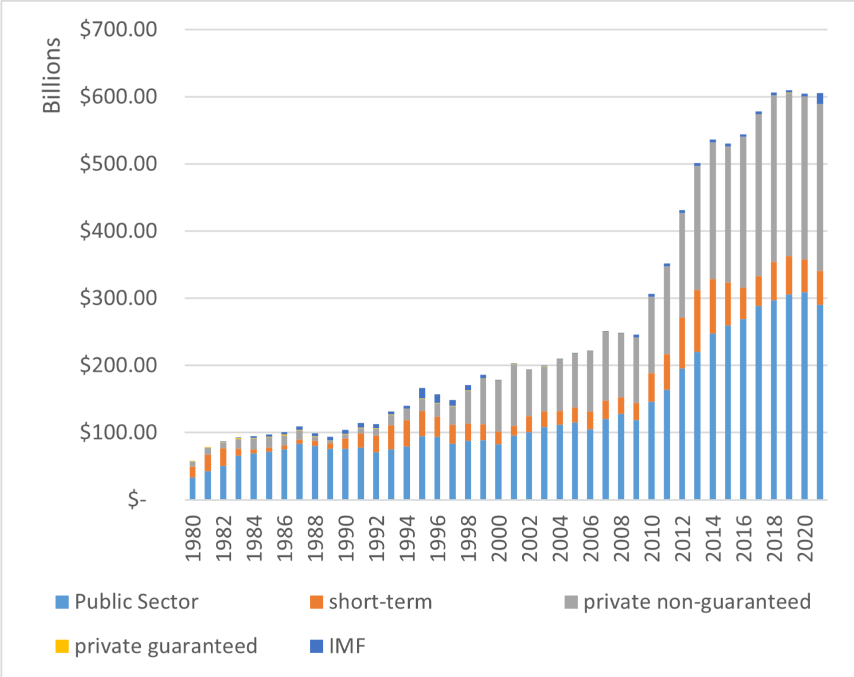
Nafinsa is not mentioned in the development plan. The only mention to the Public Banking system is the creation of the "Banco del Bienestar", which would depart from the structures of the Banco del Ahorro Nacional y Servicios Financieros (Bansefi). The goal of the Banco del Bienestar would be to increase the access of the population to the banking system. The main clients would be the receivers of social benefits, avoiding cash transactions and corruption. The Banco del Bienestar does not aim to the development of the industry, and industry development has a much lower relevance than the social policies and financial inclusion.

5.4.1 Financial Development system

The evolution of foreign borrowing in Mexico since 2010 has exhibited a distinct character from that observed during the tumultuous 1980s, according to Figure 1. While public sector debt represented over 60% of total foreign debt in the 1980s, private sector borrowing has become a more significant source of international funds since the late 1990s. Mexico's foreign

[1] Original in Spanish reads: Así como Benito Juárez [president during the XIX century reforms] consumó la separación entre la Iglesia y el Estado, la Cuarta Transformación se ha propuesto separar el poder político del poder económico

Figure 5.3: Foreign Debt by Type of borrower in Mexico 1980-2022



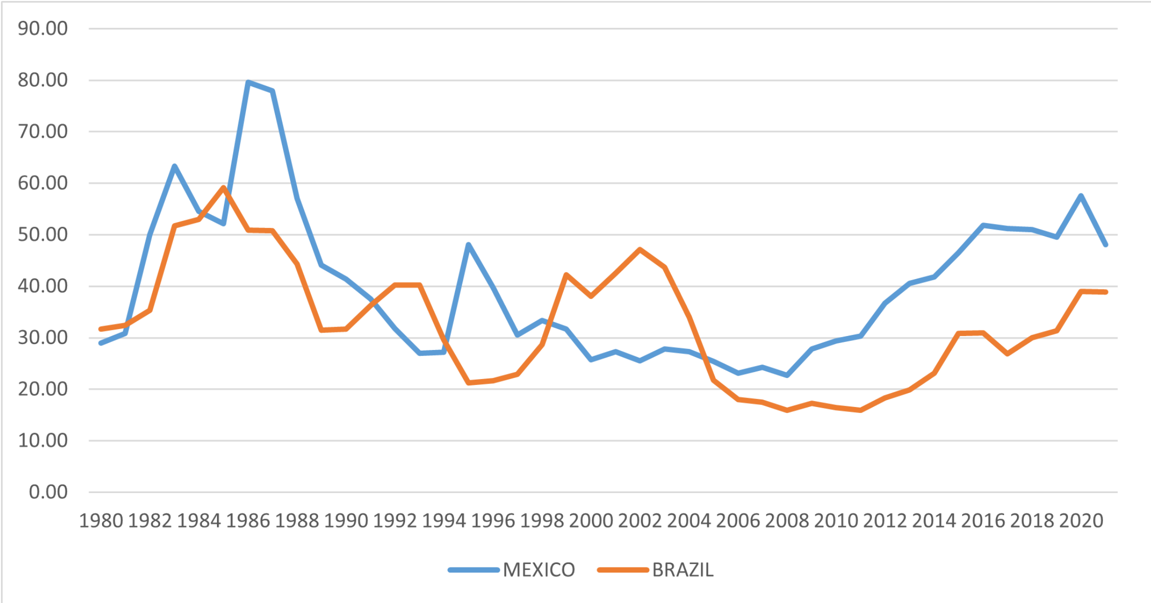
Source: International Debt Statistics World Bank.

debt-to-GDP ratio has risen considerably since 2010, presently standing at around 50%, a level exceeding that of Brazil, as illustrated in Figure 2. Despite fluctuations in FDI levels in the 1980s and 1990s, Mexico has maintained a stable FDI-to-GDP ratio of approximately 2% since 1994, indicating a notable shift in the level of FDI received by the country.

The banking system in Mexico plays a limited role in financing investment for firms, as indicated by the World Bank survey of firms in 2010 (See table 1). According to the survey, only a small percentage of companies used banks for financing investment (16.2%) and working capital (26.9%). In addition, more than half of the firms (53.7%) reported not needing a loan, while less than a third (29.6%) reported that access to finance was a major constraint. The survey also revealed that most of the investment (64.1%) was financed internally by the firms. A survey by the Bank of Mexico on credit conditions as a limitation to the operation of companies, conducted since 2016, has shown a stable trend among companies, with changes during the pandemic affecting smaller companies more significantly. In the BdM survey, on average, only 19% of companies identified financial constraints as their main challenge, with over 50% of companies indicating that credit constraints posed no challenges to their operations. These findings suggest that Mexican firms have limited reliance on the banking system for investment and financing needs, preferring to use internal financing or other sources of funding.

Mexico's banking credit to GDP ratio has been consistently low by international standards, with a peak of 28% in 2010. However, the ratio has experienced a steady rise since 2006, reaching its highest point in 2020. Despite the pandemic-induced economic downturn in 2020,

Figure 5.4: Foreign Debt to GDP 1980-2022



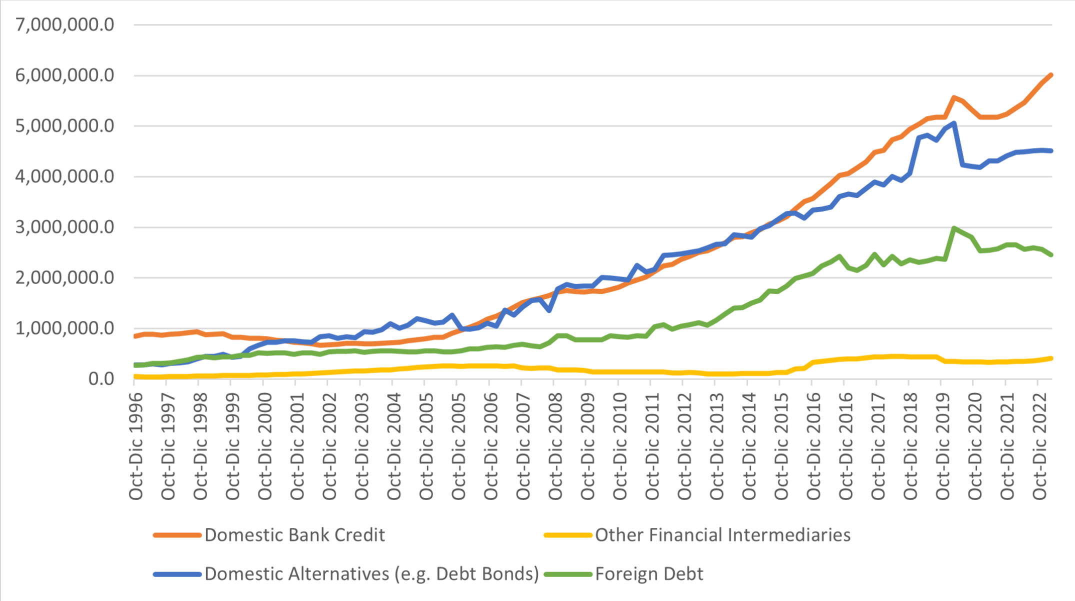
Source: International Debt Statistics World Bank.

private credit quickly rebounded and by March 2023, had already exceeded pre-pandemic levels by 13%. In addition to traditional banking credit, debt alternatives such as Debt Bonds have played a significant role in Mexico's private sector financing since 2000, as illustrated in Figure 5.5. Furthermore, the growth in both banking and debt credit has been accompanied by increased foreign debt.

The public financial system that was crucial for Mexico's "desarrollo estabilizador" period did not make a comeback following the reforms of the 1980s and 1990s. By the late 1990s and early 2000s, public banks had reduced their lending to GDP to its lowest levels, and the share of public to private credit in Mexico never returned to pre-2003 levels. Although there was a moderate growth of public bank credit after the 2008 crisis, the country's credit stock growth was mainly driven by private banks, particularly until the 2008 crisis. Credit stagnated during the aftermath of the crisis until 2011. After 2013, credit growth rebounded, with both public and private banks contributing, resulting in the maintenance of the public bank's share in total credit.

After 1994, development banks have undergone two distinct waves of lending behavior. The first wave was characterized by a rise and fall of lending to the public sector until 2008, followed by a steady rise of lending to the main sectors, including the public sector. As illustrated in Figure Public Banks, development banks experienced a reduction in lending to the public sector until 2008, at which point there was a notable resurgence in such lending. This rebound in lending to the public sector was accompanied by an expansion in lending to the productive private sector, including industry, services, and the financial sector, through its

Figure 5.5: Financiamiento al sector privado del país a través del crédito bancario y otras fuentes alternativas



Source: International Debt Statistics World Bank.

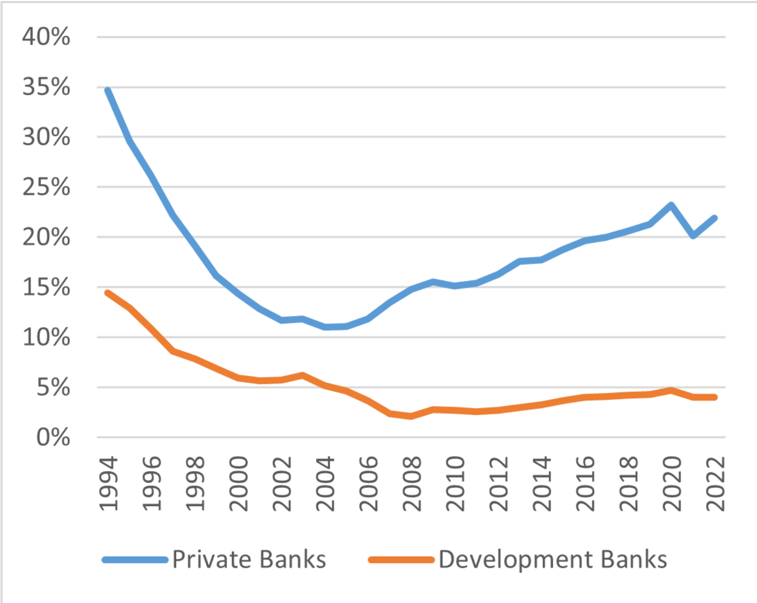
role as second-tier banks. This is indicative of the renewed emphasis on small and medium enterprises that public banks have focused on since the 1990s.

From 2014 onwards, the lending behavior of development banks witnessed a growing focus on financial inclusion, resulting in a gradual increase in lending to consumption. However, the pace of growth in this area remained relatively subdued. Meanwhile, private banks primarily lent to the services sector, industry, housing, and consumption, with a relatively stable share of these sectors across time.

From 2004 to 2016, private banks have significantly increased their lending to public institutions, resulting in a remarkable increase in the share of public lending from 4% to 22%. In contrast, development banks have increasingly become financiers of the private sector. In 1994, development banks allocated 60% of their lending to public institutions and 40% to private companies. However, by 2017, the situation had reversed, with 58% of the lending going to private companies and 37% to public institutions. It is noteworthy that lending also became more concentrated towards local governments instead of central governments.

In addition to their reduced role, Mexican development banks lack funding mechanisms that can provide them with funds at lower costs compared to what private banks have access to . Since the late 1990s, development banks have consistently maintained a higher financing cost than private banks, as depicted in the Figure . However, the cost of financing between the two banking systems has been highly correlated, showing a decreasing trend since 1998, when costs were approximately 18% for private banks and 24% for development banks. Financing costs have remained below 10% since 2001, with the lowest levels achieved after the 2008 crisis,

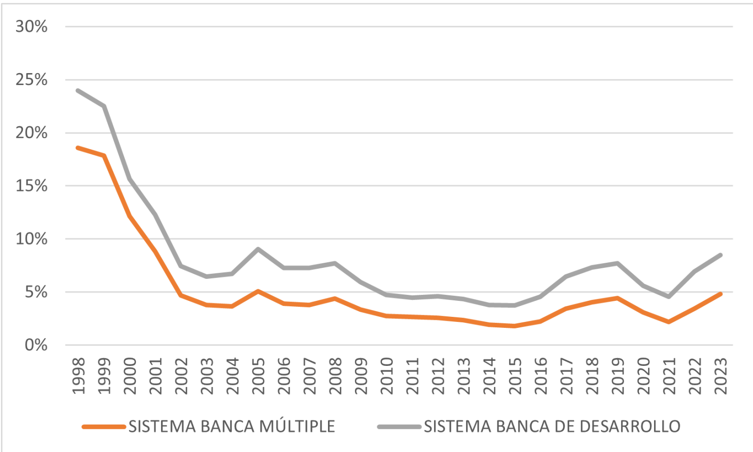
Figure 5.6: Credit by bank type (% of GDP)



Source: International Debt Statistics World Bank.

when international quantitative easing measures led to a global reduction in interest rates. Nevertheless, financing costs rose again after 2016, as the quantitative easing programs were scaled back. The difference in financing costs between development banks and private banks varied between 3% and 5%.

Figure 5.7: Financing costs of public and private banks

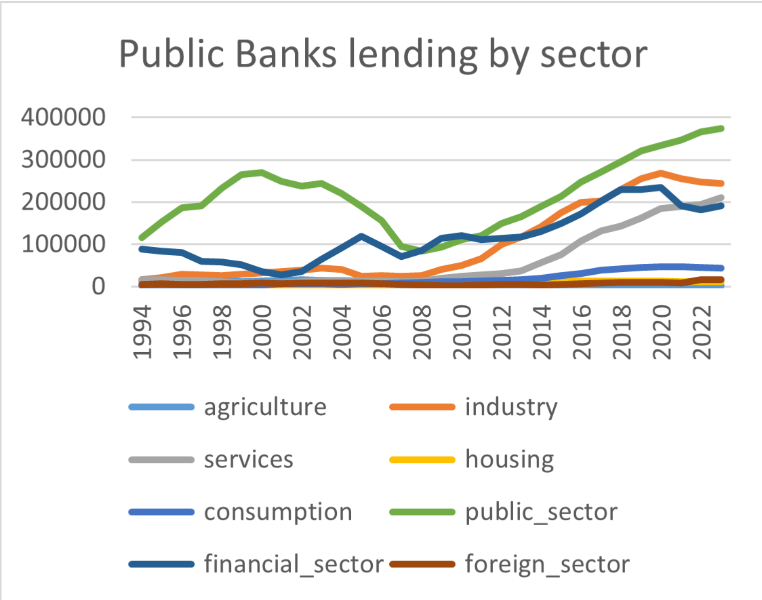


Source: Banco de Mexico.

In the XXI century, the focus of NAFIN turned towards financial inclusion, with instruments ranging from the issuing of collaterals, the provision of courses. The turn towards financial inclusion followed the creation by presidential decree in October of 2011 of the National Council of Financial Inclusion (Leucoma, 2018, p.146). This organization provides consultancy, and coordination among financial institutions in the country, to proceed with the national policies of Financial Inclusion. Later, following the financial reform approved in 2014, reinforced the role of the development banks as an instrument to promote financial inclusion of the population in general and in particular of women, youth and indigenous communities. The financial inclusion push was followed by the creation of programs and financial products

The disparity in average financing costs between development and private banks can be attributed to the fact that development banks primarily rely on long-term national financing, whereas private banks rely on short-term financing and have greater access to international finance. Private banks consistently source around 10% of their funds from foreign markets, whereas development banks historically had lower levels of foreign funds. However, from 2014 to 2018, development banks experienced an increase in the foreign sourcing of their funds, which was subsequently reduced by the end of 2018. Meanwhile, private banks maintained a stable demand for foreign funds, representing around 12% of their funding.

Figure 5.8: Public Banks lending by sector



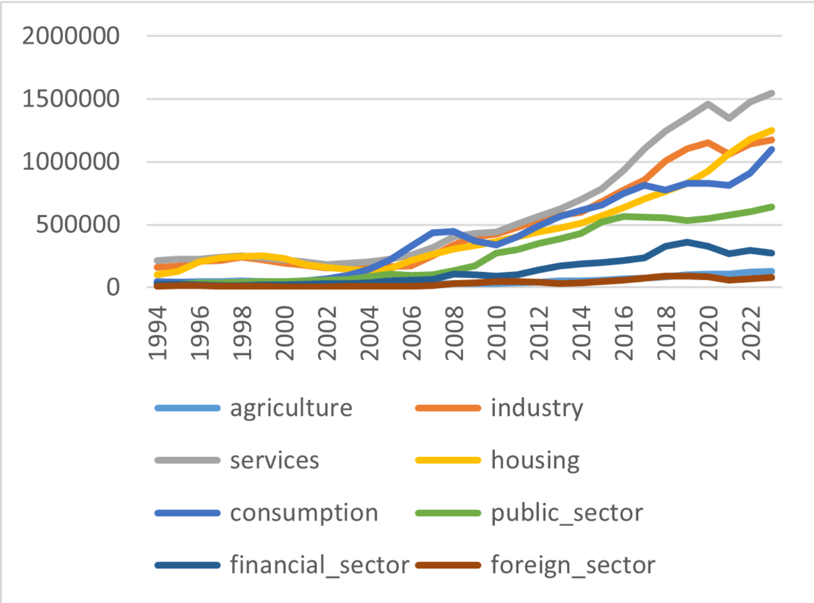
Footnote: Data interpolated from two different series of the Banco de Mexico. Data from 1994-2017 using 2000 methodology and from 2003-2023 using 2018 methodology.

5.5 Mexican neoliberal path dependent translation

Following the 1994 reforms, the Mexican financial system experienced an increase in the diversity of funding sources, particularly for the highly internationally connected exporting sector. On the other hand, the development banking system had a minor economic role, not being responsible for managing the foreign debt or financing industrialization. The lending provided by public banks is limited, representing less than 5% of the country's GDP and 15% of the total credit market.

In contrast to Brazil, where firms rely heavily on domestic banks for investment financing,

Figure 5.9: Private Banks lending by sector



Footnote: Data interpolated from two different series of the Banco de Mexico. Data from 1994-2017 using 2000 methodology and from 2003-2023 using 2018 methodology.

Mexican firms often obtain credit from intercompany loans or international banks, reflecting the increasing ties to the US financial system. As a result, the domestic public system has been largely neglected. Due its reduced role, public banks goals did not conflict with the main public financial goals established by the central bank, as was the case in Brazil after 2015.

In Mexico, the landscape of development banking has become more fragmented, with institutions being created on an ad hoc basis. The fideicomissos within the Central Bank have played an important role, demonstrating the ability to change their nature upon the incorporation of the bank. The nationalization of banks in 1982 led to a diminishing role for public banks, altering their significance within the financial system. Later on, with privatization, International banks have come to dominate national finance, shaping the financial environment significantly. This transformation is attributed not to the pressure of international finance or different exposures but to the domestic financial structures and their relation to domestic channels of financing the economy.

In Mexico, the factors for recollection were less evident than in Brazil. The international landscape is significantly influenced by the adherence to NAFTA and its successor, the USMCA. The domestic private banking sector is dominated by international banks, which are not accustomed to competing with directed lending from development banks. In terms of cohesion among recollection proponents, the strong continuity of rightist governments and the adherence to macroeconomic stability goals by leftist governments did not create the necessary push for reviving developmentalist practices. Additionally, the neoliberal reforms were implemented earlier and under a dictatorship, which hindered the existence of dormant developmentalist practices that could be utilized by a willing government.

Chapter 6

Conclusion

This thesis explored the evolution of economic orders in Brazil and Mexico, emphasizing the role of Public Financial Institutions and its practices in shaping and stabilizing distinct economic settings: developmentalism and neoliberalism. By analyzing the developmentalist era, the neoliberal reform period beginning in the 1980s, and the post-2008 era, the study illuminated how institutional memories and external conditions influence paths of economic reform.

A key finding is that the post-2008 divergence between Brazil and Mexico can be attributed to differences in their neoliberal reform trajectories and the availability of dormant practices for recollection. In Brazil, the strong institutional legacy of developmentalism enabled the recollection of past practices, a process made possible by political cohesion, dormant public banking systems, and opportunities presented by international uncertainty. In contrast, Mexico's earlier and more comprehensive neoliberal reforms eroded its developmentalist heritage, leaving little room for recollection.

The analysis utilized a most-different cases research design to explain the unexpected convergence of Brazil and Mexico toward neoliberal practices during the 1990s, particularly the adoption of inflation targeting. The adoption of inflation targeting in 1999 (Brazil) and 2001 (Mexico) marked the neoliberal convergence, acting as an anchoring practice that shaped other policies, such as exchange rate management and fiscal strategies. This convergence was driven by efforts to align with an international financial system increasingly reliant on the legitimacy of transnationally promoted practices, such as inflation targeting. However, the mechanisms of convergence varied: in Mexico, the developmentalist order was displaced, while in Brazil, developmentalist institutions were repurposed and "drifted" to fit neoliberal goals.

The 2008 global financial crisis challenged the international macroeconomic consensus, creating opportunities for countries to reconsider past practices. In Brazil, developmentalist practices persisted in public banks and academic circles, enabling their repurposing as tools for investment during the Worker's Party government. By contrast, Mexico further entrenched its commitment to price stability and financial integration with the United States, reflecting the constraints imposed by its earlier reforms and the dominance of internationalized private banks.

This thesis argued that evolution in economic orders is not strictly linear and is driven by three key mechanisms: translation, the adoption and adaptation of foreign practices to local contexts; recollection, the revival of past practices as solutions to contemporary challenges; and innovation, the creation of new practices to address unforeseen problems. Brazil's post-2008 trajectory highlights the power of recollection when dormant practices remain available and politically cohesive coalitions mobilize to adapt them to contemporary contexts. Meanwhile, Mexico's inability to recollect reflects the erosion of its institutional memory through neoliberal reforms and the dominance of external financial constraints.

These findings highlight the need to move beyond the diffusion paradigm and the studies relying on path-dependency and slow institutional change, emphasizing the interplay between translation, recollection, and innovation in understanding the evolution of economic practices in peripheral regions.

6.1 Mechanisms of Evolution: translation recollection and innovation

The way societies perceive and reuse their past is deeply charged with meaning and evolves over time. This is particularly relevant in Latin American countries, where much has been written about the pursuit of mirroring developed economies, but much less about how they learn with their own past. It is crucial to analyze what other mechanisms are at play when these nations envision and propose their future.

One of the possible mechanisms of change is precisely the selection of practices used in the past and the attempts to enact and perpetuate these practices once again — a process I have labeled *recollection*. This process is central in societies where extensive contact with other cultures creates continuous tensions between translating foreign practices and relying on past experiences that resonate with domestic political coalitions.

The thesis contended that the use of the "diffusion paradigm" - including in its translation version - is insufficient for comprehending institutional change in peripheral regions. The diffusion paradigm has been highly influential in Latin American studies, especially in research conducted outside the region. While more recent nuanced perspectives on multidirectional influence provide significant insights, it is overly simplistic to assert that emerging countries evolve mainly through external interaction. I have also contended that the reliance on linear evolutionary dynamics is present in the translation and historical institutionalist literature, and it is important to further analyse mechanisms of non-linear practical and institutional evolution.

This thesis has proposed three key mechanisms of evolution through which practices are chosen and enacted recurrently:

Translation involves the adoption and adaptation of foreign practices to suit local contexts, considering existing conditions and historical trajectories. This process recognizes that practices are not merely imported but are interpreted through local lenses, resulting in hybrid practices that merge new ideas with local realities.

Recollection refers to the revival of past practices to address contemporary issues. This mechanism leverages historical legitimacy, proposing that past practices can offer viable solutions when current systems face challenges. It emphasizes that evolution is not strictly linear and that historical practices can coexist with new orders.

Innovation involves the creation of new practices in response to emerging challenges or environmental changes. This mechanism highlights creativity and adaptability, acknowledging that novel solutions can emerge from practical learning and responses to unforeseen events.

In scenarios of renewed international uncertainty, developing economies have distinct options: observing foreign experiences, innovating, or learning from their own past. The choice of strategy is largely influenced by a country's perception of the international consensus.

When countries perceive a strong international consensus, they are more likely to adopt internationally accepted practices. The widespread translation of Washington Consensus practices in Brazil and Mexico was possible because governments in both countries were socialized into and supportive of this international consensus. When the international consensus is perceived as fractured, countries create opportunities for innovation and recollection. The act of recollecting former practices represents a deliberate choice by governments regarding where to draw insights and practices from, and how to integrate these practices with contemporary institutions and environments.

During periods of international uncertainty, following crises and the absence of an international macroeconomic consensus, peripheral countries are inclined to recollect former practices. However, this recollection depends on two critical factors: the availability of dormant practices and the cohesion of political leaders in mobilizing these practices. The success of recollection hinges on the adaptability of the recollected practices to the new context and their ability to provide cohesion not only to politicians but to a broader coalition of agents, including market participants and economic intellectuals.

6.2 Brazil and Mexico translating, recollecting and innovating

The inception of the contemporary monetary order in Brazil and Mexico was a process of translation of practices to deal with liberalized financial markets. Brazil and Mexico unexpectedly converged into a monetary order based on price stability in the 1990's. This unexpected convergence is exemplified by works as Maxfield (1991) who showed the striking differences of the two countries before the 1990's. Moreover, it can be contrasted with the case of Argentina, that contrary to Brazil and Mexico, was not able to build a monetary order based on price stability after the 1990's.

The convergence is marked by the selection of inflation targeting as the main anchoring practice of the monetary order. The new monetary order is built when countries try to engage in an international financial market highly suspicious of emerging countries. After the crisis on Mexico (1995), East Asia (1997), Russia (1998) and Brazil (1999), Brazil and Mexico didn't try to distance themselves from international financial markets, but rather sought to adopt the most legitimate practices promoted internationally by a transnational community of Central Bankers (Johnson, 2016).

This international environment and the cohesive international consensus on the best practices led countries to translate some of the internationally legitimate practices. This contrasts with the case of the 2008 crisis, when the legitimacy of the model is questioned globally. Both countries adopt inflation targeting during a crisis of external debt, seeking to deal with volatility from international financial markets. But this convergence was shaped by different paths: in Mexico the developmentalist order was displaced, in Brazil it was converted to new uses or "drifted" (Streeck and Thelen, 2005). Those divergent paths left dormant developmentalist practices in Brazil, which were set aside of the monetary order, but still available for recollection.

An observer of contemporary Mexico, with its minimalist state, low tax base, strong central bank, internationalized private banks, and diminished public banks, might find it difficult to envision the country's rich history of socialist revolution and prominent public financial institutions. Mexico's public banking tradition, dating back to the 19th century, has been largely obscured by reforms beginning with the banking system nationalization and intensifying with privatization in the mid-1990s. These reforms have significantly impeded the country's ability to recollect its strong developmentalist heritage.

Factors	Variables	Brazil	Mexico
International Consensus	**Crisis**	2008 crisis is domestically interpreted as a failure of financial neoliberalism	Covid Crisis is a foreign crisis mainly supply-led
	International Linkages	Increased south-south integration	Constant interest in Nafta/USMCA
	Expert Training	CB experts trained in the USA, development bank experts trained in domestic universities	Experts trained in the USA
Politics	**Presidents Party**	Worker's Party	MORENA
Anchoring Institutions and Practices	**Central Bank**	Inflation targeting with de facto independent Central Bank	Inflation targeting with management of exchange rates supported by PEMEX
	Development Banks	Intense involvement in the post-crisis recovery	Focused on SMEs and on individual welfare
	Private Banks	Mostly national	Mostly international
Developmentalist Recollection		Strong developmentalist comeback during the Worker's Party government. The government opts for financial support to poorer families through the newly created BANSEFI. Traditional industrialization policies through interest rate management are not recollected.	Weak developmentalist comeback during the government of AMLO. Despite the opportunity created by the COVID crisis and the international wave of developmentalist recollection, the former development system is fragmented. The government opts for financial support to poorer families through the newly created BANSEFI. Traditional industrialization policies through interest rate management are not recollected.

Table 6.1: Comparison of Recollection Scope Conditions Between Brazil and Mexico

Brazil and Mexico currently face relatively low international constraints, as their new practices in interest rate and exchange rate management, while costly, have successfully averted crises reminiscent of the 1980s and 1990s. Notably, external constraints are not the primary driver for the persistence of neoliberal practices, particularly in Mexico.

Attempts to recollect developmental practices in Brazil were enabled by three factors: international uncertainty, domestic political cohesion towards recollection, and the presence of dormant developmentalist practices within public banks. Table 6.1 exhibits these factors, and compares with the Mexican outcome. These factors mirror those Ban (2016) used to analyze the translation of neoliberalism, reflecting the transnational dimension, political cohesiveness, and historical legacies respectively. This mirrored framework underscores that both recollection and translation are mechanisms of selective retention.

In Mexico, the conditions for recollection were less favorable than in Brazil. The international landscape is heavily influenced by NAFTA and its successor, the USMCA. Political cohesion among recollection proponents was hampered by the continuity of right-wing governments and the adherence to macroeconomic stability goals even by left-wing administrations. Furthermore, the earlier implementation of neoliberal reforms under a de facto dictatorship hindered the preservation of dormant developmentalist practices that could have been utilized by a willing government. And finally, the domestic private banking sector, dominated by international banks, is unaccustomed to competing with directed lending from development banks.

6.3 Possible extensions

Case selection One limitation of this study lies in the number of cases examined. While the research focused on two main processes—translation and recollection—across two countries, a more comprehensive analysis would ideally include a 2x2 matrix of four cases to test the relative weight of each process more robustly. Although process tracing has helped mitigate this limitation to some extent, by considering that the two cases had instances of translation and partial recollections, it is important to acknowledge that a larger sample size could have provided more definitive conclusions. It's worth noting that this thesis proposes that studying recollection implies also studying how the practices were employed initially, what requires long term historical studies. Moreover, from a methodological standpoint, it's crucial to clarify that recollection and translation were not treated as formal "independent variables" in this thesis; rather, the approach was more abductive in nature, allowing for a flexible exploration of these processes within the specific contexts of Brazil and Mexico.

Institutionalist and Practical Theory Another point of consideration is the apparent tension between the institutional framework of the thesis and the largely non-institutional factors identified as important for translation and recollection. While the thesis builds on institutional arguments such as forms of institutional change and processes of path dependency, the key factors emerging from the analysis—including international economic position, bank ownership, power coalitions, and government orientations—are primarily economic or political in nature. This raises questions about the theoretical implications of the thesis and its relationship to institutionalist approaches.

To address this tension and maintain closer alignment with institutional grounds, future research could place greater emphasis on how practices and routines within institutions serve as repositories of organizational memory, thereby facilitating the process of recollection.

Practices serve as the connective tissue between various actors in economic policy. It is through these practices that actors interact, and it is this interaction that drives change. In the context of this thesis, public financial institutions - specifically Central Banks and Development Banks - act as repositories of these practices. These institutions bind together the diverse set of actors that collectively shape Latin American monetary orders. By housing and enacting these practices, Central Banks and Development Banks become crucial nexus points where politicians, economists, and market participants converge to construct and reconstruct monetary orders.

Chapter 7

Appendix

Table 7.1: Brazilian Minutes: 10 Main words of each topic

Label	10 First words of the topic
Acceleration	“substanc", “vesp", “deflaca", “exib", “inic" , “aceler", “man", “vag", “max", “alcool"
Reforms	“reform", “ancor", “focu", “dire", “debat", “concord", “atualizaca", “prescrev", “desinflaca", “barr",
Treasury bonds	“venc", “lft", “leilo", “resgat", “deposit", “ltn", “cart", “colegi", “recolh", “intenco",
Prudential	“pond", “concessa", “ibc br", “repercusso", “ocorrenc", “zon", “complex", “ald", “sidn", “agricult"

Table 7.2: Mexican Minutes: 10 Main words of each topic

Label	10 First words of the topic
Inflation	“inflacion_anual", “quincen", “pagin", “ofert", “vigor", “grafic", “aliment", “inpc", “comenz", “vari"
Prudential	“enfrent", “posicion", “sesg", “fortalec", “cotizacion", “mantuv", “rang", “on", “adopt", “variacion"
Reforms	“posibil", “transitori", “moment", “estructural", “mantuv", “prevalec", “permanent", “pued", “provenient", “reform"
Pandemics	“oper", “inclu", “sujet", “adopt", “sosten", “persistent", “decidi", “estan", “miembr", “ret"

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