Editorial Introduction

Fiscal Austerity and Economic Growth

Laura Barbosa de Carvalho
University of São Paulo

In 2015, the Development Bank of Minas Gerais (BDMG), through BDMG Cultural, reestablished a long-lasting partnership with the Department of Economics of Universidade Federal de Minas Gerais, by supporting a new phase in Nova Economia's history.

To celebrate this event, I received the invitation to be the guest editor of a special issue on Fiscal Austerity and Economic Growth. By the time of its inception, the academic relevance of the theme of the special issue was evident, particularly with the continued crisis in the Eurozone. Moreover, the second half of the 2010s was marked by a reversal of growth trends and economic policies in many parts of Latin America. With time, however, what was to be an internationally relevant subject became a topic of progressively ominous materiality in Brazil, as the economic crisis intertwined with an unprecedented political debacle. The results of this process are well known and, from a political standpoint, will certainly be debated for years to come.

From an economic stance, the theme of austerity became the single most important issue in the country. Time and again, economic policies started to pursue increasingly tight fiscal policies coupled with measures that will substantially reduce constitutional rights and the welfare state.

Consequently, the timeliness of this special issue is only overshadowed by the pace at which policies and wide-reaching institutional changes have been carried out in Brazil. The six papers included in this issue help steer the debate as well as to put many of the issues at play in perspective.

To begin with, the first paper is well placed to avoid the customary navel-gazing of policymakers. In *Neoliberalism, trade imbalances, and economic* *policy in the Eurozone crisis*, Engelbert Stockhammer, Collin Constantine and Severin Reissl carry out a detailed examination of the Eurozone crisis by surveying works from different schools of thought. The literature shows that within heterodox and orthodox schools, opposing views on the determinants of current account imbalances can be found. When fiscal and monetary policies are considered, these schools show a marked polarization. In the Post-Keynesian view adopted by the authors, the crisis is built into the Eurozone's architecture, which fundamentally restrict the role of fiscal and monetary policies.

The international perspective and the long-lasting costs of hastily formulated policies are also clear in the second paper, as is the eerie danger of restraining fiscal policies by law. In *The Greek public debt problem*, Michalis Nikiforos, Dimitri Papadimitriou, and Gennaro Zezza start from a historical discussion to examine the recent experience with continued austerity policies in Greece. The authors show that contractionary fiscal policies have had little effect in stabilizing public debt, which increased from 120% of the GDP in 2009 to 195% in 2016, due to a debt-deflation trap. The paper concludes that Greece's public debt is currently unsustainable and requires a deep restructuring to restart economic growth.

The importance of analyzing other case studies can also be found in *Macroeconomic regime and labor market: the Argentine experience of the past two decades*, in which Luis Beccaria and Roxanna Maurizzio assess the dynamics of job creation and labor incomes under very distinct macroeconomic regimes in Argentina. By contrasting the strong overvaluation under the currency board in the 1990s with the more competitive exchange rate in the 2000s, the paper offers important lessons regarding the actual results of exchange rate policies. The authors argue that maintaining a high exchange rate favors employment and labor income, but is not sufficient to guarantee long term growth. The diversification of the productive structure and productivity gains are not achieved. Moreover, if supply lags demand, exchange rate and fiscal policies must be coordinated to avoid inflation acceleration.

A detailed empirical assessment of the international evidence is presented in *Fiscal consolidation in developed and emerging economies*, in which Paulo André Camuri, Frederico G. Jayme Jr. and Ana Maria Hermeto make an empirical evaluation of the theory of expansionary austerity. The econometric study explores data from 44 countries from 1948 to 2012 to assess the causal relationship between the primary balance and economic growth. In general, estimations suggest that increased fiscal surpluses can lead to further contractionary effects, particularly for developing countries.

In *Aggregate demand and the slowdown of Brazilian economic growth in 2011-2014*, Franklin Serrano and Ricardo Summa analyze the origins of the current Brazilian crisis. The authors argue that it is the fall in domestic components of aggregate demand as created by deliberate policy decisions, rather than the deterioration of external trade or financial conditions, which explain the reversal of the growth trend. During this time, economic policy has moved from expanding public investment to promoting private investment and exports with different types of incentives. The failure of this strategy has not changed the course of action, as the government started an even stronger fiscal consolidation in 2015.

The perception that the economic side of the crisis has internal roots is highlighted by an evaluation of the country's external fragility. In *Currency crisis and external fragility: a Minskyan interpretation applied to the Brazilian economy between 1999 and 2013*, Victor Hugo Rocha Sarto and Luciana Togeiro de Almeida offer a Minskyan interpretation of the hypothesis of financial fragility for open economies. Therein, external fragility is linked with the deterioration of external wealth and the ensuing decline in funding conditions. This framework is used to evaluate the Brazilian external fragility from 1999 to 2013. The authors argue that the growth of foreign exchange reserves at a pace higher than that of operating deficits in the balance of payments, coupled with significant inflows of foreign direct investments, halved the country's external fragility in the period.

This special issue is by no means exhaustive in terms of relevant topics for the current crisis. However, it provides an invaluable international perspective, including an example of detailed search for empirical evidence, coupled with in-depth analysis of the Brazilian case in recent years. The issue thus contains important elements to inform better policies in the future.