Inflation, Growth and Development:
How new-classical macroeconomics prevents the development

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Abstract

The use of orthodox anti-inflationary policies has prevented the adoption of both growth and development strategies. Neoclassical theoretical basis has the objective to keep the State out of the administration of the movement of capital by not allowing the utilization of monetary or fiscal expansionary policies, nor strategic exchange-rate policies. This approach is shrouded in an ideology based on the hypothetical behavior of a rational maximizing agent and the quantity theory of money, in a world of walrasian equilibrium, modernized concepts for "rational expectations" to transform inflationary fear into an ideology against public intervention.

The problem of inflation has a political and ideological importance hidden by a false technical approach based on neoclassical economics. This approach, having become the justification for the installation of neoliberal policies, is back to strengthen the basis of orthodox conservatism. It ties the debate to a certain ideology and prevents development policies or economic growth, since it denies any economic policy that seeks to control the movement of capital, even if these policies are made to avoid capital self-destruction.

In Brazil this orthodoxy continues its pressure. The justification is the inflationary risk and the theoretical basis is "inflation targeting". The appeal to an "inflationary fear" justifies the maintenance of Orthodox neoclassical-ideology, avoids economic growth policies, and becomes radicalized when the question is development since it prevents the distribution of income via wages and public policies. The orthodoxy unconditionally defends a public surplus in order to avoid inflation and monetary impact on the ground by shaping rational expectations of agents.

Inflation is something extremely complicated. Some analyses of the issue suggest that the variation of prices in countries like Brazil is much more linked to foreign exchange policy and external factors, in addition to the power of large multinational oligopolies in their competition strategies. Pointing to inflation as something that has trivial causes like simple excess demand, wasteful government spending, as well as high spending by consumer who do not know how to save, is a way to avoid seeing the problem in its complexity.

The anti-inflationary package is based on a tripod that seems to have more efficiency in maintaining a useful theoretical status to certain interests than to economic development. The "inflation targeting" policy is based on a package of credibility for influence and the psychological behavior of agents is its foundation. Inside the package appear the independent Central Bank, fiscal equilibrium and flexible exchange rates. Friedman would be proud of where his students reached (Lucas and Sargent): managed to prevent definitive economic policies by completing the Kuhnian puzzle (Kuhn, 2006), based on the metaphysical principles of rational expectations, structured in a scenario in which any State policy action is bad for the economy. This text aims to develop the substantive issue that appears as a theoretical clash within economic science. It is a debate that occurs in national and international scope.

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1- Introduction

The problem of inflation has a political and ideological importance that must be unveiled and that has been hidden by a false technical approach based on neoclassical thinking. This approach, having become the justification for the installation of neoliberal policies around the world in the 1990's, is back as the basis to strengthen orthodox conservatism. The central problem lies with a certain ideology that dominates the debate and prevents development policies or even economic growth. This ideology prevents development strategies since it tries to discredit any economic policy that seeks to control the movement of capital, even if this it is to avoid its own destruction.

In Brazil, the orthodoxy renewed its pressure for the policies of raising interest rates and cutting spending. The justification has always been the inflationary risk (even with a low inflation rate) and their theoretical basis is "inflation targeting". The appeal to "inflationary fear" justifies the maintenance of conservative policies and neoclassical orthodox ideology. This prevents actions for economic growth. It becomes radical when the issue is development given that this involves the distribution of income via increases in salaries and social policies (health, education, welfare, etc.). The orthodoxy unconditionally defends a public surplus to avoid the monetary impact and guarantee payment of interest. The central idea is not to interfere in a hypothetical perfect allocation of scarce resources by a free market.

Inflation is something extremely complicated. Analysis of the issue suggests that the variation of prices could be more linked to exchange-rate policy and external factors, and above all to the power of the large multinational oligopolies in the face of their competition strategies, upon whom the exchange-rate policy acts. To point to inflation as something that has trivial causes such as simple excess of demand, wasteful government spending, as well as high spending by consumers who don't known how to save, is not wanting to see the problem in its complexity.

The anti-inflationary package that gives structure to the theory is based on a triad that seems to have more efficiency in maintaining a useful theoretical status to certain interests than to economic development. The "inflation targeting" policy is based on a package of credibility for influence and the psychological behavior of agents is its foundation. Inside the package appear the independent Central Bank, fiscal equilibrium and flexible exchange rates. Friedman would be proud of where his students reached (Lucas and Sargent): they managed to definitively impede economic policies, completing the Kuhnian puzzle (Kuhn, 2006), based on the metaphysical principles of rational expectations, structured in a scenario in which any State policy action is bad for the economy. This text aims to develop the substantive issue that appears as a theoretical clash within economic science.

The neoclassical economic theories that focus on inflation were built in order to give substance to the policies of deregulation and the removal of control by national States over the movement of capital in the world: this freed the productive and speculative capital on a global scale. The hegemony of neoclassical thought supports political actions that hinder economic growth and development. These theories have invaded universities. Academic economists were engaged in the construction of scientific-looking models to give them credibility. This ideology has become generalized thought among economists linked to some governments and some universities. It has occupied the minds of economic journalists who came to repeat these ideas as commonplace, as if stating the "laws of nature" which in fact were so listed in introductory Economics texts[2]. This ideology has led to the global crisis and is preventing the actions of nation States to minimize its damage.

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[2] I refer here to the *Introduction to Economics* of Mankiw, in which are listed the ten principles of economic science, taken as indisputable.

The discussion here is not whether recessionary policies – raising interest rates and fiscal surplus – are or are not efficient as stabilization policies to fight inflation. These policies are known to be as efficient as a bulldozer destroying a city to clear the land. Destroy the productive structure, raise unemployment, cause a decrease in investment, and destroy working capital. With the aim of combating excess demand, destroy the ability to raise future supply by not separating investment and consumption as Keynes had proposed. Its success is obtained through stagnation. For this reason it must be applied very carefully and based on profound analyses of the real cause of inflation, and not based on mechanical models such as "inflation targeting" or other neoclassical approaches.

Today in Brazil, as in the rest of the world, there is an important theoretical clash which permeates this picture and heretofore seemed asleep and commonly referred to as old and outdated by years of neoliberal hegemony. On the one side, there are some economists called "new classics", a substrate of neoclassical orthodoxy with old renewed; on the other side, those generically referred to as “heterodox” (perhaps with a huge generalization), among which there is a constructive engagement between Marxists and Post-Keynesians. The latter not to be confused with the neoclassical "New-Keynesians" named as such given their tenuous difference in relation to new classics that boils down to the discussion around the difficulty of supply and aggregate demand to adjust in the short term because of price and wage rigidity (Barro, 1992: 12). In this way, the main debate is between neoclassical (or Orthodox) and the heterodoxy.

What could unite the heterodoxy appears to be the defense of economic development and/or a State able to control the power of capital, which passes as juxtaposition to neoclassical thought. In the face of the contradictions of capitalism pointed out by Marx and recognized by Keynes, heterodoxy considers if there is a possibility of economic development and the creation a fairer society at the boundaries of a capitalist system, by the creation of social institutions, strong policies under public control, all trying to manage the destructive logic of capital (or of Laissez Faire to Keynes (1978c)).

2- The structure of theoretical neoclassical thought

The so-called "new" neoclassical thought resumes axioms that were at the base of the old utilitarian-marginalism thought from the first half of the 19th century and the second half of the same century, respectively. This thought is based on the vision of human nature materialized in an ideal type of "utilitarian man" that defines its behavior as an agent who makes rational choices in face of a natural and inevitable scarcity, under the assumption of general equilibrium between aggregate supply and demand, issues explored by Walras (1983) in the 1870s. This ideal rational agent compares the marginal utility of goods to make best choices, in such a way that what he gives in exchange (offer) is equivalent to the utility that he gets in return (demand). Currency appears as mere facilitator of trade. The partial Marshalian equilibrium between supply and demand of the late 19th and early 20th centuries solidified this thesis under the microeconomic point of view. Axiomatic moral principles of behavior were structured in mathematical models giving to these theories the appearance of “hard science” just as classical physics. The issue of demand structured under these bases becomes the central element of capitalist dynamics in counterpoint to the natural scarcity of goods and factors of production that limits the aggregate offer.

Walras was the principal economist to provide the original foundations for the macroeconomic thought now called "new" or "modern" that was revived in the 1950s by Friedman, invading economics text books since the 1970s by considering price and wage flexibility that adjust the aggregate supply and demand. Those elements have given structure to the current neoclassical logic. Their ideological base has its origins in utilitarianism thought (Say, Senior and Bentham)

which provided the assumptions used by neoclassical thought[3]. It highlights the maximizing utilitarian rationality of "human nature", which reduces the complexity of the world to a simple human behavior of individual cost-benefit analysis, pleasure and pain, good and evil, between the simpleton and the real complexity. The principle is based on the idea that "theory" has to be simple and generic. The rationalist economic man is in the world to get pleasure as a consumer of goods. The center of thought is based on human satisfaction, on the optimizing behavior of the individual. Over time, "families" have replaced the term individuals and companies have become "agents" as families without any change in the logic[4]. Capitalists become entrepreneurs and workers collaborators.

The utilitarian economists are in the group that Marx termed in the 19th[5] century as vulgar bourgeois thought, as it was (and continues to be) rife with moral prejudices structured as ideology. Several passages of "Capital" (Marx) are intended for the destruction of this common utilitarian ideology because of its superficiality. The term destruction seems to be strong for a serious scientific attitude, even more so for Marx, who was obsessed to consider and discuss almost everything. But what would there be to overcome in this thought full of moral ideology taken as "natural", easily suitable to behaviorist thought that still animates neoclassical thinking – combining economics and psychology as "behavior-economics"? For Marx, little could be taken from the axioms and unrealistic assumptions of utilitarianism, reinforced in later marginalist models.

But it was utilitarianist thought – turned scientific by marginalism – which provided the theoretical bases for the "new" and "contemporary" neoclassical theories – the micro-foundations of "methodological individualism". The use of differential calculus permits the measurement of exactly the amount of pleasure and satisfaction of specific goods, something incessantly sought by utilitarianism. Thus having been "discovered" the measure of pleasure and satisfaction that Bentham had sought: The measure of what metaphysical economic science needed to put an end to the labor theory of value. "The mechanics of individual interest and usefulness" (Jevons, 1983: 7)[6], the science of satisfaction by means of commodities that now could be referred to as "goods" (Marshall, 1982: 65), sources of pleasure. The commodity could become the Centre of economic relations. The "fetish of commodity" of Marx (1980) now had become concrete, physical, and scientific to them. Human desire gained its measure, the price, specifically defined as a quantity of walrasian "*numéraire*". The uncomfortable idea of "labor value" could finally be abandoned. There was little remaining for the "*numéraire*" to become value itself.

Walras completed the picture by submitting this thought to the perfect harmony of the general equilibrium[7] of the market as a place where holders of goods or factors of production– which are the same given that each one receives their marginal product – are to exchange their products for goods, ultimate objects of satisfaction. As no one wants rationally go home with their own production, but with objects of satisfaction (goods), all what will be offered will be equivalently demanded, adjusting the equivalent value-quantities in accordance with supply and

[3] Based on the independent generic consumer agent that has a strong affinity with the salaried worker, budget-constrained, and whose objective is to pay his bills allocating scarce resources in the best possible way, without taking into account that these are not the central agents of economy, but rather these agents are the great capitalist companies and banks that do not behave on the basis of this rationality.

[4] "Both in the simple model as more complex economy with companies and the use of money, cooperation is strictly voluntary and individual…" (Friedman, 1984:22).

[5] Marx had closer contact with the works of Utilitarian thought and quotes them several times. Jevons published his work in 1871 and Walras in the late 19th century. Marx died in 1883.

[6] "...the theory here exposed should be presented as the mechanics of utility and of individual interest. Its method is as safe and conclusive as that of kinematics or statistics, what's more, almost as so evident as the elements of Euclides. ... I have no hesitation in saying ... that the economy can be gradually elevated to the condition of exact science" (Jevons, 1983:37).

[7] "If the pure political economy, or the theory of trading or exchange value, that is, the theory of social wealth considered in itself, is, as the mechanics, such as hydraulics, a physical science-mathematics, it should not be afraid to employ the method and the language of mathematics" (Walras, 1983:23).

demand equilibrium. In the face of unlimited human desires and natural scarcity how could anyone not perform any exchange? It was enough just to ensure that those who do not wish to consume today liberate resources for those who wish to, equalizing demand and supply of savings. The balance could only be the very nature of the system.

In the 1920s-30s, Keynes, exposed to the concrete reality of where the *laissez-faire* capitalism was able to reach based on liberal logic founded on imaginary pleasure (deep crisis) in its process of unbridled accumulation of capital, took this neoclassical thought into his hands aslo to destroy it subtly (perhaps with excessive subtlety). The reality was very strong and it was impossible not to see it – as always occurs when situations are at their limits. It was required to demonstrate that it is not the disperse desire of individuals/consumers who determine the dynamics of capitalism; to show that the isolated individual depends on a previous action, the action of that subject which owns the means of production, the capitalist, as had been demonstrated by Marx. It was necessary also to point out that the movement of capitalists in the process of transformation of money into capital, the investment, was subject to time, to the uncertainty of an extremely difficult "effective demand" equilibrium that Say and his neoclassical colleagues saw as natural. It needed to be demonstrated also that the "radical uncertainty" was driving those holding power over wealth to the love of liquidity, financial assets or representatives of the general wealth even if in abstract, but socially guaranteed. To show the degree of complexity of what occurred between the "cup and the lips" (Keynes, 1982: 141), the difficulty of achieving the general walrasian equilibrium guaranteed by Say' law, was a huge work that Keynes tried to do from inside.

Even so, the "traditional economic theory which has led to economists being looked upon as Candides", subjects who remove themselves from the world "for the cultivation of their gardens" (Keynes, 1982: 44), seems to have managed to keep them in their imaginary paradise of harmonic equilibrium governed by immutable laws of nature of incredible hypothetical beauty, formalized in systems of equations[8] as is present in the current orthodoxy.

If no 'inside' economist such as Keynes, neoclassical by origin, had power to show the fragility of the neoclassical theory with his acidic and ironic criticism, nothing could be expected of the ideas of Marx, much earlier, although his "Capital" had detailed the problems of capitalism and the vulgarity – by the superficiality – of the neoclassical economic theory; or even he (Marx) having built the foundations for which his successors could predict, by internal contradictions of capitalism, war and the crisis at the beginning of the 20th century (Rosa Luxembourg and Lenin). Marx was entirely disregarded, except by Keynes who mentions him at the end of Chapter 3 of "General Theory" and at least in one of his preparatory writings for the book (Carvalho, 1989: 183).

Marx and Keynes, seeing the contradictions of the system, the former already in the 19th century being the first to have demonstrated that there is no way to fix the system, and the latter in the 20th century seeking in every way to save capitalism[9], both were relegated to the general knowledge base as past history, since surpassed by "modern" economic thought, a neoclassical one, even though this has its foundations in thought before both. Worse, Marx was relegated to something as non-economic theory, as history, or politics, sciences considered "minors" of the so-called "pure" economic science.

Even Keynes, after having put neoclassical thought in check, was put aside. Some readers who poured over his original book "The General Theory" accused him of being a confusing[10] theorist as did Hicks (1987: 13-14), a theorist who would have understood something only partial

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[8] As Keynes sad in 1936 "Too large a proportion of recent 'mathematical' economics are merely concoctions, as imprecise as the initial assumptions they rest on, which allow the author to lose sight of the complexities and interdependencies of the real world in a maze of pretentious and unhelpful symbols" (Keynes, 1982:232).

[9] For both "the collapse is motivated by causes inherent to the functioning of the economic engine" (Schumpeter, 1970:270).

[10] According Mankiw (1991: 3) "... The *General Theory* is an obscure book: I am not sure that even Keynes himself knew completely what He really meant. Moreover, after five years of additional progress in economic science, the General Theory is an outdated book".

but nothing general (Schumpeter, 1970: 273) of the functioning of capitalism[11]. Despite having written a general theory they only immediately highlighted, and in part, macroeconomics. The other part, microeconomics, based on the behavior of the rational economic agent, producer and consumer, the economy of the "families", remained neoclassical, without taking into account that in large part the Keynes' "General Theory" deals with the problems of microeconomic behavior of the capitalist-producer, central agent in capitalist dynamics. The consumer, central agent to neoclassical thought, was put by Keynes in its subordinate place, a dependent variable in the dynamics of capitalism, as a worker who receives income only as a function of the employment that the capitalist decides to create, a fact that may have irritated the neoclassicals who sought to separate microeconomics from the utilitarian agent of macroeconomics (Kicillof, 2007:27).

What neoclassicals considered salvageable of Keynes' analysis – only to later criticize - was highlighted by Hicks two years after the publication of "General Theory". From Keynes ideas, Hicks built a walrasian general equilibrium model, the IS-LM model, in a macroeconomics of equilibrium (Hicks, 1997: 161). The model (completed and enhanced by Hansen and Samuelson) came to be considered as the theory of Keynes itself (New-Keynesian)[12]. The complexity of the work of Keynes, the result of his attempt to bringing the real world inside the theory was considered confusing and dropped. The behavior of the capitalist entrepreneur, agent of the "General Theory", might have been considered much psychological and abstract. How could there be uncertainty in the rational human behavior in a world of a naturally predictable balance? Only the Macroeconomics of production and of money markets in balance and the possibility of aggregate demand administrated by the State through economic policies were relevant, all styled in a new general equilibrium model. Nothing better than to separate macroeconomics as a complement to the neoclassical microeconomics. The neoclassical models of supply and demand, laid out by Marshall, in perfect balance, would be preserved. One should take only what was within the "General Theory" to complete the neoclassical thought.

Thus, Keynes, with all his criticism, could be abandoned by the beauty of the Hicks model: the "Neoclassical Synthesis". The model transformed the complexity of the entrepreneur's decision about a future full of radical uncertainty, center of the "Marginal Efficiency of Capital" concept of Keynes, into an automatic behavior, like an automaton, rational, driven only by interest rate variations (Hicks, 1997: 153) set exogenously by the Central Bank in the money market according to the demand for currency for transactions in relation to the level of financial savings. It transformed the complex "liquidity preference" based on speculative money into mere replacement of assets in the balance described by the LM curve. This deceived many as they see this as "the Keynesian model" of monetary and fiscal policy, coupled with an automatic adjustment mechanism of IS and LM curves that ensures the product and currency markets on equilibrium.

This simplification has opened the door for a return to the pré-keynesiana discussion (Screpanti and Zagmani, 2005: 245-47), for example, as to the effectiveness of fiscal policy facing the "crowding out" problem – discussion of 1920', reshaped by Friedman (1984: 80-81). Even until today, the IS-LM model appears in books of macroeconomics as a substitute of Keynes' theory and has been used as a mechanism for the administration of fiscal and monetary policies, fooling even some who call themselves disciples of Keynes, but that never themselves delved deeper into the complex original work. It creates a new-Keynesian category or thinking that has little of the "General Theory", but that keeps the utility of IS-LM model for the fine-tuning of the economy in the short term. Hicks eventually paved the way for the destructive criticism of neoclassical economic policy action on aggregate demand, without the separation of investment as a fundamental variable, shaping the current theory.

Through strange paths, albeit diverting from the original Keynes, traditional orthodox neoclassical thought was abandoned by the widespread use of economic policies based on general

[11] According to Schumpeter, Hicks called the economics of Keynes "economics of depression" (Schumpeter, 1970:270).
[12] See the first part of chapter 5 of Blanchard (2007).

equilibrium of IS-LM model during the 1950s-60s. If this model marked the beginning of the destruction of the thought of Keynes, it was preserving the need for public intervention to capital accumulation. It would be against this intervention that new neoclassical thought would be re-armed, having inflation as a central theme, accusing any type of fiscal or monetary policy as inflationary and destabilizing to the general equilibrium. Friedman and his successors Lucas and Sargent would be in the central axis of this debate.

3- The Neoclassical return and inflation

Few could doubt the success of the post-war institutional arrangement that succeeded, at least for a time, to manage the process of accumulation of capital, even if on the basis of the intervention based on IS-LM model. Only the skeptics, marginalized extreme neoliberals, maintained critical resistance. But obviously not on account of the contradictions of capitalism already pointed out by Marx which, as result of the very success of "orthodox Keynesianism", deepened with accumulation centered on the consolidation of monopolistic and oligopolistic capital and large internationalized financial and productive conglomerates. The criticism resulted not from the fact that these conglomerates came to have immense influence in determining global prices and in undermining economic policies and the institutional apparatus that had structured the way for post-war accumulation (Sawaya, 2009). The neoliberal critique of the institutional apparatus itself was focused on the excessive public interference that seemed to hamper the expanded accumulation of capital on a global scale, limited by geographical borders and National States.

In principle, the criticism was ideological: the State and its economic policies took the "freedom" from capital, generally economic “agent" – as if capital could be any person and not the large capitalist corporation. Hayek was the spokesman of this ideological critique of the so-called "state capitalism" that would lead society to "serfdom" (Hayek, 1990). Despite providing the ideological basis for the destructive criticism of public action[13] built into the IS-LM model, it was not this author who provided the theoretical basis in favor of his ‘market intelligence’ (Hayek, 1990: 187) against fiscal and monetary policies. Hayek was on the sidelines for years with his ideological struggle, like the utilitarians in the 18th and 19th centuries having remained out before marginalists ‘invented’ a ‘scientific way’ of measuring the utility value by differential calculus[14].

Friedman was the author who managed to arrange elements according to neoclassical interests in order to criticize the economic policies of the IS-LM model. He created the justifications re-established in liberal ideology of the 19th century and earlier[15] to move away from the idea of managed capitalism. Brought back to their aid, the quantity theory of money (Friedman, 1997: 235/6) and resumed the abstract "rational economic man" neoclassical and pré-keynesian. By resumption of quantitative theory, aligned with the micro foundations of individual behavior stemming from life cycle theory restructured by the principle of permanent income, Friedman sought to destroy the Keynes idea of the income multiplier. On the other hand he rebuilt the labor market equilibrium theory defining wages and employment volume. So he solidified the aggregate supply, "natural output", at the level of "natural employment rate”. Based on these natural rates, he sought to justify preventing any public intervention by fiscal and monetary policies structured in the IS-LM[16] model under inflationary risk (see Friedman, 2008: 16). He turned inflation into the central problem, motto for the reconstruction of the neoclassical principles of non-intervention which had

[13] “...in the case in question – unemployment – the measure itself that the dominant macroeconomic theory has recommended as a remedy, ..., the increase in aggregate demand, has become widespread the cause of a misallocation of resources...” (Hayek, 1997:214).

[14] See Screpanti and Zamagni, 2005: chap.5.

[15] See Friedman, 1984:22.

[16] “The monetarist theory, as Friedman’s reworking of the traditional quantity theory of Money was to be called, progressed at the same time as the neoclassical synthesis and grew, apparently, in conflict with it, as it presented itself as a criticism of Keynes’s economics...” (Screpanti & Zamagni, 2005:335).

been abandoned by the hegemony of IS-LM. Thus, inflation, a real phenomenon, was his main weapon for the justification of the free market.

Despite the monetarist "counterrevolution" having started with Friedman's article of 1956, this did not displace the hegemony of the IS-LM model. Only at the end of the 1970s did it enter the debate, and in the ‘80s and ‘90s, with the help of his disciples, invade the schools of economics and macroeconomics textbooks as "natural rates" of employment and output (Friedman, 1987: 258/9). Inflation became the hub of the return to neoclassical orthodoxy. Political (social) interference in the movement of capital in violation of "natural rates" becomes a sin to be punished by Hayekian "market wisdom". Inflation was extolled as justification to return to the idea of an “economy dictated by the rules of nature”: human rational nature, rationalism that Friedman explored in his theory of "adaptive expectations" (Friedman, 2008: 95), predictable nature of those automata "agents" of the old neoclassical. It returns to the idea in which the rules of nature are what govern the economy in a perfect general equilibrium. Inflation is seen as the result of violation of these 'natural' rates by economic policies, by the action of the State. The neoclassical ideology needed someone like Friedman to re-establish its ideological thinking in "theoretical" bases, clearly liberal, accusing the State of often disregarding the natural order by application of adjustment policies of general equilibrium IS-LM model. This meant a return to pre-Keynesian tradition based on a pre-Marxist human nature idea. To make expansionary economic policies, would not only generate no economic growth, but could act to the contrary. The only result would be inflation.

Over time, the quantity theory parting from Friedman became more sophisticated. It went from a fact – prices go up by a mechanism that pressures demand in the face of fixed supply given by the labor market – for the expectation of fact – prices rises because rational agents know the correct economic theory and know the result of demand pressures. Lucas and Sargent (1979) were responsible for this 'evolution'[17]. Traditionally, the quantity theory of money argues that currency volume – seen as any commodity which has a descending price due to an increase in quantity – must establish a stable relationship, guaranteed by the central bank, with the output level at any given time determined by a supposedly invariant speed of circulation[18] (see Friedman, 2008:16). Thus, if a "populist" Government decides irresponsibly to raise the amount of currency, either by an expansionary monetary policy or increased public spending[19], rational agents willing to exchange all their money surplus would demand more assets (real or financial) in a sort of auction. This would cause inflation immediately, given the rigid hypothesis of aggregate supply at the level of "natural output" defined by the "natural" rate of unemployment. In this way, inflation is a monetary phenomenon caused only by the rampant desire of consumers driven by wrong policies that would have fooled everyone. For this reason, to increase currency through monetary policy or public spending has only one result for Friedman: inflation and no output growth, only an increase in nominal and not in real income. At the core, the reason is that the policy hurts the "law of the balance between supply and demand".

It is clear that inflation has been and continues to be a problem for capitalism since long ago. It has always existed and for various reasons much more complex than those pointed to by the above theory. The interesting thing seems to be that particularly for 'modern' neoclassical thought, inflation becomes the central problem. Random high prices determined by other more complex factors weakens the theoretical base founded on the idea that prices are responsible for optimal allocation of scarce resources, calling into question the efficiency that would ensure the perfect distribution of resources, from the relationship between supply and demand, production factors ensuring "market" equilibrium salaries, to the relationship between producers and consumers in the

[17] The subject will be further explored ahead.

[18] It is worth noting that Marx already pointed that the currency circulation velocity is variable (Marx, Livro I, 1980:133-135).

[19] To Friedman it would amount to the same to raise spending or to make an expansionary monetary policy (Friedman, 2008).

market of products. This allocative efficiency is the ideological justification for the absence of conflict between agents all supposedly in "equal" conditions. It would guarantee harmonic and balanced economic growth with equitable distribution of wealth according to what each factor (agent) contributes to the production (his marginal product) in relation to its supply. Economic development would arise from there as something natural. To this way of thinking prices could only vary based on the scarcity of each resource in relation to rational maximizing consumers' unlimited desires, in a natural process of “market clearing” adjustment.

To see prices rise without any reference or as a result of distribution conflicts, of competition between large oligopolies for slices of the market, from power of big companies to reset their prices facing high costs or salaries above the value of the labor force in a redistributive process, or, simply, for speculative movements, is a problem for Neoclassicals. These questions remove the abstract basis of the existential naturalistic logic of prices and ends up with its foundation centered in walrasian general equilibrium, where even money isn’t necessary. To seek some factor external to the models that determine its perfect nature becomes fundamental to giving weight to its metaphysical assumptions of harmony. As such, it is mandatory that prices must measure the real desires of maximizing agents (their marginal utilities) for hypothetically scarce goods facing unlimited desires. It is essential to separate money from the real economy making it exogenous.

To the neoclassicals, the external factors that cause the above disorders are the expansionary fiscal and monetary policies carried out by "populist" States. Those policies distort the real nature of currency as an asset that has declining marginal utility. There would be a true cash balance that agents would like to keep for their transactions. What would explain the misalignment of this central variable for the economic equilibrium would be the nonsense of raising the amount of currency in the economy and provoking imbalances between the supply of given real assets and the artificially high demand. The problem of inflation would be, therefore, the disregard of the "quantity theory of money" in the face of the desire of agents for true balances, the result of expansionist economic policies exceeding the capacity of production, given the central hypothesis of full employment of factors and technology (natural rates), limits that prevent the elevation of aggregate supply. If you give people money, as utilitarian subjects, they go shopping since by hypothesis they want goods and goods only, the sources of pleasure according to Marshall. They do not want currency. And, as the currency was issued with no equivalence in real wealth, or without prior savings, consumers will not find the goods, and prices will rise.

Inflation was thus the basis for all the justification to put an end to public intervention, in policies that minimally sought to manage the process of capital accumulation, even if based on an original theory of general equilibrium. The beauty and simplicity of the IS-LM model had "fooled all the agents" as Friedman pointed out (see Screpanti and Zamagni, 2005: 337). With the resumption of the questions of the 19th century, the general equilibrium and the quantity theory of money, the rational behavior of the maximizing agent was once again on the table, ready to eliminate 'Keynesians' once and for all, (even as bastards of Neoclassical Synthesis). When added still to the rationality of the behaviorist agent, the picture becomes complete. Economists before 1930 (except Marx, of course) would be the correct ones in the definition of the true laws of 'economic nature’. For the new neoclassicals instrumented by Friedman, Lucas and Sargent, all policies of direct action on aggregate demand made after the world-war II to save the world from crisis – and that paradoxically contributed to create the conditions for the formation of large global oligopolies that in fact threaten the liberal metaphysics equilibrium idea – have been nothing less than a great scam. And further, these policies were also responsible for the inflationary crisis of the 1970s and 80s as pointed by Mankiw (1991:8).

4- The limit of the supply: workers' fault

These ideas have reached the neoclassical economy textbooks. In the face of a given supply one is not allowed to manipulate aggregate demand via public incentives to increase investment, natural output in the short term nor potential output in long term[20]. There is no possibility to grow without saving. For them, growth is not a result of the decision of the capitalist or entrepreneur of big business; a decision to put money in means of production to create more value using the labor force. This the optimizer entrepreneur would do naturally, given that his/her goal would be to allocate in the best possible way all the available resources. The problem is that resources are scarce. Given the "available" production factors the supply would always be at maximum limit given costs. None of this would depend on psychological questions about the future of the capitalist, or of the company that has replaced the capitalist. In abstract the company is nothing more than one robot that allocates available resources efficiently.

By that logic, the company is a "black box" that, if not disrupted by the State, always will act by optimizing production factors in a perfect allocation between capital and labor based on prices/scarcity on a Cobb-Douglas production function. If these agents are by nature maximizers given the technology and the capital stock (clearly a short-term constraint), nothing could be done to raise the aggregate supply; nothing could or should be done to raise the volume of employment. Employment is not determined by the investor company that always hires to the limit given the restriction imposed by the desire of workers. It is they who decide how much work they will offer based on their marginal disutility which determines their real wage supply, acting in the labor market as well as optimizers based on a rational cost-benefit analysis between income and leisure. In this model, entrepreneurs will always elevate production if there are available resources at equivalent prices to the value of their marginal product, given that their primary goal is to produce use-values by optimizing efficiency. The problem, then, are the workers who do not accept the "market" wages and want to receive more than the value of their marginal product (Keynes, 1982: 32): they would like to seize of the marginal product of capital.

Thus is determined the basis for the definition of "potential output" or "natural" in equilibrium, given the level of "natural unemployment" determined at the point where the real wage that companies want to pay is equal to that which the workers are willing to accept. It is the perfect world of "natural rates", where the economic growth can only take place respecting the potential output, avoiding the inflation of demand, the only one that exists, and where endogenous growth is a natural consequence of this engine.

In this way, neoclassical thinkers built a model totally tied to their hypothesis of perfect equilibrium in all markets. Any attempt to encourage aggregate demand above this "potential" of aggregate supply, increasing investment and employment, can only cause inflation: the factors of production, given technology, labor and capital, are hypothetically in 'full employment', or better, in their “natural levels” (see Stewart, 1987: 160). Any attempt to interfere with the perfect allocation of factors would only be possible through prior liberalization of production factors, what is called savings in a real sense, satisfying the Walrasian balance. Given the scarcity of resources available (all used in their natural rates), it would only be possible to raise investments if agents decide to spend less on other things, a lower aggregate demand to release factors in use – otherwise there would be inflation by excess demand on a rigid aggregate supply set by the natural rate of employment, technology, etc.. Together with the quantity theory of money this logic reaffirms that the resources released by the reduction of aggregate demand would be spared, raising the supply of financial savings. This would reduce interest rates and would raise the equivalent spending with investments, using the actual production factors that became available by the prior decrease in consumption. So it becomes explicit the neoclassical thrust: without sacrifice (saving) there are no

[20] As Blanchard (2007: 31) in his textbook of Macroeconomics says "what matters to the aggregate product is the supply side, how much the economy can produce. And this depends on the degree of improvement of technology in the country, how much capital is being used, and the size and qualifications of the workforce. These factors – and not the confidence of consumers – are fundamental determinants of the level of product of a country”.

resources (factors) to grow. There is only saving if there is a drop in consumption or some increase in productivity via technology, the only mechanism to release resources.

The theory that had been shunned after World War II leaving Friedman and the others monetarists years on the sidelines of debate, had returned. With it, capitalist dynamics would no longer be given by the transformation of money into capital autonomously, by the decision of the capitalist (or company) to invest, including using credit, as claimed Marx and agreed Keynes, by action which at the same time creates a future aggregate supply, creates employment and income to demand, in a growing movement, even though guaranteed by the required State action, given the precarious balance. For neoclassicals growth is limited by the availability of production factors – seen as naturally scarce, centered on labor.

The return to the discussion of 1920s is nearly complete. Unemployment is the fault of the workers who do not accept lower salaries. If there were flexibility there would be no unemployment (see Grossman, 1980: 6-7). Any existing unemployment is voluntary or frictional. The basis for the limits defined by what is called "potential output" has been established. Facing this rigidity, especially on the part of workers, it is only possible to grow releasing resources: with prior savings. The limited capacity of supply is defined in the market of factors by workers desires.

Therefore, according to this theory, it's not enough to want to raise demand by "populist" policies that violate natural rates. This only would generate pressure on prices (see Stewart, 1987: 163). The agents are rational, especially workers in this case. As such, any increase of demand above this predefined aggregate supply, creates only inflationary pressures. There nothing that can be done. It is only possible to grow in a "sustained" manner respecting these "laws" of economics set in the 19th century. Its proponents believe that those are like laws of physics, nature, and cannot be subverted. The subversives will be punished. Any attempt to think about growth strategies or development is directly prevented.

5- Rational expectations: the imagination becomes what is real

The issue is not restricted to ' law ' of neoclassical economics founded in "natural rates". The quantity theory of money and its consequent developments were not enough to put the phantom of inflation at the centre of the debate to the point of preventing the use of economic policies for growth or development. More was needed to transform the public policies to something that created a kind of inflationary panic and had political results that ensured the return to orthodoxy. It was necessary to transform the imaginary into something real: it ceases to be important to know whether prices have risen or are rising as a result of policies and demand pressures; it becomes more important to know if the 'rational' agents expect rising prices! The behavioral subjectivity of the imaginary agent took care of rationality. Now what is valid is the "rational expectation" present in the behavior of that classic economic man (Grossman, 1980: 13), the knower of the functioning of the economy and of the correct economic theory, who learned that aggregate demand may not exceed the aggregate rigid supply. If that happens, the necessary result will be the acceleration of inflation in the future.

As such, Friedman's successors went much further against this hidden evil. They raised in degree the idea of "adaptive expectations" which involves a reaction after the fact. As said by Screpanti and Zamagni the "students go beyond the master" (2005: 340). It is no longer necessary that demand grow for inflation to rise: it is sufficient that the rational agent believes that it will causing them to adjust prices in anticipation. This "enhancement" of the theory of rational expectations of Lucas and Sargent (1979), in addition to all the monetarist and utilitarian assumptions (see Snowdon & Vane, 2005: 223), prevents the State from even imagining economic policies. Assuming that agents are rational and everyone knows the nature of the functioning of the economy, they believe (that is the right word, a matter of faith) that any policy that raises aggregate demand, whether fiscal or monetary, which subverts the "natural rates", will result in the

acceleration of inflation in advance. Therefore, if the government abandons fiscal balance, raising expenses, or becomes lax with monetary rules, the result will be an anticipated increase in prices, before the policy actually has some effect on the demand. Inflation now occurs by rational expectations of intelligent agents. This adds another big brick to the wall that prevents state action over the movement of capital.

The way is paved. Nothing can be done. The theory has bound the real movement of the world. Economic nature should be left free to follow its course, maximizing the allocation of resources. Any attempt to carry out intervention creates the inflation monster that must be avoided at all costs. No macroeconomic policy can be used given its inefficiency in raising output and income (Grossman, 1980: 16). The State has no more function. It should simply define rules that create confidence for agents and ensure that the State will not be tempted by the "economic populism". The market is intelligent. Carry out development policy? Don't even think about it. Development will occur by natural "endogenous" forces or by technology and productivity gains, as prices float freely adjusting the optimal allocation of resources by supply and demand, without inflationary pressures.

As such, from Friedman and his "adaptive expectations", along with his followers Lucas and Sargent who transformed them into "rational", has become what is now called the "modern" and "current" theory as appears in Macroeconomics textbooks: "simply put, in the medium term, the growth of the product is equal to the normal growth rate [natural]. Unemployment is equal to the natural rate. And both are independent of the currency growth. The growth of currency affects only inflation ". Further: "Milton Friedman put this result as follows: inflation is always and everywhere a monetary phenomenon. Unless this leads to increased growth of nominal currency, factors such as corporate monopoly power, strong trade unions, strikes, fiscal deficits, the price of oil and so on do not exert any effect on inflation in the medium term" (Blanchard, 2007: 174).

The microeconomics of the rational representative agent could now take ownership of macroeconomics undoing the difference that in the past forced neoclassical thinking to swallow Keynes. Macroeconomic analysis would still not have come to the above conclusion, exposed at that time of ignoring the micro-foundations of rational human behavior. Inflation could now be the central theme, the ghost that justifies all and which impedes any social or political action to avoid or minimize the contradictions of capitalism: the rationale for the 19th century liberalism was back, based on monetarism, now in renovated format, for which fact no longer mattered, but simply the expectation of fact. The fear and threats could double in the face of the invisible. Rational agents raise prices only due to the expectation of public intervention in aggregate demand. Inflation doesn't even need to exist: simply the expectation that it will materialize is enough to be a problem. The fear of the phantom grows and allows liberal ideology take political space, preventing public action. It's as if a hidden God was continuously watching the sins of “populists” Governments, spendthrifts, and even before they occur, punishes them simply due to the perception of their intentions.

This theory came out of academia and went on to be repeated daily in the newspapers as an absolute truth. Monetary policy should be governed by rules (see Friedman, 1984: 54). Fiscal balance and flexible exchange rates are goals that must be guaranteed in order to not stimulate the imagination of agents in the face of inflationary risks. It became the basis for the neo-liberal propaganda that turned governments away from the administration of the economy and contributed to financial market liberalization.

6- Applied orthodoxy: economic policies beholden to price stability

“Inflation targeting” becomes the principal mechanism of action that combines virtually all the previous principles focusing on inflation control and prevention of public action. The clear goal is to impede the State, to bind economic policy to a rule based on neoclassical theoretical

abstraction. Despite being mostly defended by the New-Keynesians[21], the inflation target program (see Snowdon and Vane, 2005: 255-259 and 412-413) has its theoretical basis in the "rational expectations" of the Neo-classicals, in addition to the need for “credibility” (Correia and Gomes da Silva, 2002), a term which becomes central. It ends up uniting inertialists[22], monetarists, new-Keynesians and new classics. It is founded in the idea that it is necessary to establish clear rules of monetary control, as originally proposed by Friedman (1984: 54) to ensure such credibility (see Snowdon and Vane, 2005: 414) and transparency of political action (Bernanke and Mishkin, 1997). It assumes that inflation always results from demand pressures, a result of the country trying to grow above its ability to save, pressuring resources or factors of production that the country does not have: to grow above the "potential GDP" or "natural rates", a sophisticated way of saying that aggregate demand exceeds aggregate supply. This stems from the assumption that all factors of production are used in their natural rate; therefore there is only voluntary unemployment, with an absence of idle resources (savings[23]) for higher growth. Within this context higher rates of growth cannot be allowed due to the inflationary risk given the rational expectations of agents.

The theory of inflation targeting, the basis for actions of economic policy, founded in credibility in the face of the rationality of agents, proposes minimum and maximum limits around which prices can vary. When the expectations of the "market"[24] indicate the risk that the upper limit could be exceeded, glimpsing a possible disequilibrium between supply and demand, the Central Bank must immediately (and preferably independently in order to not suffer tax policies or exchange rate populist pressures) raises interest rates to signal that it will maintain its austerity, in order to inhibit in advance any price increases. The subjective expectation relationship founded on psychological credibility is central. According to the model, if the Central Bank does not anticipate and fulfill the promise, inflation will grow as agents, knowing this – given their supposed full knowledge – will raise their prices in advance. It is worth mentioning that this movement occurred not because of the elevation of aggregate demand over aggregate supply, but because of the expectation of the fact. The inercialist fuse could ignite and all would be lost.

The goal of inflation targeting policy is to demonstrate to the market that in no event will aggregate demand grow (consumption plus investment, without discrimination) beyond the potential output. The government uses two ways to signal that it will contain demand: raising interest rates and/or decreasing the volume of money and credit in the economy, as well as cutting public spending to raise the fiscal surplus. As such, it ties monetary control directly to a restrictive fiscal policy, a source of credibility. The reference is the inflation of demand, the assumed "natural rates"– limited savings or structural shortage of resources. All of the neoclassical logic is present here. It is worth remembering that for neoclassical thought, the future is not uncertain and, in the long run – if not in the medium term of Blanchard (2007) – all will be punished for their inflationary sins.

Exchange rate policy deserves more consideration because it has strong implications. In the traditional neoclassical theoretical basis it works as an additional element to the imaginary stabilization. Flexible exchange policy, on a theoretical basis, is intended to signal to agents that monetary impacts caused by variations in the accounts of the balance of payments on the economy will be avoided, ensuring the quantitative principle of money supply. Of course, this assumes a homogeneous and competitive world market that balances foreign exchange flows in the balance of payments accounts in the long run. Thus, traditional exchange policies for economic growth are

[21] Just to restate, Mankiw (1991) himself undertook to demonstrate that there are very tenuous differences between new Keynesians and new classicals –the distinction ss not terribly necessary to the intention here.

[22] Simonsen (1986: 168) points out that "one of the creators of the theory of rational expectations ... admits that the inflationary inertia is a mere byproduct of monetary incontinence", uniting interestingly the monetarists and the inertialists.

[23] That, on the basis of the quantity theory of money, financial or real resources are identical.

[24] The market is always referred as an abstraction, as if there was no one specifically who takes control of it. This may be referring to the "intelligent" market pointed to by Hayek.

prohibited. Floating exchange rates would guarantee the traditional "automatic adjustment" of the balance of payments.

But in fact, flexible exchange rates have resulted in huge exchange-rate volatility and excessive appreciation of national currencies in peripheral countries that have adopted it. In spite of the problem it creates, contradictorily, this has been an important mechanism to concretely avoid demand pressures, allowing the increase of imports in order to prevent internal prices rising via competition. Flexible exchange rates do not converge to an equilibrium exchange rate. Flexible exchange rates become the variable that ensures to the economic 'agent' that demand shocks are automatically compensated by the free flow of imported goods, given the hypothesis of rigid internal aggregate supply, "aligning" internal and external prices. Despite the theoretical principle of preventing external impacts in monetary policy, in fact, exchange rate valorization has been used as the principal anchor to internal prices. Contrary to what the orthodoxy imagines, this anchor has the central role of controlling the prices of large oligopolistic firms that are forced to compete with imported products.

More interesting is that the trade deficits that result from the appreciated currency eventually strengthen the orthodox view. The neoclassical thought blames the excessive domestic demand in the face of the inability of domestic production to satisfy it. The difference would be guaranteed by imported goods, appearing as if the country had consumed beyond its capabilities, growing with "external savings", using productive resources from other countries, given the hypothesis that there are no resources available internally – a shortage of production factors (labor force wishing not to work by current real wage), available technology and capital. This interpretation demonstrates a clear reversal of the facts. Facing the external imbalance, the neoclassicals leverage that fact to defend recessionary policies with the purpose of reducing the pressure on imports resulting in further depressing the economy, including investment.

Exchange rate valorization ends up driving the replacement of internal production and employment with imported. National industries stop producing, dismiss their workers, the aggregate supply falls, and the national economy can no longer grow by its own means. All based on the idea that the resources available are in full employment; the country does not have production capacity. It becomes, therefore a logical inversion which destroys the national productive structure provoking the so-called deindustrialization[25]. This prevents growth and development.

In Brazil, inflation targeting policy apparently would have been implemented to replace the exchange-rate anchor policy of the 1990s. But, it is worth mentioning that although it appears to have replaced it, everything indicates that in recent years, continuing exchange rate valorization the central element against high prices (see Holland and Mori, 2010). Between 2002 and 2010 the exchange rate in money terms fell from R$3.6 to R$ 1.6, with a real reduction of 43% over the same period. It is significant that, during this period, the elevated exchange rate valorization did not result in serious problems in external accounts as happened in the years of the "Real Plan" (1994-99), only because of the excess of international liquidity, as well as the brutally high export commodity prices.

The perverse impact of inflation targeting policy on society, in addition to its structural effects as pointed out above that do not allow economic growth, has been a strong increase in the payment of interest on the public debt[26]. On the other hand, high interest rates lead to strong external speculative resource entry into the country, driving even more exchange rate valorization, resulting the problems mentioned above.

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[25] Here is a huge contradiction. If on the one hand the exchange rate appreciation causes companies no to raise their prices and to import most of its intermediate goods, causing deindustrialization, on the other hand, a valued exchange rate gives them oligopoly power to raise prices. This is a central issue in the discussion on inflation.

[26] Between 2002 and 2010, the Brazilian Government paid, on average, 6.5% interest as a proportion of GDP, despite the persistent, but insufficient fall in the rate from 8.5% of GDP in 2003 to 5.5% in 2010.

For its defenders, the success of neoclassical theory that underlies the logic of the policy of inflation targeting, is due in large part to it success in promoting the disengagement of the State from its social role and unwanted administration of capital accumulation. It is a process that had the support of scholars by the formulation that began with Friedman in his critique of the IS-LM model and that was gradually refined by his followers. The goal seems clear: move the State away from economic policy, justify deregulation and liberalization, giving complete freedom to capital. In the 1980s-90s this served as a basis to justify deregulation no only requested by productive capital – the big multinationals – which called for freedom to restructure their productive system in the world (Sawaya, 2006), but mainly requested by finance capital that also wanted to get rid of national regulatory systems that prevented them to speculate in the world outside in the market of eurodollars (see Einchengreen, 2000). It was the neoclassical economists, professors and students of doctoral programs of the most renowned schools of economics in the world, which provided the theories and con sulting services for many States aiming for total deregulation. These theories gained scientific 'tone' possibly from being wrapped in a hermetic mathematics. These became the 'technical' argument that was missing to exempt any neoclassical economist from the responsibility of not having foreseen the crisis of 2008[27]. After all, it was not in their "model". Our native economists (Brazil) are just repeaters of these theories[28].

But, more important than all of this, is that by tying monetary, fiscal and foreign exchange rate economic policies to a logic of non-intervention, based on metaphysical principles of how the "market" operates founded in hypothetical optimizing individuals, neoclassical theory prevents the State from acting to ensure economic growth and, even more, from designing development strategies which involve necessarily the control of Capital accumulation. As Keynes would say, investment is a very important variable to be left loose on the market. Or, as Marx would say, “the capitalist mode of production stands on its own feet” (Marx I, 1980:881) it is self-destructive.

7- Inflation: in fact a problem[29]

Is Inflation in fact a problem? For the neoclassicals of the19th century, by inflation simply being a monetary phenomenon and prices being set as relative values, the widespread increase in prices could not have impacts on the real economy. As an exogenous monetary problem, it would be enough to control the money supply and everything would be resolved. The modern solution is not much different, but inflation is seen as a problem because of its negative impact on the allocation of resources since prices can reference nothing. Thus, it becomes a hindrance to the predictability of the system.

Perhaps the most important problem about the inflation is related to distributive issue as already pointed to by Keynes (1978b: 86-105) and Kalecki (1983: 13). The economy is organized in power structures where there are differences between social groups relating to the power to set prices. Salaried workers-consumers are the ones who suffer most from the effects of inflation. Likewise, companies that do not have market power can also become losers in the process. On the other hand, the oligopolistic corporations, those that have the power to set prices, and who have more power in a competitive war, come out winning.

[27] As well reproduced by Belluzzo in “Carta Capital” magazine (5/18/2011: 41) the words of Robert Lucas made in 2007: "I'm skeptical about the argument that contends there is a risk of contamination of the entire mortgage market by problems in the subprime. Either I do not believe that residential construction may be halted and that the economy will slide into a recession. Each step in the chain of this argument is questionable and nothing has been quantified. If we have learned anything in the last 20 years is that there is a lot of stability in the real economy”.

[28] Brazilian new classical economist Gustavo Franco repeated the same argument of Lucas (see note above) in a lecture in 2007 as his own idea.

[29] I try to give a full answer to this question in Sawaya (2013) "Value, price, Inflation and the power of capital: a Marxist vision”.

For these large companies, inflation is not necessarily a problem and often can be a solution. With their market power, the loss of price references by consumers allows these companies to win. In addition, they can pass all additional costs of their inefficiency to prices. So, for the big business, inflation is not a problem.

In the case of banks and the financial system, inflation would become something unwanted as it reduces the real interest rate that they receive. It would undermine the future interest rate calculation for the new loan contracts. But in any case, these issues can be resolved by systems of contract indexing, as well as by the use of post-fixed price securities. So, it is not a significant problem.

For these reasons it becomes clear why Brazil's GDP grew over the years with relatively high inflation rates to the neoclassical standards. The average inflation during the growth cycle called " The Miracle" (1968-72) was in excess of 20% per year and during the 5 years of the period of “Plano de Metas” (1956-60) was 19% per annum on average[30]. The price rise has no negative impact on capital accumulation as the neoclassicals want to make us believe. Similarly, it is also known that inflation in Brazil exploded in the second half of 1980’ after the two oil shocks and the mega-devaluations of national currency which occured in the first half of that decade to address the problems arising from the negative Balance of Payments. Moreover, the inflationary explosion in Brazil occurred in the midst of the constant contractionary policies of public spending cuts and rising interest rates adopted since the late 1970’.

Thus, the discussion of the problems of inflation and its causes present in the imported neoclassical models seems not to refer directly to the issues of Brazil or anywhere else. Restrict inflation to a single cause, the issue of imbalances between aggregate demand and aggregate supply with all the metaphysical assumptions previously exposed, is to simplify the problem. This idea can only be useful to certain interests. The neoclassical logic leaves aside a serious discussion about the complexity of pricing in capitalism, especially in peripheral economies like Brazil.

In Brazil, both the acceleration of inflation in the 1980s as its control in the 1990s through the "Plano Real", apparently not coincidentally, occurred through exchange rate policy and not as a result of the contractionary monetary policies or of inflation targeting policy. This appears to be due much more to the fact that Brazil is an economy in which there is a predominance of large multinational oligopolies and a large dependence on imported parts and components of its value chain. Exchange rates have a central role in production costs for these large foreign groups. Similarly, these groups have also an enormous market power, given the low internal competition, managing to pass easily their rising costs to final prices.

Little mention is made of the fact that price growth is related to the market power of large conglomerates and oligopolies, having little relation to the supply and demand as the neoclassicals try to show in their microeconomics textbooks that assume competition as given and, ultimately, even with monopoly, it is demand that determines the final price. Large firms manipulate prices focusing on strategies of control over market-shares. It is worth remembering that for Marx, the very formation of prices (“prices of production”, as it were) stems from competition for the appropriation of surplus value between large conglomerates and their strategies of control over markets and products in search of "surplus-profit", prices themselves having little or nothing to do with consumer desires (Marx, 1980, LIII, chap. IX and X). The Marxist discussion of unequal market power in a non-free market but dominated by big business, does not fit. Ignacio Rangel sparked this discussion when he analyzed Brazilian inflation in his book of the same name (Rangel, 1986).

It is interesting that in the middle of a "monopolistic capitalism" in place and in operation for ages, a theory continues focusing on demand based on isolated agents as the central element of capitalist dynamics, without even distinguishing what is consumption and what is investment. In

[30] See Goldsmith 1986.

fact, those who set prices in the economy are not consumers as neoclassical theory touts, but those who have the power, which today, in addition to the oligopolistic companies includes speculators of commodities. Consumers are in fact a dependent variable in the game and have their consumption capacity set by the capitalists. Prices are determined by strategies of oligopolistic firms that, faced with increased demand, tend to first raise the prices, and not to raise the supply, even if they have productive capacity to do so; they just raise the offer in the medium term, but never bring prices back when demand falls. This complex situation is not considered.

Inflation is something much more complicated. Depending on the structure of power at any given time of capitalism, inflation will be higher or lower. Depending on the power of large companies, commodity prices will vary. In an economy governed by oligopolistic capital, marked by structural inequalities, and in a historical moment in which globalized capital dominates, inflation will be hardly controllable or something that can stay at a certain level of stability. Perhaps this can occur only in economies in which the companies are State-controlled as in China. Trickier still is to relate inflation exclusively to a problem of aggregate demand.

In spite of the process of globalization marked by internationalization of large conglomerates, by a reduction in power of national States social control over the capital, by the flow of financial capital around the world, inflation, to neoclassical simplicity, continues to be the fault of the poor souls of individual agents, the “rational economic men” who insist on spending more than the production capacity guaranteed by the optimizing capitalists. Of course, the greatest fault from States that have fooled these agents with populist policies that make them feel richer by giving them excess currency for their delight.

At the same level of simplicity, neoclassical thinking considers big companies as "black boxes", as rational optimizing agents as if they were automatons that act on the best arrangement of machines/equipment, technology and labor to maximize production efficiency resulting in a maximization of profits. They define their prices per a markup system over costs, but always in such a way as to make better use of all available resources, by nature scarce. The questions of why they have power to raise prices, every expectation of increased demand or costs, never enter the discussion: it is simply considered by modern orthodox theory as natural.

Additionally, they do not want to understand what ensured low inflation in recent years, not only in Brazil, but throughout the rest of the world. The China phenomenon does not fit the theoretical model of demand (see Aglietta & Barrebi, 2007). This country promoted a flurry of cheap products on the world market, facing large American and European oligopolistic conglomerates in a fierce competition. This was a result of the strategy of "China-Holding" in its goal of becoming a hegemonic power, and has nothing to do with issues of demand (see Sawaya, 2011). To neoclassical thought this country exists only as the new focus of destabilization by its high demand for commodities, in fact, a market controlled on one side by the oligopoly of a few large companies, and on the other side, by a speculative market. It's easier to throw the blame on excessive Chinese demand to explain the rising prices of commodities because it does not contradict the "theoretical model" of fashion, although, strangely, the period has been characterized by low world inflation.

Everything takes the appearance of that the decrease in inflation in the world through the 2000s was the result of inflation targeting policies and respect of neoliberal ideas by national States with regard to the fiscal and monetary policy, in consideration of "natural rates". In Brazil, economists still strive to obfuscate that the end of inflation was actually the result of an exchange rate valorization policy promoted by the Real Plan, and that it was kept low for the past 20 years as a result of a worldwide phenomenon and not as a result of the thinking of some enlightened indigenous economists working toward clear “targets”. The same strategy of exchange rate anchor was applied before in Mexico, in Argentina, and in many other countries.

Inflation serves as a "scapegoat" for the greatest retrogressive change in history in terms of economic theory – we return to the classical pré-keynesians. This reverse founded in modern

theories of Friedman and Lucas – accepted by New-Keynesians – promoted the most dramatic withdrawal of State control over the accumulation of capital. Served as a justification to practically prohibit the State from making any sort of compensatory policies that ensure a minimum of social equality and social control over capital, even if this control were in favor of the accumulation process, of production. Financial capital has become predominant in this process to the point of being present in the interstices of the State, holding and defending the policies of its interest at the expense of its own productive capital accumulation, and of economic growth.

Even with the great global transformations, the modern neoclassical economists continue their superficial analysis. Apparently the purpose is of the noblest: maintaining macroeconomic stability (inflation control) in order to leave the way clear for capital. Concretely, this prevents economic growth and the ability of the State to minimally transform economic growth into development. Such is the media campaign that common sense came to believe that demand is the only problem and controlling it is the way to control prices and ensure growth: raising interest rates and cutting spending and salaries. Even in Europe in the middle of the worst crisis in history, although the problem is not inflation, the model to be followed is the same.

Analyzing more carefully the issue of inflation trying to move away from simple analyses proposed in automatic mechanical models is the key to control it and to ensure economic growth. There is a consensus around the idea that inflation is a problem, mainly because that involves winners and losers. It is not a problem because prices rarely reflect the values of the goods. To note this is simply stating a fact.

To use inflation, as has been used for years, to disallow economic development policies: this is serious. Even more in countries like Brazil, where admittedly the questions of economic power of big business – the main cause of inflation – are organically present. Using the same neoclassical models as has been done under the same simplistic and false assumptions to get the world economy out of the present crisis will result in yet more problems for all of society.

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