RESUMO EXPANDIDO (PARA ASSOCIADOS AKB) / EXTENDED ABSTRACTS (AKB MEMBERS) - ÁREA 6. ECONOMIA MONETÁRIA E FINANCEIRA E DINÂMICA INFLACIONÁRIA

CONVENTIONS, INSTITUTIONAL COHERENCE, AND THE INVESTMENT DECISION: A POST KEYNESIAN MODEL FOR PERIPHERAL ECONOMIES

Victor Marins (victormv20012@gmail.com)

Lucas Scheremetta Santos (scheremettalucas@gmail.com)

Peripheral capitalist economies tend to exhibit structurally lower levels of productive investment relative to their central counterparts. From a Post-Keynesian perspective, this pattern is rooted in the monetary nature of the capitalist system, in which productive assets permanently compete with financial assets in terms of expected profitability and liquidity premiums (Carvalho, 1992). Under conditions of fundamental uncertainty where, following Dequech (1999), knowledge is incomplete and unreliable as a guide to action, preventing the formation of fully reliable probability distributions, agents cannot simply compare expected rates of return and choose the option with the highest present value. Instead, they rely on conventions, understood as socially shared rules of behavior or thought characterized by conformity with conformity and arbitrariness (Dequech, 2011), which provide anchors for expectations and enable economic coordination in the absence of probabilistic knowledge.

In peripheral economies, the competition between productive investment and financial accumulation is systematically intensified by structural characteristics

such as currency hierarchy (Fritz, Paula, and Prates, 2016), external financial vulnerability, and higher macroeconomic volatility. Under these conditions, the formation of conventions that sustain long-term productive investment becomes crucial for the development process (Carvalho, 2014; Erber, 2011). However, as Erber (2011) demonstrates, different and often competing conventions regarding the development process coexist within the same society and, critically, within the state itself. The central research problem addressed by this paper concerns the consequences of this institutional coexistence: when the state simultaneously projects an ambitious developmental agenda and maintains a contractionary macroeconomic orientation governed by a competing stability convention, how does this institutional dissonance affect the entrepreneurial decision to invest in productive capacity?

The paper pursues three interrelated objectives. First, to provide a foundation for the expected quasi-rent of productive assets grounded in the Post-Keynesian theory of conventions, drawing upon Dequech's (2022) extension of Keynesian conventions to the goods market and Erber's (2011) political economy of development conventions. Second, to formalize the mechanism through which institutional incoherence between a development convention and a stability convention within the state erodes entrepreneurial confidence, independently of the level of expected profitability. Third, to derive a set of comparative static propositions that characterize the structural determinants of productive investment in peripheral economies, with particular attention to the conditions under which an escalation of developmental ambition becomes contractionary when unaccompanied by macroeconomic coherence.

Methodologically, the analytical point of departure is the own rates of return framework developed by Keynes (1936, Chapter 17) in The General Theory and formalized by Carvalho (1992). In this framework, every durable asset is characterized by an own rate of return determined by its expected quasi-rent and expected capital appreciation, net of its carrying cost, plus its liquidity premium. Wealth-holding agents allocate their portfolios by comparing the own rates of return across available assets, and capital flows towards those whose return most favorably exceeds the alternatives. A central insight of Carvalho (1992) is that, under fundamental uncertainty, the expected quasi-rent and liquidity premium are the most volatile components and the most deeply

conditioned by the subjective perceptions of agents, while capital appreciation and carrying costs tend to be relatively stable and technically determined. In peripheral economies, moreover, the net liquidity differential between financial and productive assets is structurally elevated, imposing a chronic bias against productive accumulation.

To this framework, the paper introduces three theoretical extensions. First, the expected quasi-rent of the productive asset is microfounded through two conventionally constituted channels: a market convention, reflecting the degree to which private agents share a belief in the continuity of aggregate demand, and a development convention, reflecting the credibility entrepreneurs attribute to the state's commitment to structural transformation. These are aggregated through a constant elasticity of substitution function. Second, drawing on Carvalho's (2014) argument that the conventions shaping entrepreneurial confidence emanate from the state itself and become constitutive of the broader convention structure guiding investment decisions, a state of entrepreneurial confidence is introduced as a function of the institutional distance between the development convention and the macroeconomic policy stance. This macroeconomic policy stance represents the hegemony of what Erber (2011) calls the restricted institutionalist convention over the conduct of monetary, fiscal, and exchange rate policy. The effective expected quasi-rent captures the idea that institutional incoherence does not subtract from expected profitability but erodes the epistemic weight entrepreneurs assign to their own calculations. Third, the net liquidity differential is decomposed into a chronic structural liquidity preference characteristic of peripheral financial systems and a cyclical component driven by the prevailing convention of systemic macroeconomic instability. Combining these elements yields the central analytical object of the paper, the Investment Propensity Gap, defined as the net difference between the effective own rates of return of the productive and financial assets, such that productive investment occurs only when this gap is positive.

A systematic comparative static analysis yields a set of formal propositions characterizing the directional effects of each structural and institutional variable on the propensity to invest. The central and most distinctive result, however, concerns the ambivalent effect of the development convention itself. An increase in the development convention simultaneously operates through two

opposed channels: a positive channel, by which a more credible developmental agenda expands the productive opportunities entrepreneurs perceive as reliably exploitable; and, whenever the development convention surpasses the macroeconomic stability convention, a negative channel. Through this negative channel, the widening gap between an ambitious developmental project and a hegemonic stability convention within the state erodes entrepreneurial confidence due to the contradictory institutional signals it emits. The model thus formalizes what may be called an Erber Paradox: in a peripheral economy, an intensification of the state's commitment to development, when accompanied by a stability convention that retains hegemony over macroeconomic policy, can produce contractionary rather than expansionary effects on productive investment. A corollary establishes the existence of a threshold beyond which further developmental ambition becomes self-defeating unless accompanied by a corresponding retreat of the stability convention. This result constitutes a rigorous formalization of the central political economy argument of Erber (2011), demonstrating analytically that the relationship between developmental ambition and productive accumulation is not monotonically positive but mediated by institutional coherence, and that incoherence can render an otherwise expansionary agenda structurally contractionary.

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Palavras-chave: post-keynesian economics; fundamental uncertainty; conventions; productive investment; peripheral economies; institutional coherence.