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Narratives and Economic Policy: Theoretical Explorations and the Case of Central Bank Communication in Brazil*

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Abstract

Increasingly, economists study narratives and their causal impact on economic processes. This paper proposes a new theoretical framework of narrative analysis that is based on the philosophy of language, especially speech act theory, motivated by the observation that, so far, the economic approaches focus on the representational function of narratives and tend to emphasize negative consequences of biased, distorted, and simplified representation. In contrast, we define narratives as a medium of distributed cognition and mediators of collective agency in networks of agents operating in an uncertain and complex world that is materially constituted by their actions. After sketching the theory, we introduce a case study on the role of central bank communication in recent economic developments in Brazil for illustrative purposes, focusing on the role of financial audiences and a specific narrative genre, the "austerity genre" induced by the Brazilian Central Bank.

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1. Introduction

In his Presidential address to the American Economic Association 2017, Nobel laureate Robert Shiller (2017) launched the project of a "narrative economics," since

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then elaborated in a book addressing a wider audience (Shiller 2019). The notion of narratives was already part of the list of "animal spirits" in the book co-authored with Akerlof, another Nobel laureate (Akerlof and Shiller 2009). The material presented is mostly historical case studies, arranged in what Shiller recognizes as salient themes around which many narratives have been constructed in recent times, such as on automation and work or on financial bubbles. Shiller clearly recognizes that research on narratives requires collaboration with the humanities, and his analyses are indeed mainly interpretive historical accounts. At the same time, as an economist, he endorses data-grounded quantitative methodologies, such as epidemiology.

Our paper aims at introducing a new approach that combines methodologies in the humanities and economics in the precise and rich conceptual framework developed by the philosophy of language since the 1950s, and which is, to our best knowledge, so far ignored in the economics literature on narratives. This framework helps to structure interpretive approaches to texts and other communications analytically, as they are employed by Shiller. Our approach also goes far beyond other existing approaches to narratives in economics. Economic methodology explores the role of narratives in illustrating and endorsing certain theories, such as the reference to Robinson Crusoe in microeconomics (seminally, Klamer, McCloskey, and Solow 1989). Although we recognize this as a specific use of narratives, it remains marginal in economic policies and business, unless the narratives swap over to the general public, as in Shiller's example of the Laffer curve. Economic reasoning may transform into a narrative when communicated to the public: We treat this as a specific rhetoric form in which narratives are created and ask for the specific functions that such a communication has. Beyond this, we do not endorse the wider interpretation of treating all economic models as a type of narrative, just cast into the language of maths. This view blurs the crucial differences between scientific models and ordinary language.

Our approach dovetails the rich literature on performativity, which, however, mostly does not explore the dimension of narratives. The concept of the "performativity of economics" refers directly to economic models. For example, the performative function of the Black-Scholes formula in MacKenzie's (2006) influential work does not involve narratives, but artifacts such as spreadsheets. The same applies to other, broader applications, such as the performativity of accounting systems (Herrmann-Pillath 2013). Performativity in general certainly involves narrative aspects, which we include in our discussion of functions of language, of which performative functions are only one of several.

Our approach differs from quantitative text analysis in being qualitative in the first place (overviewed in Gentzkow, Kelly, and Taddy 2019). We build a bridge to these approaches in referring to established research methods such as semantic discourse analysis, but, following Shiller, we believe that this cannot fully cover the interpretive complexity of narratives. For example, relative frequencies of words across a body of texts evolving through time may reflect the changing sentiments in a population of economic agents (e. g., Souma, Vodenska, and Ayoama 2019; Shapiro, Sudhof, and

Wilson 2018), but cannot cover the various functions that narratives have, depending on context and audiences. But the two approaches are clearly complementary.

Our perspectives on narratives centre on two themes. One is the role of narratives in coping with uncertainty, in various dimensions, from cognitive to enabling action. Here, our approach matches with the resurgence of research on ideas in political science two decades ago (Blyth 2002). The treatment of narratives even by Shiller, suggesting bias, distortions, and misperceptions, continues with the long and strong tradition in economics of assuming that, in principle, there is a reference point beyond the narrative in a "reality" accessible to rational agents. If we eschew this assumption, narratives become essential in constructing reality and thus enabling action in the first place. Second, and related, we argue that narratives are crucial in constructing "interests" as emerging from discourses among specific audiences (Hay 2011). Economists mostly take interests as a given, in the sense of being determined by transparent and known positions in economic structure (such as farmers as an interest group). However, in an uncertain world people might even not fully know what their interests are: If economists recognize this, they only refer to informational deficiencies. But facing genuine uncertainty, narratives may be the media of constructing interests, thus eventually reversing causality, as out of interests structural positions emerge.

In this paper, we cannot elaborate our approach in detail and certainly cannot present a fully-fledged empirical vindication. We present the bare outlines and look at one example for mere illustration. This example is drawn from a topical field familiar to economists where interest in language and communication emerged early, central bank communication, and where repercussions in the public became obvious (Blinder *et al*. 2008; De Haan and Sturm 2019). Extending on this work, we show how our framework may add new insights and methods.

The paper proceeds as follows. In section 2, we develop the theory: We introduce three levels of analysis: First, speech acts as constitutive elements of, second, narratives, which is the level where economic functions materialise, and third, genres. Further, we explore the concept of "audience" which ties up with social and political structures. Section 3 applies the theory to a case that serves only expository and didactic purposes, the recent economic policies in Brazil, and the specific role of Brazilian Central Bank narratives. We present a sketch of what we label "narrative process analysis." Section 4 draws conclusions for a full-fledged program of narrative analysis in economics.

2. Elements of Narrative Analysis in Economics

One of the reasons why economists may not feel at ease with narratives is that they may appear as "irrational," as it is also suggested in reference to the "animal spirits" conception. And indeed, most of the examples given by Shiller are negative, such as understanding severe recessions in terms of narratives. Narratives allegedly give an inaccurate and extremely simplified picture of reality, and today include so-called fake news (think of narratives about the dangers of immigration in the upsurge of populism worldwide). That means, even if we need to refer to narratives as partly explaining economic processes, perhaps they may also have therapeutic uses, ultimately to get rid of the harmful impact of narratives and recovering "economic rationality."

We champion another view of narratives which goes back to the original meaning of "animal spirits" in Keynes ([1936] 1960, 161) and is elaborated in other disciplines, such as in sociology where, for example, Beckert (2016) analyses the role of fictional narratives in enabling capitalist dynamics. The notion appeared in Keynes' famous chapter on long-term expectations: Keynes diagnosed the possibility of failures of rationality if economic agents rationally maintain a state of expectations that stabilizes a disequilibrium in the economy. Therefore, he thought that such a stalemate could only be broken up with "animal spirits," *i. e.,* entrepreneurial drive and imagination. We suggest that narratives should be approached in this sense. Narratives are the cognitive and motivational means to deal with situations of radical uncertainty and irreducible complexity, where "ordinary rationality" not only fails but is impossible to achieve.

The reason why even Shiller and Akerlof mainly emphasize negative aspects of rationality is that they stick to the rationalist tradition of economics in treating uncertainty as risk, and hence, in principle, amenable to rational risk assessment. This reference frame, as in behavioural economics in general, biases the view of narratives as "irrational" for the simple reason that they do not employ the rationalist mode of reasoning.[1] We adopt the reference frame of uncertainty as developed in the rich literature of various strands in heterodox economics (Almeida and de Paula 2019), which includes schools of thought that differ substantially in other respects, such as Austrian economics or Post-Keynesianism. Heterodox economists always followed the Knightian distinction between risk and uncertainty and emphasized the constitutive role of the latter in understanding core phenomena in the economy, such as entrepreneurship. Early contributions such as Shackle (1972) emphasized the role of creativity in coping with uncertainty, and we argue that language is the essential medium in which creativity unfolds.

2.1 Speech Acts as Constituents of Narratives

More systematically, the methodological difficulties with narratives result from implicitly adhering to the mere representational understanding of language in Shiller's and Kahneman's approach. Narratives do not seem to reflect "reality" in the sense of the correspondence theory of the truth, and accordingly, they must induce behavioural biases that block rational action in the real world. If we turn to the philosophy of language, this misinterpretation of language was already overcome in the 1950s, when

[1] Indeed, Kahnemann (2011) endorses this negative assessment of narratives.

the philosophy of ordinary and natural language was emerging against the dominance of the "ideal language" approach of logical positivism (overview in Lycan 1999). This movement resulted in the development of speech act theory which explicitly recognizes and investigates the various functions of language (Green 2017). We build on this view and suggest a taxonomy of functions of narratives in economics first suggested by Herrmann-Pillath (2007).

Most fundamentally, two reasons must be recognized why a simple correspondence theory approach to information embodied in narratives fails. The first is that the economy is a hyper-complex system in which actors, even economists, cannot possess full knowledge and understanding. It is impossible to identify causal mechanisms with certainty, and actors face systemic and radical uncertainty in many contexts that go beyond habitual actions in a familiar environment (such as many consumer decisions). Narratives are a cognitive means to deal effectively with uncertainty (*cf.* Blyth 2011). As Beckert (2016) has argued systematically, this is particularly true for action that aims at changing current states of the world and creating new future states, as in entrepreneurial action or political design.

The second reason, and building on the last point, is that cognition and action are deeply enmeshed in the domain of the economy. Knowledge acquisition and information processing are intimately tied up to preparing and implementing future-oriented economic actions (Shackle 1972). These actions are rarely isolated but are embedded in networks of many actors. Narratives are the cognitive and communicative medium that enables contextualized action in these networks. In particular, narratives mediate shared cognitive models that define shared interests and eventually enable collective action (North 2005). Therefore, we approach narratives as a medium of *distributed cognition* and as mediators of *collective agency* in networks of agents operating in an *uncertain* and *complex* world that is materially constituted by their actions, *i. e.*, the economy.

Against this backdrop, speech act theory is a rich toolbox to understand and analyse the role of narratives in economic practice, as speech acts have different functions in terms of the relationship between language and reality. The starting point is the observation that in practice, narratives can be dissected into constitutive elements, the flow of sentences, which may play different roles, such as being descriptions, warnings, or performative. For example, a business leader may tell his children as successors the story of founding the enterprise, with multiple goals, not just telling the true story. He might want to imbue his children with the right entrepreneurial spirit, or he might make them sensitive for risks, and so on. Different parts of his narrative will have different functions. Besides, narratives can be contextualized, with a similar functional differentiation. For example, it matters when, where, and why the business leader tells his story, accentuating different functions.

Classical speech act theory (Searle 1976) distinguishes between representative, directive, expressive, commissive, and declarative functions of speech acts. It is important to recognize that these functions do not only depend on the intentions of the speaker, but also the interpretation of the listeners; speakers may anticipate this interpretation in telling their narrative. For example, an objectively false statement may be interpreted as having an expressive function and therefore may be interpreted as accurate, representing certain inner states of the speaker, especially if both sides know that the statement is false.

If we connect this to economic matters directly and highlight the two aspects of complexity/uncertainty and the social embeddedness of actions, we arrive at the following elementary taxonomy of narratives in the economic context. Within a narrative flow, the functions of consecutive speech acts determine the precise role that a narrative has in a specific context:

- *Representative Function:* Narratives can have the function to represent economic reality in terms of clearly demarcated causal chains of narrated events that aim at capturing real causal mechanisms that are highly context-sensitive and opaque.
- *Directive Function:* Narratives can have the function to cause others to conduct a certain behaviour desired by the narrating actor(s). In suggesting a certain narrated course of events, other actors should be motivated, induced, or even threatened into behaving in a specific way.
- *Expressive Function:* Narratives can express an evaluative stance of the actor, and hence a willingness to adopt corresponding actions, thereby asserting the identity of the actor, which includes the construction of shared identities in groups.
- *Commissive Function:* Narratives can explicitly commit an actor to a certain action that is described in its contextual framing of events; hence, they can have the role of announcing an action in the future, thereby reducing uncertainty.
- *Declarative Function:* Narratives can bring certain social states into being, if they result in creating the appropriate causal mechanisms by changing states of all relevant actors, such as assigning roles to actors, and defining rules of action for them.

In order to make these distinctions operational in analysing economic processes, we relate them to the wider setting of narrative analysis as developed in the humanities (for a broad overview, see Herman, Jahn, and Ryan 2005).

We can distinguish between the "story" as the abstract ("mental") content of the narrative as a phenomenon in discourse, *i. e.,* as situationally embodied in certain media and relationships between narrator and audience. Stories have certain generic structures, such as involving a limited set of actors, suggesting causal chains of events, and imposing a certain dynamic that concentrates on a "plot," *i. e.,* a situation in which the causal chains converge in generating a result, by which the story is closed (for example, "unicorns" in digital industries are the topic of a set of similar success stories that generalize over certain patterns of market dynamics). In approaching the story as a narrative, one adds the contexts in which the story is told, especially including an analysis of the audience, and eventually, the specific purpose of a narrative (such as a unicorn story told to an investor). Most basically, all stories build on the representational function and have fictional and non-fictional references. For example, a narrative may claim to evoke a past flow of events truthfully; it may, however, end up with a commissive speech act, which is justified by remembrance. Or, a narrative may predict future development, hence it is purely fictional, yet it claims to be truthful as well in describing a certain outcome of an action, and thereby aims at persuading others to act in a specific way.

An important concept in narrative theory is "genre," which we introduce as the third level of narrative analysis. Shiller (2019) has a closely related notion in his systematic reference to what he calls "narrative constellations:" For example, financial bubbles are such constellations which produce and sustain a wide range of narratives with many family resemblances, without coalescing into a single and exclusive "master narrative" (such as a myth recurrently reproduced). Genre theory has been applied to economic topics in organizational ecology research (Hsu and Hannan 2005; Hannan, Pólos, and Carroll 2007). Depending on the larger social domain, one can identify typical genres, such as in literary texts, detective novels, or love stories. Narratives belonging to specific genres share certain typical constellations of actors, certain kinds of plots, and general patterns of causal flows. Most importantly, genres mobilize a specific set of emotions in the audience that are thematized in the narrative (such as romantic feelings in a love story) and thereby operate as a selective mechanism in arranging the relationship between narrator and audience.

All these distinctions are important for economic analysis. We suggest distinguishing between different economic roles of narratives: Different from speech act analysis, functions refer to the story-level that combines various speech acts into a whole and relates the story to audiences.

2.2 Economic Roles of Narratives

The first economic role of narratives is *cognitive.* That means, facing complexity and uncertainty, narratives are cognitive models of reality. The point is that narrative structure entails important cognitive performances, such as contextualizing a certain causal chain, focusing on decisive causal forces, or identifying central actors. In this function, narratives are fallible, but not false in principle, especially if transitory states between present and future are concerned. An important function of telling a narrative is not just to arrive at a mind-to-world fit on individual terms, but among many actors who can only successfully coordinate action if they share the same view of reality. In this role, narratives are on par with scientific models, because the latter are fallible, too, and therefore cannot substitute narratives beyond simple situations. We conclude that narratives are a central medium of distributed cognition (North 2005; Wilson and Foglia 2017). In practice that means that narratives play an essential role in efforts among many actors to agree that a certain view of the world is true. At this point, the cognitive dimension is deeply enmeshed with the other functions.

Accordingly, it is appropriate to distinguish between the *communicative* and the *cognitive* role of narratives. Even if the narrative is a cognitive tool, it also aims at communicating, which feeds back on its formulation and therefore entangles cognition and communication (Mercier and Sperber 2018). Narratives are an indispensable communicative tool. For example, even scientists may essentially rely on narratives to reduce the complexity of their view to a measure that enables communication within limited time and various backgrounds of audiences.

Communication serves various goals in turn. One of the most essential is the *coordination* of action. In agreeing on a certain view of causal mechanisms in the world, action can be made consistent across many actors. This is most important when dealing with the uncertainty of the future in which coordination of action may be an essential condition for bringing states of the world into reality. This is the most important difference between realism in social versus natural systems: Social systems as part of the world manifest many degrees of freedom in the specific way how they materialise, and this mainly reflects success or failure of coordination among many actors.

This shows that narratives have *performative* functions that go beyond mere communication. Many narratives create mutual commitments of actors by which a certain social state becomes enacted. In other words, narratives are ontologically productive. One most important channel by which this performative function operates is that narratives are often essential for expressing the *identity* of actors: In telling narratives, actors assign roles to themselves which become binding, because they also define their identity in their self-perception (Davis 2010; Herrmann-Pillath 2012). This is the pillar on which collective action can build.

Now, it is important to recognize that speech acts can be successful or fail in fulfilling their function. In speech act theory, this is summarized in the notion of "conditions of felicity" (Austin 1962), a term that we render more familiar to the economic reader as "narrative realism." Narrative realism connects narratives with the socio-political context and ultimately with structures of the real world; this differs from mere "truthfulness" in the sense of the narrow representational function of language (which relates to the discussion of "counter-performativity" in MacKenzie 2006). There is a wide range of factors that render a narrative "realistic" – which means that it adequately represents reality – that it convinces others to be realistic, that it invites actions that can be properly and effectively performed in the real world, and so on. For example, the realism of a fictional narrative about the future deployment of new technology is determined by the uncertain interplay of various material factors determining future productivity and performance (such as the interaction between many technological elements in electric mobility, *e.g.*, battery technology, charging station networks, and so on). A broader notion of realism includes the "social facts" in a society which are shaped by material forms of life, such as the distribution of wealth and well-being across various groups, urban settlement patterns, or lifestyles across social groups. For example, the spatial concentration of economic activity negatively affected by globalization determines the relative socioeconomic position of clearly demarcated groups in society, such as the proverbial "white Trump voter" in the United States. These conditions embed and even create audiences that respond to narratives and, accordingly, determine the conditions under which, for example, a speech act that falsely represents reality may nevertheless be successful as an expressive act.

2.3 Narratives and Audiences

The relationship between audiences and narratives is an important analytical concern in our approach (matching with the organizational ecology literature, Hsu and Hannan 2005). The concept of audiences is highly contextualized by the conditions in a specific country, social domain and time span, and ties back to material conditions in the sense of "interests" that groups of actors have. In this sense, for example, "farmers" may be an audience, as compared to "government officials." However, as Max Weber noticed more than a century ago, these groups might be internally diversified (think of smallholders versus plantation owners). Narratives, especially in the expressive function, play a central role in identifying and creating the "interests" that may result in the coherence of an audience as an "interest group" (*cf.* Hay 2011). Therefore, the narrative theory goes beyond the standard view on interest groups in economics in endogenizing the notion of interest. Yet, depending on the historical context, certain audiences may assume a central and demarcated role, such as the "financial sector audience" or "investors."

An important task of narrative analysis is to identify patterns of hegemony and subordination. For example, narratives about the economy will certainly differ substantially if one looks at narratives told by inhabitants of urban slums, financial professionals, or politicians of the left, or right-wing parties. What determines which narratives will assume a hegemonic position? Answering this question requires the analysis of social structure and political power relations, relative to situational contingencies. For example, in times of financial crisis, narratives of finance may become dominant, and this might result in phenomena of hysteresis, meaning that once a narrative becomes dominant, it may also support the structural dominance of a certain audience. This happened in the course of the financialization of the global economy since the 1980s and is also visible in our Brazilian case.

Various audiences may focus on different narratives in the same historical situation, thus driving the political debate with conflicting views on reality, which, however, eventually contributes to shaping that reality. For example, in EU policies even entire countries may diverge over fundamental narratives, like the German narratives about the "black zero" (balanced budget) and the risks of fiscal deficits versus the Keynesian narratives about employment and investment often told in Southern European countries that criticize austerity.

Another important question is how narratives work together, despite being mainly tied to certain audiences which often represent opposing interests. Yet, via cohering narratives, a policy consensus can emerge. A fascinating example is the development culminating in the financial crisis of 2008, which reflected the mutual reinforcement of two different narratives in entirely different audiences of the US economy (Calomiris and Haber 2015). First, and most obviously, there was the financial profession who told narratives of "great moderation" and rational management of risks in the mortgage sector, including narratives of smart financial innovation by highly expert quants. Second, there were political narratives about the "American dream" of homeownership which met with narratives about the resilience of families in socially disadvantaged groups. In other words, there were two audiences that one would rarely see as aligning harmoniously: The financial professionals and the political activists in local contexts struggling for affirmative policies and social support. But the respective narratives played together in creating a narrative network that eventually maintained the expansion of the subprime sector. It reinforced the condition that "Wall Street narratives" are mostly hegemonic in the financialized economy of today, without implying that subordinate narratives of affirmative action would fall in line with those.

To sum up, regarding audiences and narratives, we ask the following questions, that tie up with more conventional analysis of interest groups in economics:

– Which narratives in which audiences supported, created, and maintained certain trajectories of the economy and economic policy?
– How do these narratives connect to material realities, especially prevailing technologies, and social structures?
– How do narratives obtain various functions vis-à-vis various audiences, and what determines narrative realism?

3. Case Study: The Austerity Genre, Financial Audiences, and Central Bank Communication in Brazil

3.1 Context

After a decade of economic growth from 2003 to 2013, Brazil seemed to be on the path to greater stability in a socio-democratic model that combined democracy, growth, and economic stability with diminishing inequality. As several analysts pointed out (Hurrell 2010; Sweig 2010; Dauvergne and Fárias 2012; Amann and Barrientos 2014), the Brazilian trajectory in the first decade of the 2000s offered a combination of public policies able to deliver greater democratic participation and reduction in inequality with an orthodox macroeconomic framing of policies. Despite these promising outcomes, a severe economic and political crisis has taken place in Brazil since 2013 that has not yet been reversed to date at the time of our writing, with a contraction of GDP of -3,5 % in 2015, and of -3,5 % in 2016, and recovery with growth of only +1,0 % and 1,15 % in 2017 and 2018, respectively. Unemployment increased from an almost full employment rate of 6 % in 2014 to peak 13 % in 2016, and inequality soared back, as measured by the Gini index, from 0,51 in 2014 to 0,53 in 2018.[2]

In our case study on central bank communication, we confine the discussion on the years 2015/2016 and look in more detail at the role of narratives in the unfolding of the events leading towards crisis. This requires historical contextualization. The Rousseff administration shifted economic orientation in 2015. After winning the 2014 presidential election for a second term, Ms. Rousseff appointed an orthodox economic team and a new chairman of the Central Bank. The new team immediately expressed their orientation publicly in new narratives about growth and austerity. However, the economic landscape tended to deteriorate into a chaotic downturn spiral. The political and economic crises started to reinforce each other, and extremist positions strengthened in the country. The trend of indicators was indeed gloomy. For instance, public debt jumped from around 50 % of the GDP to almost 70 % from 2014 to 2016, and the government primary budget position delved from a surplus of 1 % of GDP in 2014 to a deficit of 2 % in 2016. The mirror crisis which invited comparison at the time was the Greece slump with a loss of confidence in the face of previously unsustainable fiscal policy. The political climax of events was the impeachment process in Congress based on allegations of crimes against the Fiscal Responsibility Law (covering-up fiscal measures), although courts did not find evidence against the president on the allegations of crime.

This watershed needs to be seen against the background of previous developments. After the Great Recession following the financial crisis of 2008/9, the Rousseff administration took over in 2011 and adopted a new economic agenda, called *nova matriz econômica* – the new economic matrix – aimed at countering the domestic downturn (Schneider 2015; Carvalho 2018). This new orientation of policies was disruptive in terms of conventional perceptions, in the sense that, since 1999, policies had been firmly based on the macroeconomic "tripod" of (i) fiscal surpluses, (ii) inflation targeting, and (iii) floating exchange rates. A key event occurred on April 30th, 2012, when in an official address to the nation, President Rousseff urged the private banks to follow the stated-owned banks' leadership (Bank of Brasil and Caixa Econômica Federal) in lowering interest rates. In addition, the increasing budget deficits were tackled by looking for ways to legally "mask accounts," for instance, by not computing investments as fiscal expenses in public accounting.

The new economic policy was based upon the idea of increasing economic productivity and unleashing an endogenous process of growth by implementing a more interventionist macroeconomic policy combined with a developmental agenda. At the same time, monetary policy was framed to respond to inflation pressures in a longer

[2] All the data in this section is from Ipeadata (Instituto de Pesquisa Econômica Aplicada 2019).

time horizon than previously, also aiming at a more competitive exchange rate. Public banks (Banco do Brasil and Caixa Econômica Federal) competed with private banks by lowering commercial interest rates and expanding credit.

Overall, these policies aimed at reducing the so-called "Brazilian cost," meaning the deficiencies in infrastructure, high-interest rates, burgeoning taxes, and an appreciated exchange rate that curtailed industrial competitiveness as measured by productivity indicators. The objective related to reducing the "Brazilian cost" was a way of making the new economic matrix attractive to audiences like industrial boards and trade unions. Not surprisingly, one of the major supporters of this strategy was the FIESP (State of São Paulo Industrial Federation) that regularly defended the adoption of a pro-industry development economic policy. Also, trade unions, such as the CUT (Workers Central Union) and FS (Sindical Force), gathered around similar positions to defend employment and wages of the industrial workforce, and both were the best-organized labour unions in Brazil.

Most importantly this shift countered the economic interests which have greatly benefited from the macroeconomic "tripod" policies. The policy met with an increasing "credibility crisis" among certain groups (especially the middle classes, the right-wing politicians, commodities exporters, and the financial sector) that spread fears of the unsustainable trajectory of public debt. In sum: there was a solid entrenchment of economic interests that activated political support and mobilized media that gradually disseminated a counter-narrative of the immediate risk of an inflationary surge and public debt default.

3.2 Narrative Process Analysis: Narratives and Central Bank Communication, 2015–2016

In this section, we look in more detail at the role of narratives in the unfolding of events leading towards crisis. This is what we call "narrative process analysis." For reasons of space, and because we pursue mere demonstrative purposes, we concentrate on a specific genre of narrative by the Monetary Policy Committee statements from January 2015 to June 2016, during the grounding of the political crisis prior to Rousseff's second term election. This is what we call the "austerity genre," a field of narratives that are constructed via certain economic theories, mostly following the lines of new classical and rational expectations macroeconomics, combined with stories about recent Brazilian experiences and other countries, in this period especially the Greece story in the Euro crisis.

Genres are often contextualized vis-à-vis specific audiences. We concentrate on the financial sector audience: This introduces a special analytical issue, which is reflexivity in creating narratives. For example, financial analysts apply economics on diagnosing the state of the economy, and at the same time the actions based on this analysis shape that state. The central causal mediator is expectations. In the Brazilian case, reflexivity means that expectations are not only a central concept in the theories applied in the narratives, but also become endogenous in the ways how the audience receives the narratives, for instance from the Central Bank. This is manifest in the pervasive belief that economic growth is dependent upon guaranteeing the "confidence" of markets. Yet, confidence is not a given state of the economy but is created partly by the analytical narratives. In the case of the austerity genre, this builds on theoretical models of the economy that posit the causal mechanism that when imposing fiscal adjustment and increasing interest rates, economic output would rebound because confident expectations could unleash private investments. For instance, a common assessment of the economic conditions in 2015 by the financial analysts aimed at inducing a "confidence shock" to trigger economic growth after the unfolding of the "new economic matrix."

The literature on central bank communication stresses the role of the credibility of the monetary authority at delivering better policy outcomes (Woodford 2005). Greater efficacy of monetary policy impact on market expectations relates to milder business cycles and price stability. Nonetheless, it remains controversial which is the best strategy of communication: "Transparency" or "ambiguity" (Kliesen, Levine, and Waller 2019). Some authors argue that the monetary authority loses degrees of freedom when providing clear-cut statements of her motives and decisions. Others point to the benefits related to the directive influence of the Central Bank's objectives and assessments over market judgments. In both cases, this applied perspective to banking communication is based on a view of reports as "mirrors" of market decisions. In our scheme, distinct narratives are potential devices to create economic practices.

As we will see, the austerity genre pursued by the Brazilian Central Bank tried to connect with the collective identity of audiences, especially the financial audience, and mobilizes certain emotions, especially assuring confidence. We have also identified another genre (not explored here), the "corruption genre," which is about the systematic misbehaviour of economic and political elites, and which stays orthogonal to the austerity genre in the sense that it is mostly maintained in broader societal circles, whereas the austerity genre is more limited to the financial sector and associated political elites.

We concentrate on analysing the statements of the COPOM – Monetary Policy Committee in 2015/16. We applied the semantic discourse analysis framework based on the eleven statements of the Monetary Policy Committee during Ms. Rousseff's second term up to her impeachment, which encapsulates the rationale of the Brazilian Central Bank during the political crisis. The reports of the Monetary Policy Committee are published according to the prescriptions of the Brazilian inflation-targeting scheme. The committee sets the Selic rate (the interest charged on the daily interbank loans) for 45 days during a meeting that lasts for two days, and it releases the disclosure of the assessment of the decision in a report six days after the meeting. The sample of the texts used in our narrative process analysis consists of the committee reports released after the following meetings: January 2015, March 2015, April 2015, June 2015, July 2015, September 2015, October 2015, November 2015, January 2016, March 2016, April 2016. Each report has five pages on average, comprising: (i) a basic scenario of the macroeconomic environment, (ii) the assessment of inflationary risks according to the inflation target, (iii) the analysis of the mechanisms available and the implications for monetary policy, (iv) and a short statement on setting the Selic interest rate.

The reports are written in Portuguese in the idiomatic and syntax uses in Brazil with no official translated versions to other languages. For purposes of contextualization, the "Brazilian" idiom has a common orthographic standard based on the Portuguese Orthography Agreement of 1990, which was implemented at different times by the Lusophone countries. Nonetheless, the grammar in all nations is similar with differences only in terms of accent and the specific accepted common forms by the vernacular. So, contextualization of some semantic forms was required in the translation to English. Nonetheless, as one of the authors is native in the local idiom, the meanings of expressions in the reports could be evaluated according to our analytical framework. In this regard, an important difference between the Portuguese and the English syntax is related to the word order. The positions of the words in sentences in Portuguese is more flexible than in English, so it makes it tricky to exactly express the stressing in the communication between both idioms. This is perceived with the placement of adjectives, adverbials, and pronouns, and especially in sentences containing indirect speech. More clearly, the omission of the "sayer" in the sentence in Portuguese is typical, although with a clear indication of the subject of what is said (for a discussion of reported speech in Portuguese see Freitas, Freitas, and Santos 2016). An example is provided in the following sentence extracted from the March 9th report of the Monetary Policy Committee:

> "Note-se, adicionalmente, que riscos baixos para a inflação subjacente no curto prazo tendem a potencializar os efeitos das ações de política monetária, fazendo com que elas possam afetar, de forma mais duradoura, a dinâmica da inflação plena no futuro." (in Portuguese)
>
> "It is important to take note, additionally, that low risks to the underlying inflation in the short-term tend to potentialize the effects of the actions of the monetary policy, making it to affect, in a more durable way, the dynamics of full inflation in the future." (literal translation to English)

The expression "*Note-se*" in Portuguese aims at expressing a clear indication of the importance to the reader of the content next in the sentence. In English, this syntactic use to stress a warning is not clear-cut by the literal translation. So, special attention was directed at the choice of descriptive sentences, such as by incorporating in the English translation the expression "It is important to …" which is missing in the original idiom. Next, is it important to whom to take notice? In Portuguese, the use of the imperative verbal inflection accompanied by the pronominal "*se*" placed in the enclitic position – after the verb and linked with it by a hyphen – gives the reader the expression of emphasis. These specifications are required to the matching of the literal quotations with the semantics of speech acts.

We connect the main themes developed by the committee to the macroeconomic policies implemented at that time. The selected sentences in this analytical framing have been arranged in five major themes: (i) the fragile global economy, supply shocks, and price inertia; (ii) the Central Bank's commitment to price stability; (iii) the adjudication, in the sense of arbitration by the Central Bank, in favour of restrictive monetary and fiscal policies, and banking deleveraging; (iv) the role of the monetary authorities as an "independent" and "vigilant" actor in support of "best practices;" (v) the identification of undesired effects, such as unemployment and recession, the continuing increase of retail prices, and the credit crunch, as necessary ordeals of macroeconomic stabilisation.

As usual, semantic discourse analysis highlights a certain vocabulary and context. We add our frame of systematically distinguishing narrative functions. Statements of the Central Bank can be grouped by the five functions which we already mentioned (representative, directive, commissive, expressive, and declarative). These functions are embedded in specific themes that have intentional and instrumental roles in orienting monetary policy. A major challenge is facing uncertainty and aligning perceptions among all concerned actors. At the same time, there is a hegemonic role of one core audience, the financial sector.

This is salient in the outreach of the financial audience into the government. After her second-term election, Ms. Rousseff revamped the economic team with mainstream economists, such as Mr. Joaquim Levy, the Minister of Economy (a naval engineer with a Ph.D. by the Chicago School of Economics, and previously director of the asset management division of the Bradesco bank), and Mr. Afonso Arinos Neto as Economic Policy Secretary (a civil engineer with a Ph.D. by the Chicago School of Economics, and previously a professor at FGV-Rio), just to mention a few. In this sense, the new economic team tended to back the austerity narrative reinforcing its role on expectations.

At the Brazilian Central Bank, however, Ms. Rousseff maintained as CEO Mr. Alexandre Antônio Tombini, a career civil officer of the bank, who was appointed in 2010. This choice induced a more "compromising" discourse of the monetary authorities concerning the previous policies (the new economic matrix) than the one supported by the new economic team in charge of the Economy office. This coalition and entrenchment of diverse perspectives were only possible by the configuration of the economics epistemic community (Haas 1992) that was developed as the backbone of the specific interests of the financial sector. The orthodox framing of policies in the Central Bank was backed up by the orthodox profile of the directors related to the economic policy during the PSDB and PT federal administrations. According to Codato *et al.* (2016), from 1990 to 2014, the directors in the economic policy directory boards had a career path before being recruited to the Central Bank from academia (30 %), government (20 %), and the financial sector (50 %).

Brazil's academic economist community, compared to international terms, is one of relative pluralism. Economics in Brazil evolved since the sixties by two major intellectual branches: (i) the tradition of the United Nations, CEPAL – Economic Commission for Latin America which was related to the import-substitution model which resulted in the legacy of the structuralist school; and (ii) by the grants and scholarships that US foundations (i. e., Ford and Rockfeller foundations) offered to young Brazilian economists to pursue a Ph.D. in the United States. These alumni formed the backbone of the mainstream departments in the major Brazilian universities.

As a consequence of this eclectic constitution, Brazil has a very plural arena of discussion in economics (Dequech 2018; Fernandez and Suprinyak 2019). Nonetheless, the same degree of heterogeneity does not apply to private financial institutions, where chief economists and analysts are professionals forged mainly in the Brazilian mainstream schools (such as FGV and PUC-Rio), or who obtained their PhD from foreign schools (mainly in the United States). The outcome of this split in the epistemic community induced two conflicting positions related to macroeconomic strategy. The heterodox branch of academic economists was ousted from key official positions in the government after 2015, and the orthodox branch, in close touch with the financial sector, solely assumed the role of designing economic policy. The task was to decrease public debt even in face of a contracting business cycle. In one direction, the Central Bank championed structural reforms and the requirements of fiscal deleverage, both understood as a prerequisite to the sustainability of public debt. Most importantly, this analytical account was framed as a pivot of monetary policy in which the level of the Selic (the basic interest rate) increased to double digits. In the other direction, the austerity genre marginalized counter-narratives that were denounced as "heterodox" or "populist" according to mainstream advocates. The main cluster of the heterodox framing of analysis was confined to academic forums.

3.3 Narrative Functions of Central Bank Communication

Representation:

A core function of the statements of the Monetary Policy Committee (COPOM) is describing the macroeconomic environment and pointing to the major handicaps faced by monetary policy. All statements highlighted three major themes, (i) the international economic environment, (ii) supply shocks related to oil and agriculture prices, and (iii) inertia of the increase of controlled prices like energy and fuel on prices in general.

The narratives of the monetary authorities stressed the fragile conditions of the global economy, such as weak economic growth in developed economies (especially Europe and Japan), and increasing political and geostrategic risks in the United States and Russia. The downgrading of quantitative easing in the United States was perceived as a potential risk of tightening currency flows and devaluation of the *Real.* These conditions motivated the justification of a more "cautious" monetary policy, and the "vigilance" required by the Central Bank. For instance, in the statement related to the January 20th to 21st, 2015 meetings of the COPOM, there is a clear indication of this line of reasoning:

> "The COPOM considers that, since its last meeting, the risks for global financial stability continue to be high, for instance, the ones related with the inclination of interest rate yield curve in important mature economies. Although identifying a low probability of extreme events in international financial markets, the Committee ponders that the external environment is still complex" (Banco Central do Brasil, January 2015).

Here, representation amounts to the definition of the situation: The message of a cautious assessment is stressed by the "low probability of extreme events," which intends to strike a balance between uncertainty and fixing a specific picture of the situation.

This transpires in the description of disinflationary forces. There was a reinforcing combined effect of positive supply shocks – oil and agriculture – which were interpreted as volatile short-term events and not counted as the potential of disinflation. During 2015, oil and agriculture prices dropped as the result of international demand conditions and favourable weather in Brazil. For instance, in June the Committee stated:

> The barrel of Brent type oil has dropped to levels around US$54 since the last COPOM's meeting. It is worth mentioning that the geopolitical complexity that is related to the oil sector tends to increase the behaviour of volatility in prices, which is reflective, also, of the low degree of predictability of some components of global demand and supply. Since the last COPOM's meeting, international prices of commodities have dropped 3.44 %, and the prices of metal commodities, 3.11 %. In turn, the Food Prices Index, calculated by FAO, has plunged 21 % in the twelve months up to June 2015 (Banco Central do Brasil, June 2015).

Using words like "geopolitical," "complexity," and "volatility," the committee is shielding monetary policy against the criticism related to the positive influence on prices of cheaper oil.

Third, the Central Bank's main goal was to halt the inertial effects on retail prices by the liberalization of controlled prices, such as oil and electricity. An exemplary of this rationale is stated in the following passage of the COPOM's October 2015 statement:

> To COPOM, the fact that inflation is at high levels is largely the effect of two important adjustments of relative prices in the economy – the realignment of domestic prices in relation to international prices, and the realignment of administrative prices to free prices[…] At the same time that it acknowledges that those adjustments in relative prices have an impact on inflation, the Committee reaffirms its vision that monetary policy can, should, and is containing their consequential second-order effects (Banco Central do Brasil, October 2015).

In this case, the committee takes stock by declaring that it "reaffirms" the capacity of monetary policy to contain the inflationary impetus. In this regard, an interesting semantic tool framed by the Committee, and shared by finance sector reports in general, was to make use of metaphors related to nature (such as the weather) to represent economic outcomes. For instance, the statements are full of expressions like "extreme events" or "forecasting horizon" which provide an interpretative repertoire built upon sentences that ultimately magnify economic prospects as natural outcomes and brute facts. The cognitive framing was clear: no options were available but to tighten money markets and squeezing aggregate demand in a fashion we are going to present in the next sections.

Communication:

Monetary policy was portrayed as a key device to guaranteeing price stability as the first and only goal monetary authority should pursue. Expectations were the key target to "anchor" price stability. The statements made clear that the Central Bank tried to instil confidence among audiences to counter inflationary inertia during the year 2015. Most importantly, restrictive policy would make it easier for expectations to fall quicker towards the inflation target in the "horizon of projection." An exemplary passage is the following:

> The Committee understands, also, that the low risks of underlining inflation in the short-term tended to reduce uncertainties about the future behaviours of full inflation, make the assessment of scenarios by the monetary authority easier, as well as help in the process of economic agents' expectations coordination, particularly, by price-setters […] the COPOM reaffirms its vision that it is incumbent on monetary policy to stay vigilant to guarantee that pressures detected in the shorter horizons do not propagate to longer horizons (Banco Central do Brasil, January 2015).

Yet, the balance of trade-offs highlighted the need to reign in the surge in inflation already in 2015 without considering all costs involved. The sentence "the underlining inflation in the short-term tends to reduce uncertainties concerning the future" reaffirms the conditions of success of short-term stringent monetary policy. The same applies to pointing to the core objective "to guarantee that pressure detected in the shorter horizons do not propagate to longer horizons." Both rhetorical instruments have been used extensively by the committee during that time as speech acts of the "austerity genre."

Coordination:

The cognitive framing of macroeconomic policy comprises broader measures than just related to the instruments of monetary policy. The COPOM's narrative was used as the beacon of the desired strategy pursued by the public sector as a whole. The combining roles of fiscal and monetary policies were stressed continuously in the statements.

The goal of attaining a fiscal surplus in 2015 was pursued to "augment" the efficacy of monetary policy, and to reduce uncertainties related to the sustainability of public debt. This aspect of coordination of expectations tended to be taken also as framing for political ends. This narrative was the *raison d'être* of the negotiations about the restrictive fiscal measures to be approved by the legislature. The Central Bank's narrative highlighted an important political mechanism by which unpopular measures would pay out as a better macroeconomic environment would unfold. In this regard, the following passage of the April 2015 statement of COPOM is instructive:

> The committee notices, yet, that the generation of primary surpluses compatible with the working hypothesis contemplated in the projections will contribute to creating a positive perception about the macroeconomic environment in the medium and long terms. It highlights, also, that this trajectory of primary surpluses will strengthen the perception of the sustainability of the public sector balance. So, it contributes to diminishing the financing cost of public debt, with favourable repercussions to the capital cost in general and, ultimately, stimulating private investment in the medium and long terms.

The rhetorical form relates current social costs with future political gains from the balanced economy. In the sentence, "primary surpluses will strengthen the perception of the sustainability of the public sector balance" the committee is advising other government branches, although not in its realm, to strengthen restrictive measures. This kind of cost-benefit analysis was also applied to other public policies such as banking loans. The prescriptions on the indebtedness of families required banking deleverage measures, such as high-interest rates and stringent regulatory norms. Both were combined with policies to forbid over-indebtedness, especially in automobiles purchasing and housing lending. In the same statement (April 2015) there is a clear-cut indication of this interpretative repertoire:

> "The COPOM highlights that the central scenario contemplates a moderate increase in credit, what is already being observed. Regarding that, it is important to highlight that, after years of high increase, the consumer credit geared to consume has been moderated. During the last trimesters, on the one hand, a reduction in exposure by the banks has been observed, and on the other hand, deleveraging of families."

Indeed, both cognitive frames embedded in this narrative tied a restrictive monetary policy to a drastic fiscal adjustment program and the continuing deleveraging of credit markets. The "austerity genre" is explicit by the assessment of quality, such as "credit market geared to consume has been moderated." The committee is transmitting the subliminal message that the previous credit expansion was detrimental. This narrative again aimed at providing the comprehensive legitimacy for the drastic recessive shock to the economy.

Expression:

The rhetorical forms taken in the COPOM's statements tended to reaffirm the "independence" and "vigilance" of its mission pursuing price stabilization. Also, they made explicit the support of the "literature" and the "best international practices" for the monetary policy they pursued. Additionally, an important indicator of the consensus in COPOM's decisions was the unanimous subscription of the statements by all committee members. The statements were written with a clear effort of reassuring the internal concordance among members related to the analytical and empirical implications of the policy. Notably, no references to possible diverse options were available. Indeed, as the political turmoil evolved, the statements assured economic agents – especially the financial audiences – of the commitment to an orthodox economic agenda. Not surprisingly, the financial analysts tended to downgrade expectations due to the higher political costs of the recessive policy. So, in some sense, the continuous assurances, and restrictive actions by COPOM increased the risk assessments perceived by the financial audiences in the face of Ms. Rousseff's political weakness.

Performation:

Nevertheless, with the narratives of COPOM's statements, the Central Bank could not reverse the momentum of the downturn in expectations, while vindicating the performative effects of its judgments. Increasingly, the economic landscape tended to deteriorate into a chaotic downturn spiral. The political and economic crises started to reinforce each other, and increasingly extremist positions strengthened in the country. The prevailing political leitmotif was that only by ousting the Worker Party from power, a credible macroeconomic policy could be implemented, and the default crisis of government debt be prevented. The new government (2016–2017) followed a more drastic austerity agenda and promulgated an amendment to the Constitution fixing public expenses for 20 years; the Central Bank reinforced the targeting regime increasing interest rates; further, the government introduced liberalizing measures like increasing the participation in the pre-salt oil exploration of foreign companies. A Constitutional labour reform was approved with the "flexibilization" of labour rights. The consequence for economic activity was a depressed economy (GDP contraction of -3.5 % in 2015 and -3.5 % in 2016, followed by a weak recovery of +1.0 % and +1.15 % in 2017 and 2018), and high unemployment (around 13 %). Both fostered popular unrest that gave impetus to Bolsonaro, the extremist right-wing politician, to win the 2018 elections.

In the assessment of the interaction of the political uncertainties and monetary policy, COPOM tended to express that the short-term contraction was benign in terms of price stabilization. The reports did not mention the economic implications of the impeachment ordeal but insinuated that "uncertainties from the effect of non-economic events" have been downgrading the contractionary environment. In the last statement of the monetary committee on the April 26th and 27th meeting, there is a clear-cut indication of the combination of economic and political implications of such "events" to expectations:

> COPOM reiterates that in conformance with the process of macroeconomic adjustment in course, the available indicators show that the rate of growth of internal absorption and GNP continues to adjust, indicating that the pace of the expansion of the domestic activity in this year is lower than foreseen previously. This process is being especially intensified by the uncertainties from non-economic events. In particular, investment has been retracted, influenced, mainly, by the occurrence of these events, and private consumption is also contracting, in line with the data of lending, employment, and income.

The performative confluence of bad indicators coalesced in the deterioration of economic actors' confidence such as consumers, investors, and businesspeople. For instance, during the short time span of seven months from January 2015 to July 2015, the Consumer Confidence Index of the Federation of the Commerce of Goods, Services, and Tourism of the State of São Paulo plummeted a striking 25 % (Banco Central do Brasil 2019). The Central Bank's narratives were drivers of the trajectory of the macroeconomic outcomes which had direct effects on decision-makers' expectations.

3.4 Performativity of the Austerity Genre, Plurality of Discourses, and Narrative Realism

The Central Bank communication during the unfolding of the crisis was doubly enmeshed in reflexive statements among audiences, with performative and epistemic resonance. The first was effective in the technical assessments of the Central Bank, such as prescriptions and forecasts, which obtained coordinative functions within the financial audience. The core of the "austerity genre" is manifest in the performative belief that macroeconomic stability depends upon the "confidence of markets." This account is reinforced in assessments of deeper malaises which require not only short-term measures, related within monetary and fiscal policies, but rather touch on greater strategic design, such as "structural reforms." This view is ingrained in a broader strategic agenda endorsed by the financial audience, as in the following quotation: "I understand it is indispensable to diminish the confidence crisis that is virulent among economic agents for some months. As changing the expectations of the agents, we would have a more appropriate environment […] it is obvious that it is necessary to implement measures and structural reforms in order to foster the dynamism of our economy" (G1 Globo 2014). More directly, some specific liberalizing measures are suggested, as in the following economic growth prescription by a senior economist of an important financial consulting company: "It is only possible to increase the rate of investment in the country, among other things, by augmenting the saving capacity of the public sector. This is what the government tries to do with the fiscal adjustment – a work force to cut expenditures and increase revenues with the goal of taking out the government accounts from the red line" (G1 Globo 2015). Therefore, the economic crisis is an indicator not only of urgency, but also of the opportunity of aligning the Brazilian economic system with the neoliberal framework appreciated by the financial audience.

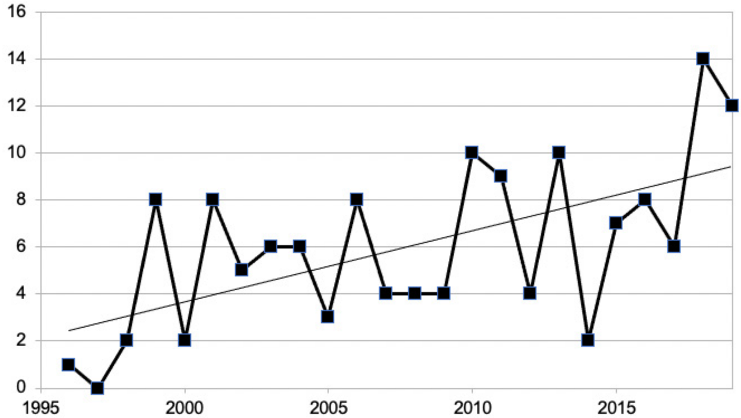
As a catalysing measure, the narratives evoke the primary threat of fiscal instability and the return of higher inflation or even hyperinflation. This threat triggers an emotional response and anxiety about the future. Hence, narratives assume a central coordinating function in this societal spectrum. The scarring memories related with the traumatic Brazilian history of inflationary disarray induce catastrophic forecasts: Historical narratives engender prospective narratives. For instance, a financial sector journalist and columnist from Bloomberg wrote in March of 2016 (a few months before Ms Rousseff's impeachment) a doomsday description of possible future outcomes when presenting the evolving discussions of a conference co-promoted by Bloomberg and ANBIMA: "Brazil has yet time to escape a disaster that would come from a debt default, or a combination of economic stagnation with a much higher inflation than now. The fiscal adjustment is the major consensus among the measures to prevent this situation" (UOL 2016).

It is important to notice that this type of communication was mainly confined to the financial sector audience with actors such as foreign and domestic investors, fund managers, exchange and futures dealers, and so on, and flows via channels such as newspapers, magazines, newsletters, events, and inside information. In a tiny community like the Brazilian financial sector, information spreads quickly and results in rather homogeneous feed-back patterns. In contrast, during the disruptive phases of the impeachment crisis, the general media were mainly involved in covering political and juridical events, such as the Lava-Jato prosecutions, the leakage of secret justice testimonials, and the political turmoil of the support base of Ms Rousseff. In the financial audience, these societal concerns were conceived as inappropriate regarding the "technical" matter of the macroeconomic discussion which required non-populist argumentation.

Nonetheless, the urgency of action and the indication of a consensus of inevitable measures fed back to the public debate and the scientific community. An example was the comparison of the Brazilian economic situation with a "Greece kind" of crisis. In a very unusual move towards public debate, even top ranked financial officers, such as the Itaú-Unibanco bank vice-president, pointed out the urgency of fiscal measures in 2016, such as social security reform: "It needs to be more drastic now, because if nothing is done now, Brazil in the coming years is to become the Greece of Latin America, and we do not want this" (Infomoney 2016).

Narratives in the financial sector often have performative effects, in the sense that they immediately induce actions only based on expectations, and not based on conditions prevailing when the decisions are taken. For instance, almost a year before the clear indication of the final fate of the political upheaval, financial analysts advised about increasing the share of exchange rate-backed securities in portfolios: "The motives that are the cause of the US dollar appreciating – political and economic crisis – will not cease in the short term. It is almost certain it [the US dollar] will continue to get higher" (UOL 2015). Indeed, market decisions tended to act in favour of exchange rate devaluation of the *Real* that induced inflationary pressures on wholesale prices initially, but gradually on retail markets as well. Also, the devaluation of government securities tended to appreciate the interest rate curve, and in face of greater pressure on the price index, the Central Bank was required to increase the basic interest rate.[3] Accordingly, in an economic environment of decreasing economic

[3] The basic interest rate was increased up to 14.25 % p.a. in July 2015 and maintained at this level until August 2016.



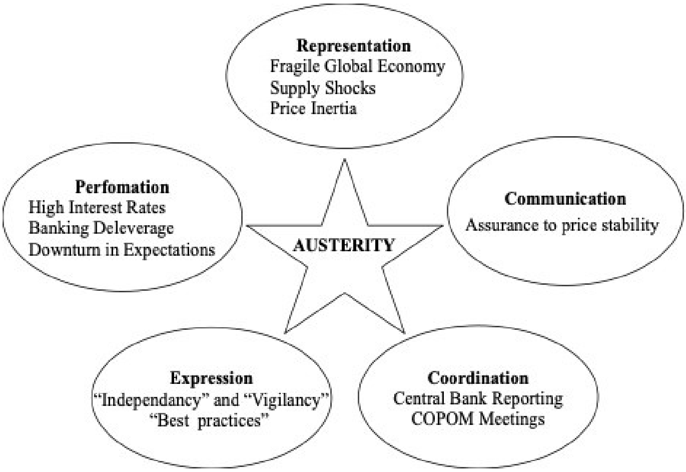
Source: Elaborated by the authors based on ProQuest (2020).

Figure 1: Yearly academic publications with the subject "Fiscal Crisis" in Brazil (1995–2019)

output and with an interest rate at this sky-high level, the government deficits soared together with public debt.

The reflexive discourses elicited by the "austerity genre" also evolved from counter-narratives. The quest for understanding the "fiscal crisis" intensified and, in this sense, the "austerity genre" triggered the surge of academic publications related to the subject of the "Brazilian fiscal crisis" (see figure 1) in counter-narratives as well. This literature is indicative of the plurality of epistemic communities and audiences in Brazil. During 2015 to 2019, according to ProQuest data mining, there are 46 abstracts with classifications ranging from a wide spectrum of subjects, such as agriculture (1), economics (9), education (02), health (12), labour studies (1), politics (3), social rights (8), urban studies (4), violence (1), and social studies in general (5). This literature provides several instances in which public programs tackling social malaises have been handicapped by restrictive fiscal and monetary policies implemented by a neoliberal economic agenda. In this sense, this array of alternative narratives manifests the diversity of audiences marginalized by the mainstream austerity narrative which was hegemonic in the Central Bank. In this sense, the semantic framings of macroeconomic affairs tended to highlight, by the performative functions of the austerity genre, specific *forms of narrative realism* related to the risks of increasing public debt and inflation, rather than other repertoires, such as health and social rights.

Narrative realism includes the economic determinants of the state of the economy, which are themselves topics of competing and diverse narratives. In the case of the recent developments in Brazil, the failure of austerity policies in immediately triggering growth could be partly explained by a lack of convergence of narratives beyond the financial audience, resulting in a loss of general confidence in the state of the



Source: Elaborated by the authors based on Monetary Policy Committee Statements (from Jan. 2015 to Mar. 2016).

Figure 2: Narrative Functions of the Brazilian austerity genre

economy and politics. Whether and to which extent this is also driven by "real" economic factors may be a topic of controversy in economics.

We summarize our narrative process analysis in the following diagram (figure 2) that shows the major elements of the various narrative functions and how they relate to each other. Narrative process analysis explores the COPOM reports in terms of first dissecting the functions and then understanding their interplay in COPOM efforts – not just to portray the economic situation and to explain Central bank policies, but also in actively creating the economic conditions in which these policies could be successful. Therefore, the Central Bank narratives are assemblages of speech acts that are instrumental in creating a new economic environment by various functions of narratives, such as expressing commitment to policies, exhorting agents in evoking feelings of risk, or showing up causal mechanisms that affect their interests. We claim that the austerity narrative in the reports triggered feedbacks by economic actors embedded in various audiences, which therefore diverged in terms of interpretations and hence actual behavioural effects. In the present paper, we provided pieces of evidence of the roles of the Central Bank repertoire of functions of its core narrative, but the counter-narratives still require further analysis and empirical scrutiny. The key point is that narrative analysis provides clues to how this endogenous process is reinforced by triggering causal powers of language.

4. Conclusion

Narrative analysis is most promising in improving our understanding of real-world economic processes. Yet it remains underdeveloped in economics. What are the tasks for the future?

First, as the Brazilian case shows, there are various genres of economic narratives that may be partly based on different economic theories or ideological positions. In Brazil, as in Europe after the crisis, we can distinguish between the "austerity genre" and the "growth genre," which often associate with more (neo-)liberal positions and left-Keynesian positions, respectively. There are other genres, such as the "equality and justice" genre, or, today, the "climate change genre." We need a taxonomy of genres that are contextualized to historical periods and countries. Genres may differ across countries. For example, the austerity genre is perhaps differently manifest in China (where it has often been associated with "soft landing" debates). The genre concept is close to Shiller's notion of "narrative constellation." One most significant task for future research is to establish a connection to the literature on the performativity of economics. For example, the rise of Keynesianism in the real world was driven by the diffusion of related narratives that popularized Keynesian ideas and contributed to rendering Keynesian theory performative during a certain period, until this was broken by the rise of new macroeconomic schools. In the Brazilian case, such historical transitions are supported by the changing composition of epistemic communities that bridge academia, the public sector, and civil society.

Second, narratives can be dissected into speech acts, which may relate to certain sets of fixed expressions, such as the role of the Central Bank as a guarantor of price stability. This relates narrative analysis to analysis of "memes" or generally, diffusion analysis. In this respect, narrative analysis, as Shiller has already argued, includes quantitative analysis (for example, one can track the frequency of "soaring public debt" in the media). Yet, this does not reveal the function of that meme in a specific speech act: Quantitative analysis can only relate to the signs, not to the meaning. Functional analysis must always be case-based and builds on detailed materials of specific communications. However, in the age of social media, the two perspectives can be combined, because, for example, Twitter communication consists of very few speech acts combined in one short message, and at least from the narrator side functional analysis might be unequivocal (such as having an expressive function). An important future task is to elaborate on the precise connection between quantitative and qualitative analysis, a perennial trouble in the social sciences. Narrative analysis is an excellent field where this can be explored in much detail.

Third, narrative analysis needs to deepen collaboration with related research in other disciplines. One is literary studies, which has a rich set of tools to analyse the structure and components of narratives and their functions. The other is psychology and cognitive science in relation to behavioural economics. One core issue is the role of emotions concerning narratives. Whereas in behavioural economics emotions are mostly seen in tension with rational decisions, cognitive science and neuroscience have adopted a different view and approach to emotions, such as that enabling rational or "reasonable" decision-making. Besides, the question is how collectives of actors can act rationally in a coordinated way. Narratives play a crucial role in coordinating emotions that enable decisions at the collective level. A most important application is the formation and sustenance of interest groups in a complex political environment. Economists so far only tend to see material factors in the narrow sense. But interest groups also mobilize emotions in creating a spirit of shared destiny, most visible in cases such as the financial sector. For this, narratives are essential.

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