

After the failure of the developmental state, the liberal state

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What is the developmental state?

- ▶ It is the economic alternative to the liberal state.
- ▶ There are **two forms** of economic and political organization of capitalism:
 - A. Through the **developmental state**, which:
 - ▶ In the **micro** level,
 1. coordinates the non-competitive industries,
 2. engages in strategic industrial policy, and
 3. favors national labor and capital (nationalism).
 - ▶ In the **macro** level
 1. keeps fiscal accounts sound, and
 2. monitors strongly the macroeconomic prices, particularly with an exchange rate policy;
 - B. Through the **liberal-state**, which limits to guarantee property rights and contracts, and to keep its finances sound.



Capitalism was born developmental in (A) the central original countries

- ▶ In **mercantilism**, in England, Belgium, France (first developmentalism);
- ▶ Between the 1830s and 1929 turned liberal;
- ▶ Between 1930 and mid 1970s, **the New Deal and the Golden Years** of capitalism (the second developmentalism, now democratic and social)
- ▶ Between mid 1970s and 2008, neoliberalism.
- ▶ Since 2008, in transition crisis.
- ▶ **Thus, the developmental state is the default form or organizing capitalism**



In backward countries capitalism also began developmental

(B) In the backward **central** countries (Germany, US, Italy);

(C) In the East Asia **peripheral independent** countries (Japan, South Korea, Taiwan, Singapore), very successfully;

(D) In Latin American **peripheral national-dependent** countries (Brazil, Mexico), modestly successful.



What is new developmentalism?

- ▶ It is the theory that intends to replace classical developmentalism in understanding developmental capitalism and the developmental state.
- ▶ Some economists tried to oppose something that they called “social developmentalism” to new developmentalism, but they didn’t have a theoretical framework.
- ▶ “Social developmentalism” is a good name to describe the PT’s administration in Brazil between 2003 and 2014.
- ▶ It was the last chapter of the Democracy and Social Justice Cycle.



Developmentalism in Brazil

- ▶ Developmentalism, between 1930 and 1980 (the **Nation and Development Cycle**), was
 1. highly **successful** in achieving growth.
 2. It was the time of or the capitalist revolution
- ▶ Developmentalism, between 1980 and 2014 (the **Democracy and Social Justice Cycle**), was
 1. Successful in reducing inequality
 2. **Failed two times in promoting growth**
 - in 1986, with the Cruzado Plan failure
 - in 2014, with the 2014 fall in commodity prices and the Lula–Dilma economic mistakes.



Social developmentalism in PT's administration (2003–2014)



Lula and Dilma failed to overcome the macroeconomic trap

(high interest rate + overvalued currency)

- ▶ **Lula** lived with a brutal overvaluation of the exchange rate, which reduced radically the profit rate of the manufacturing industry
 - ▶ **Dilma** tried to overcome the trap, but had no power for that. Thus, she
 - ▶ -irritated the rentier-financier elites
 - ▶ -lost the support of industrialists (low profits)
 - ▶ -caused a brutal increase in the fiscal deficit in 2013-14, which produced a fiscal crisis.
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After Dilma's reelection, in 2015 Brazil plunged in a major crisis

- ▶ **Economic crisis** (recession). Causes
 1. fall in commodity prices in 2014
 2. Petrobras scandal
 3. ceiling for the households indebtedness
 4. fragility of the manufacturing industry
 5. Short term fiscal crisis (not structural)
- ▶ **Political crises** (impeachment) – a juridical farce. Real causes:
 1. Inverse Class struggle;
 2. Desire of obstructing the Lava Jato



No future for the developmental state

- ▶ This crisis and this impeachment represented a major defeat for the developmental and social–democratic left.
- ▶ Developmentalists and Post–Keynesian must learn from their mistakes.
- ▶ They must accept short term costs to win medium term benefits:
- ▶ Keeping the exchange rate competitive;
- ▶ Keeping public finances sound.



The future of the liberal state

- ▶ Fiscal adjustment bigger than required, involving
 1. the dismantling of the welfare state, and
 2. the flexibilization of the labor law
- ▶ Liberalization and privatization
- ▶ As in Brazil there is a tendency to the cyclical and chronic overvaluation of the exchange rate:
 1. Exchange rate overvaluation
 2. Deindustrialization, low growth
 3. Balance of payment crisis.



Economic populism of liberal and the developmental economists

- ▶ **Liberal economists**
- ▶ Engage necessarily in exchange rate populism because they necessarily defend growth with foreign indebtedness (“foreign savings”).
- ▶ **Developmental economists**
- ▶ Tend to engage in exchange rate and also in fiscal populism, but not necessarily.
- ▶ New developmentalism offers them a theoretical framework to avoid these two forms of economic populism.



A reversion is possible in the next two months?

- ▶ Yes, Dilma needed 27 votes in the Senate and got 22.
- ▶ Several senators voted for the “admissibility” of the judgment, not for the impeachment.
- ▶ The inconformity of many is very high, completely different from the Collor impeachment.



▶ END

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