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# Reflecting on new developmentalism and classical developmentalism

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# Reflecting on new developmentalism and classical developmentalism

Luiz Carlos Bresser-Pereira

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**Abstract.** This paper, first, distinguishes new developmentalism, a new theoretical system that is being created, from really existing developmentalism – a form of organizing capitalism. Second, it distinguishes new developmentalism from its antecedents, Development Economics or classical developmentalism and Keynesian Macroeconomics. Third, it discusses the false opposition that some economists have adopted between new developmentalism and social-developmentalism, which the author understands as a form of really existing developmentalism; as theory, it is just a version of classical developmentalism with a bias toward immediate consumption. Finally, it makes a summary of new developmentalism – of its main political economy, economic theory and economic policy claims.

**Key words:** Developmentalism, social-developmentalism, and developmental macroeconomics

**JEL classification:** B20, O59, E10

What is new developmentalism and how is it distinguished from classical developmentalism that preceded it?<sup>1</sup> Following the publication of my book *Developmental Macroeconomics*, coauthored with Nelson Marconi and José Luis Oreiro, where we systematize the ideas and models that a group of economists have been developing on the economic theory of new developmentalism since the early 2000s, I realized that it was important to reflect on the real meaning of the term.<sup>2</sup> Since I introduced the new developmentalism concept in 2003, some, including myself, understood it not only as a theory but also as a form of economic and political organization of capitalism, what was mistake. It is important to distinguish new developmentalism as well as the preceding classical developmentalism from developmentalism as a really existing historical phenomenon – as a form of state and of capitalism, which serves as an alternative to economic liberalism. It is time to see how much it is critical of its direct antecedent, classical developmentalism, which was part of the mainstream between the 1940s and the 1960s. Really existing developmentalism is a historical occurrence; it is a form of political and economic organization of capitalism, whereas classical and new developmentalism are economic and political theories aiming to explain progress or human development.

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The history of capitalism is also the history of really existing developmentalism.<sup>3</sup> Mercantilism, characterized by the association of the monarchy with the bourgeoisie working to build a large and secure domestic market and to industrialize, was the first historical form of developmentalism. It was a successful one: England, France and Belgium industrialized during mercantilism; all rich countries that realized their industrial revolutions immediately after these three countries, beginning with the United States and principally Germany, adopted a developmental strategy; the developmental state in Asia as well as national-developmentalism in Latin America are in this same category, but these countries had to confront the industrial imperialism of those who got their first. The second developmentalism in the rich countries was the New Deal and Fordism in the United States followed by the Golden Years of Capitalism in Europe after World War II. In Brazil, since the election of a left-wing president, Luis Inácio Lula da Silva, in 2002, there was an attempt to reestablish developmentalism in Brazil; senator Aloizio Mercadante (2010) called this attempt “social-developmentalism”. The title seemed to me good, because initially the government was able to reduce inequality and increase the rate of growth, but eventually it proved inadequate because besides the growth rate returned to the low level of the preceding administration, the attempt to form a developmental class coalition failed.

New developmentalism is historical-deductive theory based on the successful experiences of fast growth, particularly the recent experience of East Asian countries. As an existing form of capitalism, developmentalism may be authoritarian or democratic, conservative or progressive, and successful or unsuccessful. As a theory, new developmentalism is either right or wrong. As it adopts a historical and holistic approach, the social and political aspects are an essential component of the theory. It seeks to explain how countries, which are late to the industrial and capitalist revolution, experience economic development and increase the material well being of their population, as well as why many countries fail to achieve progress or human development, that is, the gradual achievement of political objectives defined by modern societies: national autonomy, social order, economic growth, individual freedom, social justice and protection of the environment.

All my life I have been trying to understand and make a contribution to this 18<sup>th</sup> century idea of progress transformed into human development in the 20<sup>th</sup> and 21<sup>st</sup> centuries. Borrowing the historical materialism from Marx and Engels, learning from Max Weber, Keynes, and Kalecki, and from classical developmentalism, I have been integrating economics, social and political theory. After a long journey, I came to call this integration new developmentalism. As I understand it now, within new developmentalism there is (a) a method, (b) a political economy, (c) a microeconomics, (d) a macroeconomics, and (e) an applied economics. The *method* is the historical-deductive method, not the neoclassical hypothetic-deductive method; the *political economy* of new developmentalism includes themes like the claim that the origin of economic development was the industrial revolution, the claim that capitalism and the modern state were originally developmental because mercantilists, and the concepts of developmental class coalition and developmental state; the *economic*

*theory* of new developmentalism comprises a developmental macroeconomics already reasonably defined,<sup>4</sup> and a developmental microeconomics, which, for the moment, is just a draft, but adopts a key distinction between the competitive and the non-competitive sector of modern capitalist economies; the *applied economics* is formed of all papers that empirically substantiate the main claims of new developmentalism.

In this paper I will begin by short information on the three branches of new developmentalism. Second, I will show what distinguishes it from classical developmentalism and from Keynesian macroeconomics. Third, I will discuss the objections presented by some Brazilian economists that ask for a social-developmentalism, as if new developmentalism would not be progressive or social. And, forth, I will offer a summary of new developmentalism.

### **Political economy, micro and macro**

New developmentalism is oriented to the understanding of middle-income countries, but is also helpful for understanding pre-industrial countries, and, in certain cases, as, for instance, the Euro crisis, may be inspiring for rich countries. The political economy of new developmentalism distinguishes productive capitalists, who strive for profits and expansion, from rentier capitalists and financiers, who are remunerated by capitalist rents, i.e., interests, rents on real state, dividends and capital gains. This political economy has four principal characteristics: first, it views the history of mankind and the history of each country as divided by the industrial or capitalist revolution; second, it recognizes the relatively dependent character of national bourgeoisies (which are ambiguous or “national-dependent”), but is critical of dependency theory which incorrectly asserts that a bourgeois revolution is impossible in developing countries; third, it believes that to be successful this capitalist revolution requires the formation of a developmental class coalition associating business entrepreneurs, workers and the public bureaucracy; and it identifies an opposing class coalition as the neoliberal one, formed of rentier capitalists, the financiers who manage the wealth of the rentier, and the domestic representatives of the rich countries; and, forth, proposes that the nation invests in the construction of a capable state, which is developmental and republican, but not necessarily social. A capable state is defined as being endowed with political legitimacy, competent administration, and ability to finance major investments domestically. A developmental state is defined as being the key instrument to economic growth, coordinating the non-competitive sector of the economy and practicing an active macroeconomic policy—particularly an exchange rate policy. And it is defined as republican in that it is strong enough to protect the public patrimony from the rent seeking of individuals and groups. Historically, as we will see, the first forms of developmental state are not social or progressive but conservative, not democratic, but authoritarian. As I argued elsewhere, capitalism tends to become progressive only *after* becoming democratic.<sup>5</sup>

In so far as the political economy of new developmentalism involves a social theory, it has at its core the concept of “capitalist revolution”, which was first achieved by England, and is the major rupture that a people must experience to

develop. The history of each people changes dramatically when it is able to transform itself into a nation, form an autonomous nation-state and realize its industrial revolution, thus bringing to a close the capitalist revolution. Another key concept is the concept of developmental state and its main role in each capitalist revolution. After that the country will grow faster and with reasonable financial stability if it continues to follow competent developmental policies. Examples include the fast growing Asian countries. Alternatively, it will fall into recurrent balance of payment crises if it either adopts irresponsible developmental policies (usually, abusive expansionary policies), or if it submits to the neoliberal or Washington consensus policies and decides to grow with foreign savings, that is, with high current account deficits.

In relation to political theory, what is the nature of the modern state according to new developmentalism? In rich countries it began as absolutist, changed into the liberal state, changed again into liberal democracy as people acquired the right to universal suffrage. A little later, with the pressure of the people for less inequality, it changed again, this time into a social-democratic state. In this process, the state, particularly in Western Europe, ceased to be, in the words of Marx and Engels, “the executive committee of the bourgeoisie”. It became the social-democratic state, where the poor and the middle classes hold some power and participate modestly from the economic surplus. The challenge is to turn this social-democratic state into a republican state, able to defend itself (namely the public patrimony) from the greed of powerful individuals involved in all kinds of lobbying if not outright corruption. In the developing countries, these stages of political development overlap, but a consolidated democracy is achieved only after each country completes its capitalist revolution. Today all countries are pressed to become democratic, but, as I argued in my paper on democracy and the capitalist revolution,<sup>6</sup> no country was able to make its capitalist revolution in the context of a pre-existing democracy. They formed their nation-state and industrialized whereas the political regime was either politically liberal (as the United States) or forthrightly authoritarian, as happened in most cases.

Turning to the microeconomics of new developmentalism, it starts from the assumption that the market is an excellent institution for the coordination of economic systems, provided that there is competition. Thus, the role of the market and the role of the state in economic coordination depend on the level of actual competition. While Neoclassical Economics assumes generalized competition as the default condition, new developmentalism distinguishes in modern capitalist societies two sectors: the competitive and the non-competitive sector; accordingly, while Neoclassical Economics believes that economic coordination should be market coordinated, new developmentalism leaves the competitive sector to be market coordinated, and understands that the non-competitive sector, which eventually includes the big banks that are too big to fail, requires planning and day to day regulation.

On the macroeconomics aspect, the assumption of developmental macroeconomics is that in developing countries markets are definitely unable to prevent financial crises and are not able to ensure access to foreign and domestic demand. Besides the well-known market failures that economic theory competently discusses, there is a major market failure—the Dutch disease—

which makes the exchange rate overvalued in the long-term – not only in the commodity booms as the 1982 paper by Corden and Neary proposed. This fact plus two usually populist policies, the growth *cum* foreign savings policy and the use of the exchange rate as an anchor to control inflation, are the cause of the tendency toward the cyclical and chronic overvaluation of the exchange rate. This represents a major obstacle to the industrialization or the productive sophistication of most developing countries. Besides disconnecting the business enterprises that use state of the art technology from demand, this tendency means that the country will go from currency crisis to currency crisis if it does not pursue an active exchange rate policy.<sup>7</sup>

Developmental macroeconomics is distinct from classical developmentalism and Keynesian macroeconomics in a few but significant issues: (1) the fundamental variables it uses are not the public deficit and the interest rate, but the current account deficit and the exchange rate; (2) what distinguishes developing economies from rich economies is no longer a social duality and a poorly structured market, but the fact that the former become indebted in foreign currency and are subject to balance-of-payment crises, whereas the rich countries become indebted in their own currency and are subject only to banking crises; (3) contrarily to Keynesian macroeconomics, the existence of demand does not ensure investment and full employment; it is additionally required that the exchange rate assures access to demand – something that is not ensured due to the fact that the exchange rate may be overvalued in the long term;<sup>8</sup> (4) contrarily to what assumes classical developmentalism, developing countries don't need the capital of rich countries in so far as (a) when they neutralize the Dutch disease, they will necessarily present a current account surplus, and (b) in so far as foreign savings usually don't add to domestic savings and increase investment, but, rather increase consumption.

### **Classical developmentalism**

The direct antecedent to new developmentalism is classical developmentalism,<sup>9</sup> which was a response to the failure of markets to coordinate capitalism and to new hopes rising out of the end of World War II. It spanned an era from the mid 1940s into the 1960s. It was a school of thought combining Keynesian macroeconomics with classical political economy, which outstanding economists like Gunnar Myrdal, Arthur Lewis, Rosenstein-Rodan, Ragnar Nurkse, Raul Prebisch, Hans Singer, Celso Furtado and Albert Hirschman defined. It adopted a historical-deductive method instead of a hypothetical-deductive one, and was critical of neoclassical economics and of the classical law of comparative advantages. In synthesis, it defined industrialization as the main way to achieve economic development, the foreign constraint as a main obstacle to it, and asked for foreign savings; it drafted a concept of economic development as structural change; it argued for an active role for the state; and, in the political realm, it emphasized the role of a developmental class coalition bringing together business industrialists, workers and the public bureaucracy to build the nation-state and realizing the industrial and capitalist revolution.

The World Bank was established according to these principles. The three main economic ideas were industrialization, foreign finance, and a leading role for the state; economic planning had a central role; the main ideology was economic nationalism or developmentalism. The main political change proposed was the capitalist or bourgeois revolution led by industrial entrepreneurs associated with the public bureaucracy and the workers; the political adversary was the old oligarchy who exported commodities, the commercial and financial activities involved in foreign trade, and the rich countries – all interested in keeping the country as just an exporter of commodities.

Yet, in the late 1960s, classical developmentalism came under the attack of the associated dependency interpretation, and in the late 1970s, under the attack of monetarism, or, in more general terms, of neoclassical economics, which was at that time recovering the academic hegemony that it had lost to Keynesian thought in the 1930s. Associated dependency started from the assumption that a national bourgeoisie in developing countries was not feasible, because the local bourgeoisies would be essentially dependent, and concluded that instead of trying to achieve national autonomy and realize the capitalist revolution, the best alternative was to get associated with rich countries and grow under their shadow or protection. On the other hand, in the 1970s, an economic crisis put an end to the Golden Years of capitalism and opened the door to neoclassical economics, including the “new-Keynesian”, which became mainstream in the main universities once again. In the United States and Britain the neoliberal ideology became hegemonic, along with the associated economic liberalization and globalization. In a 1981 paper, Albert Hirschman acknowledged the demise of developmental economics in the title of his paper: “The rise and decline of development economics”.

But classical developmentalism was not dead. In the following 30 years, the significant contributions to developmental economics were of an historical nature. I mention five books:

- Chalmers Johnson’s 1981 book on Japan, *MITI and the Japanese Miracle*,
- Alice Amsden’s 1989 book on South Korea, *Asia’s Next Giant*,
- Robert Wade’s 1990 book on Taiwan, *Governing the Market*, and
- Ha-Joon Chang’s 2002 book, *Kicking Away the Ladder* and
- Eric Reinert’s 2007 book, *How Rich Countries got Rich... and Why Poor Countries Stay Poor* (2007)

The first three books conveyed no new theory, but showed definitely the historical role played by industrial policy. They refrained from discussing the macroeconomic problems in Japan, South Korea and Taiwan, because their assumption was that the macroeconomic prices (the profit rate, the wage rate, the exchange rate, the interest rate and the inflation rate) were basically *right* in these countries.<sup>10</sup> Indeed, in managing their macroeconomic policies these Asian countries were adamant about three things: fiscal responsibility (rejecting budget deficits except in a countercyclical way), exchange rate responsibility (keeping the exchange rate competitive) and low interest rates. And we must consider that to keep the exchange rate competitive was something relatively



easier for them than for Latin American and African countries, because they don't count with the abundant and low price natural resources that originate the Dutch disease.

The last two books demonstrated with historical facts that hegemony imperialism (imperialism by persuading or pressing developing countries to engage in current account deficits) continues strong and represents a major obstacle to the economic growth in so far that it presses developing countries to not use policies and the long-term institutions that they used when they were in the same stage of growth.

### **Social-developmentalism**

New developmentalism is the sum of the new and relatively consistent theories and ensuing policies on growth and progress, which, by its relative novelty and internal consistency, may give rise to a new school of thought. In 2010, the approval of the "10 Theses on New Developmentalism" by a large number of economists of many nationalities, as well as the increasing consistency of the ideas being developed point out in this direction.<sup>11</sup> Whereas the criterion on which to evaluate really existing developmentalism is to verify to what extent it is able to form a developmental class coalition and combine growth with social progress, new developmentalism will make sense if its concepts and models are helpful in three points: in explaining the stability and growth as well as crises and low growth of countries, in predicting economic behavior, and in proposing good policies. New developmentalism is, by design, democratic and progressive, because its proponents are critical of the inequality that characterizes capitalist societies, because they understand that economic development is only sustainable when wages grow in the long-term, and because it is targeted at middle-income countries, which are already democratic or mature enough to be so, and, thus, the demands of their workers and their poor cannot be ignored.

Some critics would like a compromise between new developmentalism and social-developmentalism, but this would require that social-developmentalism was also a new and competing theoretical framework – what is not the case.<sup>12</sup> Social-developmentalism ignored the new developmentalism's models and policy proposals, but was not able to develop new ones. To be an alternative to new developmentalism, social-developmentalism should also have a body of new and relatively systematic theoretical knowledge, but it remained prisoner of a version of Keynesianism and of classical developmentalism with a strong bias for immediate consumption, that the economists who founded these two theoretical traditions, as Keynes and Kaldor, or as Nurkse and Prebisch, would probably not subscribe.<sup>13</sup>

Let us see which are policies that distinguish social-developmentalism from new developmentalism. First, the defense of a wage-led strategy against an export-led or profit-led strategy. A wage-led strategy would solve the problem of insufficiency of demand, provided that the capitalists' marginal propensity to consumption was high as usually is, and would reduce income inequality by increasing wages instead of making the exchange rate competitive, i.e., floating

around the industrial equilibrium. This involves a double mistake, whose formalized origin is the paper by Bhaduri and Marglin (1990). It is enough to read carefully the paper to understand that it is practically a closed model, in so far that a wage-led strategy may only work when the country protects with high tariffs its domestic market; or, in other words, when it adopts the import substitution model of industrialization – something that makes sense to poor countries that are beginning their industrialization, but definitely does not make sense for middle-income countries to which new developmentalism applies. Second, it assumes that a competitive exchange rate is consistent with a less unequal distribution of income, what, as we will see in the next paragraph, is true in relation to the profits that must be satisfactory to motivate the business enterprises to invest, and false in relation to the rentiers' revenues (the payment of interests, real-state rents and dividends), which, in relation to the exchange rate, vary in real terms in the same way that wages vary.

Second, the claim that new developmentalism shows little concern for inequality. It makes no sense in so far as a theory is right or wrong, not conservative or progressive. As to policies proposed by new developmentalism, or, more specifically, by me, I understand that they are progressive in so far that I believe that the reduction of inequality is a major objective in capitalist societies that are inherently unequal and unjust. But this does not mean that the policies proposed should always express the short-term interests of the workers or of the poor. New developmentalism assumes that the exchange rate in developing countries is, "normally", overvalued in the long-term, particularly in the ones that have the Dutch disease. It follows from this that the expected profit rate will be usually low, not sufficient to make business enterprises to invest, whereas real wages will be artificially high. Thus, it proposes policies that involve a once and for all depreciation that is a condition for a satisfactory expected rate of profit – a rate of profit that motivates business enterprises to invest. Social-developmentalists view this policy aiming to make the business enterprises profitable or competitive as "conservative". In this way, they ignore that policymakers in a capitalist society have to obey the logic of capitalism – the logic of profit realization and capital accumulation. If growth depends on the investments of business enterprises, they should work for a compromise between business entrepreneurs and workers, between a satisfactory profit rate and wages increasing with productivity. Instead, social-developmentalists express a high preference for high wages and immediate consumption – a preference that, in the medium term, is on the interest of rich countries, not of the workers and the poor of the developing countries. They assert that the exchange rate should be competitive, but, besides not having the concept of what is a competitive exchange rate, they don't want to pay the price – they don't want the short-term and modest fall in real wages that depreciation brings. And often add that the depreciation will increase inequality, what is true just in relation to profits, but to increase them is the explicit objective of the depreciation. As to the other revenues, the depreciation is neutral: not only real wages but also high salaries and bonus of high technobureaucrats, and the real dividends, real-state rents, and interests of rentier capitalists will fall in real terms. The policies supported by new developmentalism that are effective in reducing inequality are not

macroeconomic policies, but microeconomic ones: specifically the increase of the minimum wage and progressive taxes.

Third, new developmentalism wants that the five macroeconomic prices are correct, while this type of classical developmentalism gives preference to quantities against prices; supposes that investments, for instance, show a low elasticity to the exchange rate and the expected profit rate, and a high elasticity to the increase in total wages and consumption. In doing that, they ignore that economics is the science of markets and prices, where income effects are relevant, but prices remain the crucial coordinating tool of an economic system.

Forth, the adoption of chronic budget deficits that increase the public debt to GDP ratio is another serious mistake, and a source of repetitive failures on the part of heterodox policymakers. It is probably the worst virus suffered by some post-Keynesians and classical-developmentalists. Keynes abhorred such policies. Nevertheless they are often adopted in his name. In 1991, Fernando Dall'Acqua and I published a paper in the *Journal of Post Keynesian Economics* defending Keynes from this type of populism. True, the proponents of chronic budget deficits say that they only defend this kind of policy when there is insufficiency of demand, and that makes it counter-cyclical. Actually, they have such a *loose* concept of insufficiency of demand that every economic condition fits in it and wrongly legitimizes expansionary fiscal policy.

Thus, social-developmentalism not only lacks the statute of theoretical system, not only does not have the models of new developmentalism that I will summarize in the next section – the tendency to the cyclical and chronic overvaluation of the exchange rate, the investment rate as a function of the exchange rate combined with the claim that besides demand business enterprises require access to it to invest, the model of the Dutch disease, the model of the substitution of foreign for domestic savings, etc. It also makes serious policy mistakes, which originate from its difficulty in understanding the logic of capitalist development – an often perverse logic, but from which the policymaker cannot escape. Take, for instance, the economic crises and the cost of macroeconomic adjustments. They fall on the workers, whose wages are reduced, and on the rentiers, whose interests rates and also the price of assets fall, and not on profits, because the objective of the adjustment is to restore the profit rate.

Actually, the adoption of social-developmental policies that I just criticized plus its ignorance of the new models that new developmentalism brought to the fore are the main reasons for the frequent failure of heterodox policies in developing countries. Take the recent case of Brazil. The Lula administration (2003-2010), which was benefited by a commodity boom, profited from the opportunity to increase the minimum wage, thus reducing the inequality. But it made the major mistake of letting the exchange rate to become dramatically overvalued: during the eight years of his administration, it went from R\$ 5.1 per dollar in the first month to just R\$ 1.90 the last one, December 2010.<sup>14</sup> In consequence, the large increase of the domestic market that the competent distributive policy and the commodity boom created was fully captured by imports. The Brazilian manufacturing industry, which began losing the foreign markets to other countries, also lost the domestic market to importers.

As to the loose concept of insufficiency of demand justifying large budget deficits, we have the last two years of the first Dilma administration (2013 and 2014) to examine. In the beginning of her administration, she courageously reduced the interest rate and devalued the real by around 20%, to R\$ 2,30 per dollar. It was a necessary but insufficient devaluation, since the industrial equilibrium in Brazil in January of 2015 should be around R\$ 3.00 per dollar. The economy that was growing very slowly didn't react, and the manufacturing industry was in full crisis. At that moment, the government decided to increase expenditures to finance a very expensive industrial policy. But it didn't work because an industrial policy is not a legitimate substitute for making the exchange rate competitive. Given that, inflation increased somewhat and the primary surplus that should be about 2,5% of GDP was zeroed out. The per capita growth rate resumed its quasi-stagnant average since 1980: less than 1% a year.<sup>15</sup> In consequence, the government lost the confidence of the domestic and the international markets, and was forced into retreat in the first Dilma administration, by increasing the interest rate, and after re-election, by transferring the Finance Ministry to an orthodox economist. These were the consequences of Lula and Dilma's social-developmentalism. Brazil is a country where heterodox economics remains relatively strong, and for some time we became mainstream in the policy sector (not in the academic sector, that is a closed bulwark). We ceased to be in the mainstream during the second Dilma administration, which represented a major defeat for us.

Summing up, given the insufficient expected rates of profit, the low investments and the low growth rates – characteristics of a pseudo-developmentalism, not of a social-developmentalism –, the developmental class coalition aimed by the Workers' Party three administrations in the last twelve years failed to turn into reality. Instead of getting tangled in old populist practices and in ideas, developmentalists and post-Keynesians must seek new ideas and new policies. Developing countries don't need only growth; they also need less economic inequality. But it is not by keeping the more strategic macroeconomic price—the national currency price or the exchange rate—overvalued that we will achieve this goal. In doing that, we are only abiding those who are interested in long-term overvalued currencies in developing countries: the rich countries and the local rentier capitalists. New developmentalism only makes sense in the framework of a developmental class coalition aligning the businesses, entrepreneurs, the public bureaucracy and the workers to fight the neoliberal class coalition made up of rentier capitalists and financiers. Given the tendency toward the cyclical and chronic overvaluation of the exchange rate, in the initial condition, the expected profit rate of the manufacturing industry will be low, insufficient to make it worthwhile for the business enterprises to invest and innovate, and wages and all other revenues (interests, dividends and rents on real state) will be relatively high. This then requires a once and for all depreciation, which will make the exchange rate competitive, and involves a fall of all the revenues, not only of wages. Thus, what is really effective in reducing inequality is not the exchange rate policy: it is the increase of the minimum wage, keeping the level of the interest rate low, and adopting a progressive income and inheritance tax system.

## **Summing up new developmentalism**

Here is a summary of new developmentalism.

1. New developmentalism starts from the assumption that markets are an excellent in coordinating the economy, but they don't assure the right microeconomic prices in the non-competitive sector of the economy, and they definitely don't assure the right macroeconomic prices.
2. New developmentalism works with five macroeconomic prices: the profit rate, the exchange rate, the interest rate, the wage rate, and the inflation rate, and understands that they must be kept *right*.
3. "Right" prices do not mean prices defined by full competition, but prices that make sense economically and politically: (a) the profit rate must be high enough to support investment by business; (b) the exchange rate must make the business enterprises competitive; (c) the level of the interest rate should be as low as possible; (d) the wage rate should increase with productivity, and be consistent with a satisfactory profit rate; (e) the inflation rate should be low.
4. The basic difference between rich and middle-income countries, besides the level of income, is the fact that while rich countries get indebted in their own money and are only subject to banking and financial crises, middle-income countries get indebted in foreign money (which they cannot either issue, or depreciate), being additionally subject to currency or balance of payment crises.
5. Economic development is a process of capital accumulation with the incorporation of technical progress that increases wages and standards of living in the long term; it supposes an increasingly well-educated population; it involves industrialization or, more precisely, increasing productive sophistication combined with the transference of labor from low to high income per capita industries.
6. Economic development is the main element of progress or human development, which also involves the increase in security, the increase of individual liberties, the reduction of inequalities, and the protection of the environment.
7. The method appropriate to understand growth with price and financial stability is the historical-deductive method, which generalizes from the observation of empirical regularities, not from axioms on rational behavior.

### ***Growth and the investment rate***

8. As is well known, the growth rate depends on the investment rate, which depends on the difference between the expected rate of profit and the

interest rate. The expected rate of profit depends on the existence of effective demand.

9. But what is not usually known is that the expected profit rate depends on the *level* of the exchange rate, because the exchange is not just volatile around the equilibrium, but in developing countries, given the tendency to the cyclical and chronic overvaluation of the exchange rate, it is usually overvalued in the *long-term* – something that neoclassical and Keynesian macroeconomics don't acknowledge.
10. When the exchange rate is overvalued in the long-term, the business enterprises that use state of the art technology are *disconnected* from effective demand, as the average expected rate of profit falls and possibly turns negative, what leads them to reduce or stop investment.
11. When the investment rate is low, the rate of private savings will also be low, because, as Keynes showed, it depends on investment.
12. Private savings rate depends additionally on the national culture, and on the existence (or lack thereof) of a social security system, which is supposed to create savings on behalf of individuals.
13. Instead, given the budget deficit that keeps the public debt under control, public investment depends on public savings (taxes minus current expenditures) and on the profits of state-owned enterprises.<sup>16</sup>

### ***The determinants of the exchange rate***

14. The determinants of the exchange rate are its value *and* the supply and demand for foreign money.
15. The *value* of the exchange rate, or, more precisely, of the foreign money, is the value that covers the cost plus a reasonable profit of the business enterprises that participate in foreign trade and ensure the equilibrium of the current account of the country.
16. The value of the exchange rate depends on the country's comparative unit labor cost (wage rate divided by productivity of the country compared with other countries).
17. The *price* of the exchange rate floats around its value according to the demand and supply of foreign money.
18. The supply and demand for foreign money (1) depends on the textbook determinants, particularly on the interest rate (which attracts capital when increases) and on the purchase or selling of foreign reserves by the central bank, (2) on the speculative capital flows, and (3) on the two usual populist policies that developing countries adopt: the growth *cum* "foreign savings" policy and the use of an exchange rate anchor to control inflation.

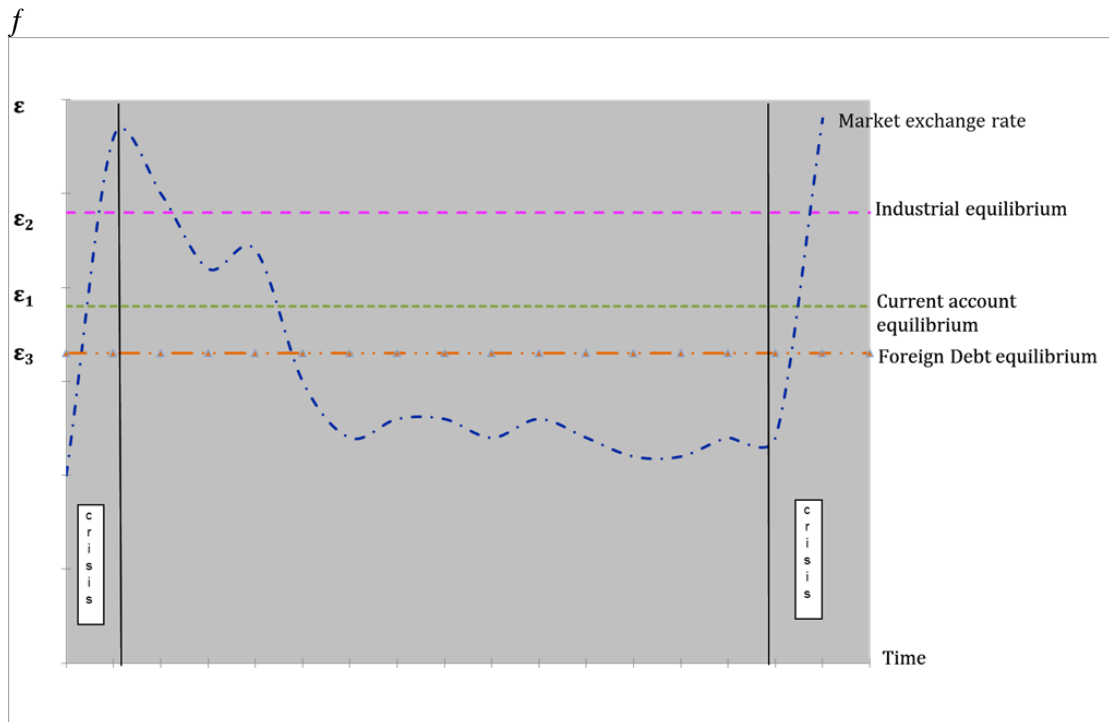
### ***Dutch disease***

19. When the country faces the Dutch disease, there are two values and corresponding equilibriums for the exchange rate: the current equilibrium, which is the exchange rate that balances intertemporally the country's current account, and the industrial equilibrium, the exchange rate that makes competitive the business enterprises utilizing technology in the world state of the art.
20. The Dutch disease is the permanent overvaluation of the exchange rate caused by the fact that the country has abundant and cheap natural resources, which benefit from Ricardian rents, and, so, may be exported with a satisfactory profit at an exchange rate floating around the current equilibrium, what makes the non-commodity tradable industries non-competitive because they require that the exchange rate floats around the industrial equilibrium to be competitive.
21. Another way of defining the Dutch disease is to say that it is a long-term competitive disadvantage for the non-commodity tradable industries of a country that results from the fact that the technically competitive business enterprises are not economically competitive, because the former are profitable with a more appreciated exchange rate than the one required by the latter, which benefit from Ricardian rents.
22. When the country does not face Dutch disease, the current and the industrial equilibriums are the same, or, in other words, there is only one when value, around which floats the exchange rate price.
23. When there is Dutch disease, the exchange rate price floats around the current equilibrium, which is dominant because it is lower (more appreciated) than the industrial equilibrium.
24. The distance between the industrial and the current equilibrium gives the severity of the Dutch disease.
25. The current equilibrium (1) depends on the international price of the commodities in an inverse way; when the prices increase, the current equilibrium increases and, so, the price of the exchange rate increases (making the Dutch disease less severe), (2) depends on the export tax that the country uses to neutralize the Dutch disease, and (3) depends, on the domestic side, on the tariffs on imports.
26. The industrial equilibrium depends on the value of the exchange rate relative to the manufacturing or non-commodity tradable industries, which depend on the comparative unit labor cost of the country in relation to its main trade competitors.

### ***The tendency toward overvaluation***

27. In developing countries there is a tendency to the cyclical and chronic overvaluation of the exchange rate, which means that, contrary to Keynesian and neoclassical macroeconomics, the exchange rate tends to be overvalued in the long run. In Figure 1, the market exchange rate behaves accordingly, and we have two real (the current and the industrial equilibrium), besides one false exchange rate equilibrium (the foreign debt equilibrium).

**Figure 1: Tendency to the cyclical and chronic overvaluation of the exchange rate**



28. There is a direct but not linear relation between the exchange rate and the current account;

29. The current equilibrium is the value of the exchange rate that balances intertemporally the current account; it is the effective equilibrium around which the exchange rate floats; the industrial equilibrium, the value of the exchange rate that is required to make competitive the tradable business enterprises using the best technology available; it is the competitive equilibrium; the foreign debt equilibrium is the exchange rate that corresponds to a current account deficit which keeps the foreign debt growing at the same rate as the GDP.

30. As a consequence of this tendency, besides investing too little, developing countries will go from one currency or balance of payment crisis to another, from one sudden stop to another sudden stop.



31. The tendency toward cyclical and chronic overvaluation of the exchange rate has a structural cause (the Dutch disease), and two usual or habitual policy causes (defined in paragraph 20).
32. The Dutch disease is a long-term competitive overvaluation or disadvantage originating from the fact that the country benefits from Ricardian rents derived from abundant and cheap natural resources; such rents enables business enterprises to export commodities at a profit at an exchange rate that floats around the current equilibrium, which is substantially more appreciated than the exchange rate required by other businesses enterprises producing tradable goods that use the best technology available in the world.
33. A non-neutralized Dutch disease means that, with the exception of the commodities that cause it, all existing and potential business enterprises producing tradable goods and services will not be able to invest and innovate because the expected profit rate will be small or negative. If the country neutralized the Dutch disease in the past, but later on ceases to do that (as was the case with Brazil), it will deindustrialize.<sup>17</sup>
34. The two usual policies are (1) the growth *cum* current account deficits (foreign savings) policy ignoring the high rate of substitution of foreign for domestic savings, complemented by the policy of keeping the interest rate at a *level* high enough (around which monetary policy is practiced) to attract capital, and (2) the adoption of an exchange rate anchor to control inflation.
35. In most cases these often-adopted policies are forms of exchange rate populism because they lead the nation-state to spend irresponsibly more than it gets and to increase its foreign debt. And we have fiscal populism when the state spends irresponsibly more than it takes in and the public debt increases.

### ***Balance of payment crises***

36. The continuous appreciation caused by these three factors (the Dutch disease and the two populist policies) will, first, involve a high rate of substitution of foreign for domestic savings. Second, it will increase the foreign debt and cause financial fragility, compelling the country to engage in the pathetic practice of “confidence building” policy (to adopt policies not according to the interests of the country but according to the conditions demanded by the IMF and of the international financial system), and, third, it will trigger a balance of payment crisis, which completes the cycle.
37. If the Dutch disease is not duly neutralized, it will keep the exchange rate overvalued in the long-term. But as it only pushes the exchange rate from the industrial to the current equilibrium, it will not cause a balance of

payment crisis. What push the exchange rate down to the current account deficit are the two populist policies.

38. If the two usual policies (growth *cum* current account deficits and the exchange anchor) are not rejected, the exchange rate will sooner or later cross the foreign debt equilibrium. Then a balance of payment or currency crisis will necessarily materialize.
39. The floating exchange rate regime does not prevent the financial crisis, because a bubble credit will keep the exchange rate overvalued for a long time, allowing the foreign debt to increase beyond a secure line.

### ***Policies***

40. New developmentalism does not have a special contribution in relation to monetary and fiscal policy. Monetary policy should make the interest rate vary around a reasonable level—just a little bit higher than the average level of the real international interest rate.<sup>18</sup>
41. Fiscal deficits are recommended only when there is a clear insufficiency of demand making the expenditures counter-cyclical. A loose definition of insufficiency of demand and the adoption of chronic budget deficits don't lead to growth and full employment; they are just an excuse for fiscal populism. To adopt a lax concept of insufficiency of demand and to propose chronic budget deficits is not Keynesian thinking, but vulgar Keynesianism.
42. As there is a monetary policy to determine the interest rate, an exchange rate policy is essential to determine the exchange rate, which should not be thought to be just an endogenous variable and, so, reduced to monetary policy, i.e., to change of the interest rate.
43. Besides no being reduced to monetary policy, exchange rate policy (a) should not be limited to the adoption or not of capital controls; (b) involves the rejection of two habitual policies: the growth *cum* foreign indebtedness policy; and, (c) when there is Dutch disease, requires a once for all policy to neutralize it: an export tax on the commodities that originate the disease.
44. The policy of growth *cum* indebtedness or foreign savings is self-defeating; even if the current account deficit is financed by direct foreign investments, the resulting capital inflow will appreciate the national currency, reduce the incentive for investment, and the usual outcome will be a high rate of substitution of foreign for domestic savings. This means that most of the foreign savings will finance consumption, not additional investment, even if the financing is made by direct investments.
45. This does not mean that the country should reject foreign direct investments. These investments are welcome if they bring technology or open new markets, and not because they finance current account deficits

- something that middle-income countries definitely should not have. Given that, foreign direct investments will increase reserves and finance foreign direct investments, as does China and the fast growing Asian countries.
46. The use of the exchange rate as a nominal anchor against inflation is a major policy mistake; inflation may be controlled in this way, but at an absurd cost. If inflation is not inertial, the way to control it is through fiscal and monetary policy, besides macroprudential policies. The fact that a temporary rise of the interest rate to control inflation attracts capitals is true, but this effect will be small.
  47. The growth cum foreign indebtedness policy and the policy of controlling inflation with the appreciation of the national currency involve exchange rate populism: the artificially increases wages and lowers inflation. In doing so they facilitate the re-election of politicians, but at the country's expenses.
  48. It makes no sense to keep the exchange rate overvalued in the long term and justify the policy with the argument that the depreciation required to make the exchange rate competitive will cause real wage reduction; it will also cause the reduction of other revenues, and, so, will not have a truly distributive outcome, except in favoring the expected profit rate; but this is the objective of the devaluation: to ensure a satisfactory profit rate, which motivates business enterprises to invest.
  49. The reduction of inequality should be achieved through both a minimum wage policy, which reduces wage and salary differentials, and the restoration of a progressive tax system.
  50. The neutralization of the Dutch disease is done by the imposition of an export tax on the commodities equal to its severity (the difference between the industrial and the current equilibrium). This tax will increase the cost of the commodity, their exporters will reduce their supply at the existing exchange rate, and the market will take charge of depreciating it.
  51. A second best way of neutralizing the Dutch disease is a linear (equal for all goods) increase in import tariffs by adding to it an "exchange rate-tariff"; it will neutralize the Dutch disease in the domestic market, but will continue to block competent firms seeking to export.
  52. Although the twin deficits hypothesis does not hold when the exchange rate is either overvalued or undervalued, it holds when the exchange rate is competitive. Given that in the countries that neutralize the Dutch disease the exchange rate will be competitive and the current account will show a surplus, it should also if not a fiscal surplus, for sure, a budget deficit consistent with a small and controlled public debt.
  53. The cost involved in neutralizing the Dutch disease and, more broadly, in neutralizing the tendency to the cyclical and chronic overvaluation of the

exchange rate is a temporary one and relatively small; it will amount to a rise of inflation and a reduction of all revenues in real terms (the wages and salaries, and the interests, the real state rents, and dividends), except the profits of the business enterprises—precisely what is required to increase the investments opportunities that an overvalued currency depresses.

54. The outcome of these policies will be an increase in the profit opportunities, an increase in the investment rate, and in the export rate of manufactured goods, and, last but not least, the achievement of a current account surplus. This will, necessarily, derive from the neutralization of the Dutch disease—from the shift from the current equilibrium to the industrial equilibrium, which, by definition, corresponds to a current account surplus.
55. Thus, new developmentalism claims, counterintuitively but logically, that middle-income countries do not need foreign capital to grow; they will grow faster if they present current account surpluses most of the time.

### ***Development strategy***

56. A growth strategy may be wage-led, neutral, or export-led, depending on the openness coefficient of the country be falling, constant, or increasing.
57. New developmentalism rejects a wage-led strategy, because such strategy supposes protectionist tariffs, or, in other words, which are legitimate for countries that are beginning their industrialization, not for middle-income countries, which must compete in the international markets.
58. New developmentalism favors an export-led strategy after the once and for all depreciation required to move the value of the national currency from the current to the industrial equilibrium had its short-term effect, and up to the moment that low wages represent a competitive advantage in relation to rich countries. After that, the strategy should be neutral or balanced in so far as the openness coefficient achieve its appropriate level, given mainly the size of the country

### ***Microeconomics and distribution***

59. Prices vary according to the demand and supply around the value of the good or service, which is defined by the social labor required. Or, more simply, defined as the cost plus reasonable profit involved in its production.
60. The allocation of factors in the competitive sector is made by the market through the tendency toward the equalization of the rates of profit, whereas in the non-competitive sector, particularly in infrastructure, planning or state coordination is required.

61. Industrial policy is part of the competitive game among nations, but it should be adopted strategically, as an addition to the right macroeconomic prices, particularly the profit and the exchange rate, never as a substitute.
62. The once and for all depreciation of the exchange rate required to make the shift from the current to the industrial equilibrium implies an increase in the profit rate and a reduction of all revenues (wages, salaries, interest, dividend and rent revenues); this is necessary to make the competent business enterprises competitive and assure full employment.
63. Minimum wage policy, a progressive tax structure and a low level of interest rates—not an overvalued currency—are the three legitimate and indispensable means to reduce economic inequality, which is inherent in capitalism.
64. The protection of the environment and a reasonable growth rate require a permanent compromise and a persistent search of win-win solutions.

### ***Political Economy***

65. Capitalism is either market and state coordinated, or almost exclusively market coordinated; in the first case the state will be developmental, in the second, economically liberal.
66. The first historical form of capitalism in each country—the one where the formation of the nation-state and the industrial revolution occurs—is always developmental and authoritarian. Considering only the countries that first industrialize, the first historical form of developmentalism was characterized by a mercantilist class coalition. Considering the latecomer or developing countries, the class coalitions had as models the Meiji Restoration and the Bismarckian class coalitions.
67. Economic liberalism was just a 19<sup>th</sup> century attempt never fulfilled to make the coordination of capitalist economies depend only on self-regulated markets.
68. It was followed by a second developmentalism—the Fordist or social-democratic developmentalism. Neoliberal capitalism was a second and short-lived attempt to go back to the past.
69. A developmental class coalition associates business entrepreneurs, the public bureaucracy and the workers, whereas a liberal class coalition associates rentier capitalists, the financiers who manage the wealth of the former and the foreign interests.
70. Developmentalism was historically authoritarian and conservative. It only became democratic and progressive with social democracy or Fordism in the New Deal and the Golden Years of Capitalism.

71. New developmentalism, which focuses on middle-income countries that are supposed to be democracies, searches to be progressive alternative not only to neoliberalism, but also to conservative developmentalism. In democratic middle-income countries, developmentalism is consistent with social democracy, not with socialist policies that underestimate the fact that a satisfactory profit rate is a condition for capitalist growth.

## **Conclusion**

The 2008 global financial crisis represented a major setback for economic liberalism or neoliberalism; not for conservatism, which remains strong. The real option that not only middle-income countries but also rich countries face is not to choose either neoliberalism, or developmentalism, but either conservative, or progressive developmentalism. New developmentalism is an attempt to offer new ideas for developing countries, mainly middle-income countries, but should be ignored by rich countries. In economics new theories are very infrequent, almost inexistent. Nevertheless, I believe that most of these ideas are new or relatively new, and, besides being critical of neoclassical economics, are critical of both classical developmentalism and Keynesian Macroeconomics. For that reason, the followers of these schools of thought will resist to it. This is part of the eternal game of ideas and interests. Economists who remain attached to classical developmentalism will argue that this strategy is export-led, which is meaningless; they will say that only workers will lose, which is false. Vulgar Keynesians will argue that I am rejecting effective demand and only think in price terms, but economists that don't think view prices in the core of their science are not real economists. As to liberal mainstream economists, they will probably ignore these new models because their theories are based on the hypothetic-deductive method; because, against all evidence, they reject an active role of the state and believe in self-regulated markets; and, above all, because they don't have sympathy for theories, like my model o Dutch disease, which, when not neutralized, represents a major competitive disadvantage to the countries that suffer it, and when neutralized lead the country to display current account surpluses. An outcome like this is not seen with sympathy by rich countries and their economists, because the basic legitimation of the investments of their multinational enterprises is the supposed "need" or "benefit" that developing countries would have receiving their capitals – a need or benefit that proves false when the outcome of the neutralization of the Dutch disease is necessarily a current account surplus.

A way of summarizing developmental microeconomics is to say that it rejects the existence of self-regulating markets, but views markets as an irreplaceable institution to coordinate the competitive sector of the economy, whereas a way of summarizing developmental macroeconomics is to say that it is based on the right or balanced macroeconomic prices, particularly on a competitive exchange rate that makes economically competitive the business enterprises that are technologically competitive. The "heterodox" ideas that economics should not deal with equilibrium, and that growth and stability may be achieved without costs make as little sense as it does the "orthodox" assumption that they can

build meaningful theory based on the axiom that economic agents are rational and markets, self-regulated.

New developmentalism is a project, a work in progress. Its contribution to macroeconomics and particularly to the theory of the exchange rate is already reasonably defined. The same cannot be said about its contribution to microeconomics, but the distinction of a competitive and a non-competitive sector in capitalist economies will play a major role in it. As to the political economy of new developmentalism, the theories on the crucial change that represents the capitalist revolution for each country, on the competition between nation-states in globalization, on the nature of developmental state, on economic nationalism, and on class coalitions are its building blocks.

Returning to the beginning, new developmentalism is not a form of capitalism, but a theoretical framework. In a previous article, I tried to portray it as something really existing, but I was mistaken<sup>19</sup>. New developmentalism has as its predecessor, classical developmentalism, and is associated with the post-Keynesian and with the French regulation schools of thought. New developmentalism includes a methodological critique of neoclassical economics, which adopts a hypothetic-deductive method, which is inconsistent with a substantive social science like economics<sup>20</sup>. Instead, the new developmentalism's models are not inferred from a supposed rational agent, but from the regularities and tendencies that can be observed in the economic systems. The hypothetical-deductive method is properly adopted by the methodological sciences like mathematics, statistics, econometrics and economic decision-making theory, whereas the empirical deductive method or the historical deductive method are appropriate to the substantive sciences, i.e., the natural and the social sciences.

The new developmentalism project is a broad system of economic, political and social theories and policies aiming to understand how developing countries grow and the challenges they face. It will become influential only when a large number of economists and political scientists contribute to it. This is already taking place principally in Brazil,<sup>21</sup> but there are non-Brazilian economists associated with new developmentalism, particularly the ones who subscribed originally the 10 Theses on New Developmentalism, who have shown a definite interest for the new ideas and models.<sup>22</sup> Will new developmentalism bring enough people together and constitute a new Latin American school of thought, as the French Regulation School does? That is difficult to predict. It depends, essentially, on the consistency and truth of the theory's main ideas. When Robert Boyer, from the Regulation School, wrote the preface to the French edition of *Globalization and Competition*, he said that a new school of thought was in the making. I was surprised at that moment, but now it may well be that he was right.

Many developing countries adopt developmental approach because they reserve to the state an important economic role, but few countries adopt the right new-developmental policies that would assure their growth with financial stability. That failure is due to the fact that the capability of their states is poor, that the demands of the population for immediate consumption is high, that their economists are often incompetent and as populist as are their politicians. New developmentalism is an effort to offer competent policies to these countries,

particularly the middle-income countries. It is by design and by necessity a “social” developmentalism, which searches to combine growth with a reduction of inequality. It is by design social, because its followers know well that, if capitalism is left free, it will be essentially unfair to the poor; it is by necessity social, because in democratic countries the poor are strong enough to demand and obtain the provision by the state of large universal social services.

A final caveat. The adoption of new developmentalism is no guarantee of success. Comparing new developmental policymaking with liberal policymaking, the latter is an inferior choice because (1) it will tend toward financial instability, in so far as neoclassical economists believe that the private sector is market coordinated and is always in equilibrium—which is false; (2) it will be characterized by low growth, in so far as major market failures, beginning with the Dutch disease and the tendency to the overvaluation of the exchange rate, are not neutralized; (3) it will lead to increased income inequality, given the commitment of their policymakers with the rentier class coalition. But developmental policymaking requires more technical competence than liberal policymaking, because it is more proactive. Incompetent liberal policymakers often engage in excessive fiscal austerity and exchange rate irresponsibility, whereas incompetent developmental policymakers besides showing exchange rate lack of responsibility often incur into fiscal irresponsibility, because they succumb to vulgar Keynesianism, which sees an increase in state expenditures as the solution to all problems. Note that the two mistakes are symmetrical. However, these orthodox recurrent mistakes lead the economy to unemployment, low growth, and recurrent financial crises, whereas the heterodox recurrent mistakes lead the economy, additionally, to fiscal crisis and inflation. This is more risky for the politicians in power, and it is the main reason why developmental politicians often call on orthodox economists to run their finance ministries, leaving other ministries like economic planning, industrial development, education and health-care to the heterodox ones. This is embarrassing to heterodox economists, and should be something for us to think about. We will not be able to persuade the rentiers and financiers, but we should be able to persuade the industrialists and the progressive politicians that are sympathetic to developmentalism that our theory and our policies are superior.

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<sup>1</sup> By classical developmentalism I mean "development economics" or "structuralist development theory", which was mainstream between the 1940s and the 1960s. I

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originally used old developmentalism, but the expression seemed pejorative. On the other hand, “development economics” is a denomination too broad, and “structuralist development theory”, only recognized in Latin America. I owe to Ricardo Bielschowsky the expression classical Developmentalism.

<sup>2</sup> Luiz Carlos Bresser-Pereira, José Luis Oreiro and Nelson Marconi (2014).

<sup>3</sup> Luiz Carlos Bresser-Pereira (2015).

<sup>4</sup> Originally I called “structuralist development macroeconomics” what I am now calling developmental macroeconomics, but because our Routledge editor argued that structuralism is an expression that economists outside Latin America have difficulty to understand, we came to this more direct name.

<sup>5</sup> See endnote 5.

<sup>6</sup> Luiz Carlos Bresser-Pereira (2012a).

<sup>7</sup> I already wrote three books on developmental macroeconomics: two theoretical, *Globalization and Competition* (2010) and *Developmental Macroeconomics* with Nelson Marconi and José Luis Oreiro (2014) and one applied to Brazil: *Developing Brazil* (2007). My papers and books on the matter are assembled in <http://bit.ly/1BLscrr> and <http://bit.ly/1BPU661>.

<sup>8</sup> See on the access to demand problem my paper in Jan Kregel’s festschrift, Bresser-Pereira (2014).

<sup>9</sup> By classical developmentalism I mean “development economics” or “structuralist development economics”, which was mainstream between the 1940s and the 1960s.

<sup>10</sup> Right prices not because determined by the market, but because the average rate of profit combined with low interest rates are satisfying for the business enterprises to invest, the exchange rate is competitive, the wages, consistent with the profit rate, and inflation, low.

<sup>11</sup> On the 10 Theses on New Developmentalism, see [www.tentheseonnewdevelopmentalism.org/](http://www.tentheseonnewdevelopmentalism.org/)

<sup>12</sup> See Lourdes Rollemberg Mollo and Adriana Amado (2015), Fernando Ferrari Filho and Pedro Cezar Dutra Fonseca (2015).

<sup>13</sup> See, for instance, Luiz Paulo Zaluth Bastos (2012), Ricardo M. Carneiro (2012).

<sup>14</sup> The reais are in real terms and are referent to December 2014; they consider the inflation in Brazil and the United States.

<sup>15</sup> The Brazilian economy has been almost stagnant since 1981: between that year and 2014, the average rate of per capita growth was 0.94% per annum. If we exclude an exceptionally negative period (the year 1980 when the country has stagnated due to the financial crisis of foreign debt) and also exclude the commodity boom (2004-10), the rate is even lower: 0.78% per year.

<sup>16</sup> Public savings equal total revenue less consumption or current expenditures including interest on the public debt.

<sup>17</sup> Between 1967 and 1990 the “confisco cambial” [exchange confiscation] was embodied in the country’s trade policy: an average tariff on the import of manufactured goods of 45% and an average subsidy of the same 45% on the exports of manufactured goods implied a tax of 30% on the export of commodities. Policymakers adopted this policy without knowing that a large part of the tariff was not protectionism, but the necessary

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neutralization of the Dutch disease, which fluctuates around 20% in Brazil, becoming more or less serious as the price of commodities increases or decreases.

<sup>18</sup> It should not be substantially higher because it should not be willing to attract foreign capital.

<sup>19</sup> Luiz Carlos Bresser-Pereira (2012b).

<sup>20</sup> Luiz Carlos Bresser-Pereira (2009).

<sup>21</sup> Among Brazilian economist, Yoshiaki Nakano, José Luis Oreiro, Nelson Marconi, Paulo Gala, Lauro Gonzales, Carmen A. Varela, Eliane Araújo and Pedro Rossi were my co-authors in texts developing or applying the new ideas; and also: Francisco Eduardo Pires de Souza, Luiz Fernando de Paula, André Nassif, Carmen Feijó, Vera Cepeda, Marcus Ianoni, Ricardo Bielschowsky, Lauro Mattei, Marco Flávio da Cunha Resende, Gilberto de Assis Libanio, as well as the ones who I responded in this paper: Maria de Lourdes Rollemberg Mollo, Adriana Amado, Pedro Cezar Dutra Fonseca, Fernando Ferrari, Pedro Paulo Zaluth Bastos and Ricardo M. Carneiro.

<sup>22</sup> I cite Robert Boyer, Jan Kregel, Gabriel Palma, Ha-Joon Chang, Roberto Frenkel, José Antonio Ocampo, Jan Prieue, Philippe Faucher, Arturo Guillén, Robert Guttmann, Robert Blecker, Pierre Salama, Jaime Marques-Pereira and Martin Rapetti.