Extractivism, Anti-Imperialism, and the Second Argument Legitimising Import Tariffs

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Introduction

Extractivism may be defined as the abusive use of human and natural resources to benefit certain groups or countries. On one side, it is related to the significant and recent literature on protecting the environment and climate change and exploring national resources. On the other hand, this topic is also linked with colonialism and the imperial countries' exploration of societies in developing countries. In this paper, I discuss this second aspect of extrativism. The first section's theme is classical developmentalism and anti-imperialism versus associated dependency theory. In the second section, we explore the rise of a new generation of developmental economists who focused on the growth of East Asian countries. In the third, the focus is on the rise and contribution of new developmentalism, and in the fourth section, the problem of protectionism and the addition of a second argument in the history of economics (besides the infant industry argument) legitimising import tariffs on manufactured goods. Finally, I conclude by stressing some critical remarks to continue the discussion.

Anti-Imperialism and the Dependency Theory

In the 1950s, while the ECLAC's economists led by Raúl Prebisch (1901-1986) defined the centre-periphery model (Prebisch 1949), in Brazil, the group of nationalist intellectuals of the ISEB built the national-developmental model (Rangel 1957; 1960; Jaguaribe 1956; 1962). Both groups defended industrialisation, and both were anti-imperialist. They started with the thesis that the imperial centre opposes the periphery's industrialisation. For the Global North's rich countries, it is interesting that the developing countries serve as markets for their sophisticated manufactured goods and their capitals; it is not interesting that they industrialise and become competitors in the production and export of manufactured goods. Prebisch did not use the term "imperialism", which was incompatible with a United Nations agency. The term "centre-periphery" enabled circumventing the issue. According to both models, a country should reject the North's ideological hegemony and define a national development project.

The most influential economist of the ISEB was Ignácio Rangel (1914-1994); its leading political scientist was Hélio Jaguaribe (1923-2018). While the ECLAC's contribution was chiefly economic, the ISEB's was political. Celso Furtado (1920-2004), who worked next to Prebisch at the ECLAC and delivered conferences at the ISEB, was the liaison between the two groups.

Both models argued that at the political level, the industrialisation of Latin America, which was underway at the time, was due to the formation of a developmental class coalition made up of industrial entrepreneurs, the public bureaucracy, and urban workers. Despite being informal and unstable, these political pacts reasonably reflected the reality of the 1950s. Developmental policies were successfully adopted in Latin America at several moments when industrialisation picked up pace and had the support of left-wing intellectuals. In Brazil, for example, in its 1958 congress, the Communist Party decided to support this interpretation – something that at that time made a difference. However, the Latin American industrial bourgeoisie was not as firmly nationalistic as those of Asian countries. In the 1960s, after the Cuban Revolution (1959) and within the context of the Cold War, Latin America underwent a process of political radicalisation. Feeling threatened, industrial entrepreneurs broke their agreement with the public bureaucracy and organised workers and aligned themselves with the old exporting elites, the liberal middle classes, and the United States. Then came the coups d'état in Brazil (1964), Argentina (1967) and Uruguay (1968) – right-wing coups that violently repressed the region's left-leaning intellectuals.

As a reaction against the military coups, the 'dependency theory' remerged – a misguided thesis that would deliver a harsh blow to both the centre-periphery anti-imperialist theory and the national-developmental model. This originally Marxist theory was formulated by German economist Andre Gunder Frank (1929-2005) in the days of the 1964 military coup and reflected the outrage of the left in Latin America (Frank 1966; 1969). It criticised the classical anti-imperialist theory and the national-developmental model, arguing that they were doomed to failure because the bourgeoisie at the periphery of capitalism was intrinsically dependent – incapable of leading a national and industrial revolution.

The thesis was simplistic and only partly reflected the reality of developing countries and the Latin-American bourgeoisie, which are contradictory and ambiguous; at some moments, they are nationalist and align with the working class and the state bureaucracy in promoting industrialisation; at others, when they feel threatened by the left, they embrace the economic liberalism defended by the centre. Two versions of the dependency theory were formed in the late 1960s: the Marxist version of Frank himself and Ruy Mauro Marini (1932-1997) and the "associated" version of Fernando Henrique Cardoso and Enzo Faletto (1935-2003). The former group concluded that, given the bourgeoisie's dependency, a national or bourgeois revolution was impossible, and the solution was to be found in a socialist revolution – a logical answer but unrealistic (Marini 1969; 1973). In the book Dependency and Development in Latin America, Cardoso and Faletto (1969) formulated the associated dependency theory, criticised the national-developmental project of classical developmentalism and Celso Furtado's argument on the underdevelopment and stagnation of Latin America, which he formulated immediately after being exiled of Brazil in 1964 (Furtado 1965; 1966). The two authors affirmed that the opposition to industrialisation that developmentalists attributed to the rich countries was mistaken, as the investments of the multinational corporations in the manufacturing industry "proved", ignoring that one thing is the business strategy of companies, another, the liberal strategy of the Global North aiming to block the industrialisation in the periphery. Thus, the associated version preached the Latin American countries' association with the United States. This association was not always clear, despite the commitment of Cardoso and Faletto to democracy and the critique of the military regime for the increase in inequality that its development policies were causing.

The ECLAC chose not to recognise that it was under criticism and allowed itself to be meekly co-opted. The ISEB was extinguished by the military in 1964, and its intellectuals were repressed by the right and the left because their defence of a class coalition of the working class with the industrial bourgeoisie had represented a "betrayal" of the working class cause. The associated dependency theory was enthusiastically received in the United States, as Cardoso noted somewhat ironically (Cardoso 1977). Dependency theory appealed to left-wing intellectuals that the military coups in Brazil in 1964, Argentina in 1967, and Uruguay in 1968 had left outside of the political process. Resentful of the coups and their exclusion, they criticised those on the left who had argued for a political agreement with business industrialists.

On the other hand, the associated dependency's submission to imperialism was unclear to Latin America's left-wing intellectuals, who were attracted by the class analyses and the defence of democracy.[2] Thus, the left in the region received the associated dependency interpretation well. Cardoso became its more important intellectual for twenty years, while the centre-periphery model, vital for Latin America's industrialisation, was left aside. In the late 1970s, the ECLAC's thinking and, more broadly, classical developmentalism plunged into crisis – which Albert Hirschman recognised in a 1981 paper.

Beginning in the 1970s, two Marxist sociologists, Immanuel Wallerstein (1930-2019) and Giovanni Arrighi (1937-2009), contributed to the political economy of development with their "world-systems theory". According to this model, built based on the long-term concept of French historian Fernand Braudel (1902-1986), Wallerstein and Arrighi inserted the periphery's development into the broader process of capitalist development and international division of labour. Arrighi's contribution was fascinating because he developed a theory of phases-cycles of capitalist development and quickly realised China's emergence (Arrighi 1994; 2007). Unlike classical developmentalism, however, the two were sociologists and never formulated an economic

[2] I, for instance, only became fully aware of this subordinated character of associate dependency in the early 2000s.

development model. After the collapse of the Soviet Union, they argued that the triumph of liberalism had never occurred but that the final crisis of capitalism was beginning. They have been too optimistic.

Third Generation

In the 1980s, Latin American countries plunged into the foreign debt crisis and fell into moratoria while their economies faced total stagnation. They failed because they had adopted the growth policy with foreign savings and because, in 1979, the Federal Reserve Bank radically increased its interest rate to fight stagflation. East Asian countries, however, continued to experience high growth rates. This fact opened room for a new generation – the second generation – of classical developmental economists.[3] The 1982 book by Chalmers Johnson (1931-2010), the 1989 book by Alice Amsden (1943-2012), and the 1990 book by Robert H. Wade showed how industrial policy was necessary for those countries to develop, while the books by Eric S. Reinert (2007) and Ha-Joon Chang (2002) showed how developed countries had since the 1980s been attempting to prevent countries at the periphery of capitalism from adopting developmental policies, the very same policies that they had adopted when they made their industrial revolutions. Based on Hyman Minsky and his experience at the UNCTAD, Jan Kregel provided a deep analysis of financial crises. Gabriel Palma contributed to the analysis of premature de-industrialisation, financial crises, and the Dutch disease with studies constantly supported by empirical research.

Around 1980, after the interest rates shock, the Global North experienced the Neoliberal Turn (the transition from a developmental to a neoliberal policy regime) under the UK's and the US's lead. The United States charged the World Bank, the IMF, and the WTO to limit the policy space of peripheral countries and pressure them into embracing neoliberal reforms. The 1985 Baker Plan and the 1989 Consensus of Washington were manifestations of this pressure. The neoliberal diagnosis was simple. The state had become the problem rather than the solution; quasi-stagnation was caused by the "protectionist populism" of the ECLAC's industrialisation policy by import substitution. This was not true, but classical developmentalism lacked an effective response to this criticism from liberal orthodoxy. Around 1990, they capitulated to the North and carried out the neo-liberal reforms: commercial and financial openness. Liberal orthodoxy guaranteed Latin American governments that growth would resume as soon as they opened their economies. Instead, they entered a process of premature de-industrialisation and have remained quasi-stagnant since then. There was some growth in the first decade of the 21st century, but due to a commodities boom. And the region quickly returned to its quasi-stagnant condition.

[3] The first was the generation of Raúl Prebisch (1901-1986), Paul Rosenstein-Rodan (1902-1985), Ragnar Nurkse (1907-1959), Hans W. Singer (1910-2006), Arthur Lewis (1915-1991), Albert Hirschman (1915-2012), and Celso Furtado (1920-2004). The second generation, Hollis B. Chenery (1918-1994), Anibal Pinto (1919-1996), Celso Furtado (1920-2004), Antônio Barros de Castro (1938-2011), Maria Conceição Tavares, Luiz Carlos Bresser-Pereira, Luiz Gonzaga Belluzzo and Lance Taylor (1940).

The New Developmental Theory

The new developmental theory emerged in the early 2000s as an economics and political economy that begins by criticising the hypothetic-deductive method of conventional economics, a mathematical castle built in the air. Adopting the hypothetical-deductive method starts with axioms such as the homo economicus, the general equilibrium model, and rational expectation. Instead of using the claim's adequacy to reality as its primary truth criterion, it deems accurate, which is logically consistent. It is thus uncommitted to the reality. These economics and its proposed reforms and economic policies are misguided, purely ideological, and harmful to the growth of countries, be they developed or not. Conventional economics survives in universities because it is abstract, expressed as mathematical models, that serves the interest of rentiers and financiers and matches the idealistic Platonism of the academia. For sure, there are neoliberalism-classically trained economists who are remarkable and discuss economic reality with competence. Still, they can do that because they have cast aside the core neo-classical tenets. It is also worth pointing out that many researchers have emerged in the universities who carry out empirical investigations into topical subjects without support from any economic theories; they rely on econometrics or develop algorithms, usually to evaluate public policy. They do helpful research.

New developmentalism understands that the balance of economic systems and their economic development arises from combining the two institutions that coordinate the capitalist economies: the market and the state. The market is unparalleled when coordinating the economy's competitive sector but cannot coordinate the monopolistic sector and the macroeconomic prices.

New developmentalism argues, based on a classical view, that the role of the state in the economy is to guarantee the general conditions for the accumulation of capital (education, healthcare, institutions to guarantee the market's proper functioning, infrastructure investments, science and technology investments, and a domestic financial system capable of funding investments in domestic currency) so that entrepreneurs can innovate by investing. It is, therefore, to ensure the microeconomic conditions for development – the conditions on the supply side that are essential for economic growth.

Rather than engaging in the opposition between the market and the state or stating the obvious (that the two institutions are complementary), new developmentalism starts from the distinction between the economy's competitive sectors, which the market coordinates better than the state, and the naturally non-competitive sectors (infrastructure, the basic inputs industry, and the too-big-to-fail large commercial banks), which the state must coordinate.

New developmentalism, adopting a post-Keynesian perspective, argues that implementing a macroeconomic policy that sustains demand is also a role of the state. From its viewpoint, new developmentalism argues that increasing public savings to fund public investments and implementing a macroeconomic policy that keeps correct the macroeconomic prices are also a central role of the state – prices that guarantee employment and growth. The objective is to increase the population's wages or standard of living, but this increase is only solid when the five prices are correct.

Its macroeconomics is based on the thesis that the market cannot keep the five macroeconomic prices or the two main macroeconomic accounts – the current or foreign account and the fiscal account – at the "right" levels. The right price is not a "market-determined price", as conventional economics assumes, but a system of prices that will ensure an economic system's employment and growth. The most strategic of all macroeconomic prices is the foreign exchange rate; the most operational is the interest rate; the most important is the profit rate because investment and growth depend on it. Inflation is a permanent risk that must be avoided. The objective is to increase the population's wages or standard of living, but this increase is only solid when the five prices are correct. The exchange rate must be competitive – a rate that assures companies using the best technology access to the existing demand.

If left to the market, macroeconomic prices will prevent stability and growth. The interest rate level around which the central bank conducts its monetary policy tends to be high in such countries – far higher than the international interest rate plus sovereign risk; the foreign exchange rate tends to be chronically and cyclically appreciated; the wage rate is depressed in the long term because of a low rate of capital accumulation and a high level of unemployment; the inflation rate tends to increase when the economic systems stop functioning correctly, and the industrial sector's profit rate tends to be correspondingly dissatisfying. In addition to ensuring supply-side conditions for capital accumulation and adopting a Keynesian macroeconomic policy, the state must always embrace an active macroeconomic policy to avoid incorrect macroeconomic prices.

The two main macroeconomic accounts must stay balanced for the macroeconomic prices to remain correct. Still, in developing countries, the fiscal account tends to be in a chronic deficit because of fiscal populism, and the foreign current account tends to be in a chronic deficit because of foreign exchange populism. The fiscal account must go into deficit when the economy's demand level is insufficient, and the state undertakes countercyclical fiscal policy. As for the current account deficits, no valid justification exists. Or, more accurately, one only does it in the rare times of accelerated growth, when the rate of substitution of foreign for domestic savings increases because, in this case, the capital inflows do not push up consumption or discourage investment (Bresser-Pereira and Gala 2008).

New developmentalism defends that public investments and savings are kept between 20% and 25% of total investment, but populist politicians are attracted by fiscal and exchange rate populism. An appreciated exchange rate artificially increases the purchasing power of wages and rentiers' earnings, thus stimulating consumption while making industrialisation projects that use the best technology not competitive.

Its development analysis argues that public investment is harmed by the State's difficulties in increasing public savings and that private investment is impaired by high interest rates that appreciate the exchange rate and stimulate consumption while making uncompetitive industrialisation projects using the best technology.

The fourth generation of developmental economists is enriching new developmentalism. They include, among others, Nelson Marconi, José Luis Oreiro, Paulo Gala and André Nassif. The former two were my co-authors for the most comprehensive book published on new developmentalism: Developmental Macroeconomics (2014). Paulo Gala was my co-author in a paper that completely critiques the policy of growth with foreign debt. André Nassif, in addition to being my co-author, is writing Forty Years of Quasi-stagnation in Brazil, which situates new developmentalism properly among the leading theories to understand the Brazilian economy and its long-term quasi-stagnation.

Protectionism or Neutralisation?

After 40 years of quasi-stagnation, Latin American countries have not yet found their way back to development. They are quasi-stagnated, their growth per capita being much smaller than the other countries. One of the reasons for this fact is an exchange rate chronically overvalued because, around 1990, these countries stopped neutralising the Dutch disease. Before, they industrialised because the high import tariffs on manufactured goods neutralised the severe economic disadvantage faced by countries with abundant natural resources and exporters of commodities.

They legitimised the import tariffs on manufactured goods with the infant industry argument, which, however, lost validity as the manufacturing industry matured, and they were left without a political justification for the industrialisation policy by import substitution. As a manifestation of the imperialism of the Global North and its opposition to the industrialisation of Latin America, the Liberal orthodoxy has offered harsh criticism of the high tariffs policy since the 1970s, accusing the Latin-American countries that they had been industrialising since 1950 due to protectionism. This was a misguided critique which ignored the Dutch disease. The liberal economists didn't consider that given the Dutch disease the import tariffs did not "reward incompetence" but assured the industrial companies in the countries, national or multinational, a level playing field in their competition with similar companies of other countries.

In the 1990s, after ten years of persistent foreign debt crisis and stagnation, and after the crisis of the classical developmental theory, Latin-American governments yielded to the Global North's pressure and opened their economies. Their manufacturing industry then faced a significant competitive disadvantage, the countries de-industrialised and entered a regime of long-term quasi-stagnation. I say "competitive disadvantage" because many manufacturing companies, although adopting the best technology available and technically competitive, do not neutralise the Dutch disease and become economically non-competitive.

Since the Second World War, several Latin-American countries have industrialised because their policymakers neutralised pragmatically the Dutch disease that they did not know. They were, however, developmentalists and knew that development is industrialisation, and if the tariffs were eliminated, industrialisation would stop, if not regress, in their countries. Tariffs on manufactured goods are second best when compared with a variable tax on the exports of commodities, but in countries where the Dutch disease originates in agriculture, they are politically more viable because the export tax faces the opposition of the farmers, who are many, more robust than the import tariffs.

Thus, in the last years, I have been defending that the Latin-American countries use tariffs to neutralise the Dutch disease concerning the domestic market and subside the exports of manufactured goods, following the same rule of the tariffs, even though knowing that the country will have difficulties with the World Trade Organisation (Bresser-Pereira 2020). Adopting this trade reform will require that developmentalism turns again hegemonic – which is perfectly possible due to the collapse of neoliberalism in the Global North. It will require that the local policymakers become developmentalists again.

The neutralisation of the Dutch disease argument that I am proposing is a second argument legitimising tariffs – a second argument in the history of economics. The first was the infant industry argument, which was provisory. The second argument does not lose legitimacy with time but depends on the fact that the country is an exporter of commodities and, therefore, has the disease. The liberal orthodoxy was so hegemonic in the last 40 years that it paralysed the developmental economists and policymakers in relation to tariffs. Now that this orthodoxy is in crisis together with neoliberalism, developing countries may again become developmental and defeat the extractivism and the economic liberalism that extractivism uses to avoid that they industrialise and compete internationally in the exports of manufactured goods.

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