



Working
Paper

394

Junho de 2015



SAO PAULO SCHOOL
OF ECONOMICS

After the demise of neoliberalism but not of conservatism, a third developmentalism?

Luiz Carlos Bresser-Pereira

Os artigos dos *Textos para Discussão da Escola de Economia de São Paulo da Fundação Getulio Vargas* são de inteira responsabilidade dos autores e não refletem necessariamente a opinião da FGV-EESP. É permitida a reprodução total ou parcial dos artigos, desde que creditada a fonte.

Escola de Economia de São Paulo da Fundação Getulio Vargas FGV-EESP
www.eesp.fgv.br

After the demise of neoliberalism but not of conservatism, a third developmentalism?

Luiz Carlos Bresser-Pereira

Pour Revue de la Régulation, mai 31, 2015

Abstract: Neoliberalism and developmentalism are the two alternative forms of economic and political organization of capitalism. Since the 2008 global financial crisis we see the demise of neoliberalism in rich countries, as state intervention and regulation increased, opening room for a third historical developmentalism (the first was mercantilism, the second, Fordism). Not only because of major market failures, not only because the market is definitely unable to assure financial stability and full employment, an active macroeconomic policy is being required. Modern economies are divided into a competitive and a non-competitive sector; for the coordination of the competitive sector the market is irreplaceable and regulation as well as strategic industrial policy will be pragmatically adopted following the subsidiarity principle, whereas for the non-competitive sector, state coordination and some state ownership are usually more efficient. Besides, the fact that capitalist economies are increasingly diversified and complex is an argument against the two extremes – against statism as well as neoliberalism – in so far that they require market coordination combined with increased regulation. But the third developmentalism probably will not be progressive as was the second, because the social-democratic political parties are disoriented. They won the battle for the welfare state, which neoliberalism was unable to dismantle, but the competition of low wage developing countries and immigration continue to offer arguments to conservative political parties that defend the reduction of the cost of labor contracts or the or precarization of labor.

Key words: capitalism, neoliberalism, developmentalism, mercantilism, Fordism, complexity

JEL classification: P10, P40, P50

What is the nature of capitalism after the 2008 global financial crisis? It is valid to say that it remains a neoliberal capitalism, or, considering that the first historical form of developmentalism was mercantilism, and the second, Fordism, the emergence of a *third* developmentalism – is a better answer to this question? In this essay I will argue in favor of the second response. Economic liberalism has again demonstrated its inability to ensure satisfactory growth and financial

Luiz Carlos Bresser-Pereira is emeritus professor of Getúlio Vargas Foundation. bresserpereira@gmail.com.br, www.bresserpereira.org.br. I am grateful to Eleutério Prado for his comments.

stability in coordinating modern economies. Undoubtedly it proved less capacity than the second developmentalism, which corresponded to Fordism or the Golden Years of Capitalism. Besides, despite globalization, capitalism in the neoliberal years remained defined by the economic nationalism, which is associated to developmentalism, and incompatible with the letter (not the practice) of economic liberalism. Yet, always considering the more developed countries, it is unlikely that this third developmentalism will be progressive; it may well be conservative, although not so much as neoliberalism.

I make these affirmations from a simple definition of liberal and of developmental capitalism. Capitalism is liberal when the market is supposed to coordinate the whole economic system, and the state is only supposed to secure the property rights and contracts, to defend competition, and to control the public budget; the market would take care of the "rest". Instead, developmental capitalism is defined by a moderate state intervention, mainly in the non-competitive sector of the economy, and a moderate economic nationalism; it assumes, first, that modern economic systems are formed by a large competitive sector, where some industrial policy is advisable, but the economic coordination is essentially made by the market, and a non-competitive sector, mainly the infrastructure, where state planning and some state ownership are required; second, that an active macroeconomic policy, including exchange rate policy, is required to assure full employment and growth. Developmentalism is only in place when a developmental class coalition is dominant associating the business class, initially in the manufacturing industry, with the workers and the public technobureaucracy, in opposition to a liberal coalition formed by rentier capitalists living out of interests, rents and dividends, and the financiers, who administer the wealth of the former.

The demise of neoliberalism

Between 1979 and 2008 neoliberalism was hegemonic in the world. Six years after the global financial crisis, it may be premature to conclude that the Neoliberal Years of Capitalism are closed, but I firmly believe they are. The 2008 crisis was very serious, the delay of the countries in resuming growth was very large; only the US and Britain started to show positive results since 2014, but still timid. Economic liberalism, trade liberalization, financial openness, deregulation - all these neoliberal slogans - lost their luster; ceased to be the solution to all ills. On the contrary, it is well established that financial liberalization was the origin of the crisis; that it is really serious the problem of the big banks "too big to fail"; and instead of financial liberalization we see a necessary and reasonably firm financial re-regulation. The American financial regulation law - the Dodd-Frank Act - represented the most determined effort of rich countries governments to restore and give more strength to banking regulation, which is the fundamental regulation for the rich countries because the financial crises to which they are subject are banking crises; for developing countries is the control of their current accounts, because they get indebted in foreign currency and are subject to currency or balance of payments crises. In early 2015, the problem for the American regulators was to force banks to get organized in such a way that an eventual dismemberment, in the case of a

imminent bankruptcy, could be easily made, thus resolving the too big to fail problem.

Financial deregulation occurred in the 1980s through two "big bangs" - the name given to the liberalization of the financial markets of London and New York in that decade - has become an evil itself, because it produced financialization and was the direct cause of the crisis. The essentially speculative and fraudulent nature of financialization became apparent. After the 2008 crisis, the financial sector has shrunk. The big banks recovered their profit rates, but not its size or its prestige. Thousands of workers were laid off. Many countries have established capital controls to regain some power over its exchange rate. The US and most recently Japan and the Eurozone have been involved in aggressive devaluations of their currencies - a well-known "beggar thy neighbor" strategy. They use to this end the "quantitative easing" - the euphemism for the printing of money by central banks through purchases of government treasury bonds, to reduce interest rates, devalue the national currency, which has as a side effect of reducing in a substantial way the "two times net" public debt.¹ All these regulatory and unorthodox management of currency are developmental policies adopted by governments that prioritize growth, accepting some inflation, which, significantly, did not materialize, again falsifying the old monetarist theory that inflation is caused by excessive increase of the money supply. Thus, the time for financial opening is over. Trade liberalization is also under scrutiny. Since the crisis, virtually all countries have raised tariffs and adopted other protectionist policies. The Doha Round is paralyzed, not so much because developing countries reiterated their traditional resistance to it (this only occurred with regard to India), but because rich countries - the countries most affected by the crisis - have lost real interest in a wider commercial opening.

But would not neoliberalism be alive again in the Eurozone, where countries of the South, which presented large current account deficits by 2010 and, since then, are forced to adopt austerity programs causing a long recession and high unemployment? No; the austerity policy is not always neoliberal. In the case of the Eurozone, is simply the only possible policy to restore competitiveness of the indebted countries that have adopted the single currency, but continue to have an "internal" currency, which turned appreciated. Since they cannot devalue their currencies, they have no choice but to promote "internal devaluation" - the recovery of competitiveness by the recession, unemployment, and the reduction of wages. Ultimately, the euro crisis was a result of the disastrous neoliberal decision of creating the euro. Europe was not yet politically mature to it, because the national currency is an essential element of sovereignty that European countries are not willing to give up. In addition, the euro was based on two false neoclassical assumptions (that markets keep the private sector always balanced, and that governments tend to be fiscally irresponsible), leading European politicians to impose limits only to fiscal deficits, and not to the current account deficits, which, in addition to reflecting the public debt, reflects the increase in private debt. Except for Greece, all the countries of the Eurozone in crisis and stagnant observed the fiscal limits by 2008, but their current account deficits were out of control and reached double digits in some cases, with no sign of concern among economists of the European Commission and the IMF. These

deficits meant that wages grew faster than productivity and that the private sector had become seriously unbalanced. Before the euro, the simple solution for a country to recover monetary competitiveness after having lost economic competitiveness (technical and / or wage) was the currency devaluation. With the euro, the only alternative is "austerity" or internal devaluation - a way to regain competitiveness involving high human costs and many years of economic stagnation. This was a conservative solution; the progressive solution, that would bring long-term benefits for the countries, would have been the European countries to agree upon the discontinuation of the euro. But this solution would have high costs to financiers and rentiers, while the internal devaluation represent a cost only to the poor and the middle classes.

Let us return to the argument on the demise of neoliberalism desertion. How to explain that financial markets are growing again? Would not this indicate that neoliberalism is back in? No, again. All countries need a strong financial system, able to finance investments with local currency. What is associated with neoliberalism is financialization; is the speculative action of financiers supported by "financial innovations" that artificially increase two or three times the value of financial assets held by rentiers. This had turned into routine in the Neoliberal Years; it is not anymore. This perverse type of behavior suffered a major defeat in the 2008 global financial crisis, which was the culmination of a series of previous financial crises, the 1986 big bang deregulation. Consequently, the financial system emerging from the crisis is far from ideal, but is certainly more and better regulated.

But this does not mean that financial crises will not happen again. I do not share the belief that financial stability is impossible under capitalism. During the Bretton Woods agreement the frequency and amplitude of the financial crisis had a significant decrease. Governments are now trying to establish a regulation of the national and of the international financial systems similar to that existing in the period of the Bretton Woods agreement. This may turn out to be sufficient in relation to the rich countries, but new developmentalism shows that for developing countries to avoid currency crises they need to decidedly reject the growth with foreign indebtedness or "foreign savings" – a policy that increases consumption rather than investment, allows the occupation of the domestic market by financing in foreign currency and by direct investments, and sooner or later, leads the country to a balance of payments crisis.

The efficiency constraint

Given that the alternative to a liberal form of organizing capitalism is developmentalism, and given that the criterion for the choice of one or the other system is the efficiency constraint, I am asserting that neoliberalism is intrinsically inefficient when compared with developmentalism, and I am predicting that a third historical form of developmentalism is under way. The core reason for the demise of neoliberalism is that it proved to be highly unstable, and, for that reason, inefficient. Thus, it is possible that, after the crisis period we are living, a third developmentalism emerges. A capitalism in which financial markets are better regulated, the production of goods and services are better

regulated, industrial policy is usually practiced, and the non-competitive industries are planned. All that in the context of moderate economic nationalism or “realism” (to use the foreign relations term) combined with reasonable international cooperation. And what about the issues on protecting the environment and on the reduction of inequality? In relation to the first issue, is reasonable to predict that advances will continue because global warming turned to be a fundamental and urgent global challenge. I am less sure in relation to inequality and social justice, because the social-democratic left has become so weak and disoriented in the rich countries, that the possibility of a conservative developmentalism involved in reducing labor costs by making labor contracts more “flexible” remains great. In the third developmentalism the state will still be a social or welfare state, but a pressure will continue to be exerted on the labor contracts to make labor more precarious or unprotected, and, so, cheaper. Neoliberalism has failed to dismantle the welfare state because the large social and scientific services that it provides assure a standard of living for the people, which, if replaced by wages, would involve much bigger costs, but it was victorious in reducing the direct costs associated with labor contracts to make business enterprises competitive in the context of globalization. The state will continue to be a social or welfare state because that is a demand of the voters, and because collective consumption is more economic – besides more compatible with justice – than private consumption. But, while the competition coming from low wage developing countries and from immigration continues – by the way, two positive things – wages will continue to be relatively depressed, what is favorable to conservative political parties and inconsistent with social democracy. A partial solution to this problem found by the highly competitive Scandinavian countries was to recur to “flexsecurity” – by which they reduced labor entitlements, but increased social security (Robert Boyer 2006).

Developmentalism is not a form of capitalism coordinated by the state (state-led), but a form of capitalism state *and* market-led, where the state takes precedence over the market because it regulates the market, but the two institutions operate together. By being permanently engaged in the reform of the institutions, nations build their state and their markets. Nothing is given, and things relative to economic coordination may seem “spontaneous”, but they are not; societies have relatively clear objectives in mind when they reform institutions; institutions may be progressive or conservative, pro-growth or against growth, but no institution exists outside the political construction process, where, in capitalism, the role played by the efficiency criterion is central. On what depends the historical rise of a third developmentalism? It depends, essentially, on the acknowledgement that the developmental state is more efficient or more capable in coordinating capitalism than the liberal state, that neoliberal capitalism proved to be unable to promote growth with financial stability. But this developmental state that may be emerging is very far from statism, because it parts from the subsidiary principle of the coordination of the economy: where there is competition, markets are the first option to consider. This does not mean that in industries, where the market is competitive, the state has nothing to do. It must pragmatically and moderately regulate these industries and, in given cases, involve in industrial policy, always taking into account the efficiency constraint.

The argument of complexity

The liberal ideology that identifies pure market coordination with efficiency may be criticized in many ways, but not because markets are not a good institution in allocating resources. Markets are an irreplaceable institution; capitalism was more efficient than any other previous form of political and economic organization of production because markets are a system of automatic coordination based on competition. Economics is essentially the science on how markets define prices, and, through them, wages and profits, investment and consumption. But the price system is far from being the perfect coordinating system. The available literature on the forms of monopoly is quite clear on that matter. Thus, it makes no sense to accept generalized privatization of monopolies and quasi-monopolies, and create regulatory agencies, assuming that such agencies will act as if there was competition. Nor does it make sense to turn to smart devices to "create" markets, as, for example, when the Kyoto Protocol sought to control climate change through "emissions trading" – the creation of a market to regulate carbon dioxide – when it makes more sense just to impose a tax on emissions. Second, on the macroeconomic side, Keynes showed theoretically what experience proved insistently: that there is a tendency to the insufficiency of demand which may be strong enough to prevent macroeconomic prices to assure full employment; and new developmentalism and its developmental macroeconomics shows that there is a tendency to the chronic and cyclical overvaluation of exchange rate in developing countries, which, if not neutralized, prevent the competent business enterprises to have access to the existing either domestic, or foreign, demand and invest.²

Besides the well-known limits to competition derived from microeconomics, and the limits to full employment and growth derived from macroeconomics, there is a problem derived from the growing complexity of economic systems, which also explains the demise of neoliberalism. As economic development takes place, the division of labor and the variety of goods and services produced increase. It follows that goods and services are increasingly differentiated and the economic system, increasingly complex, turning even more difficult the coordinating role of the market, and requiring the complementary coordination by the state under the form of regulation and industrial policy. Besides, the differentiation of goods and services and their abstract character, the determination of their value becomes increasing problematic. As observed by Eleuterio Prado (205: 108-109), in the capitalist stage of "post-modern industry," we see the rise of "companies that only focus on research activities and creation of cultural, scientific and technological value", companies that do not produce goods but hold intellectual property, companies in which the value becomes "excessive as such due to the denial of the sole determinant of value - working time". In this context, how can the market alone be an efficient instrument of resource allocation or coordination of the economy? All companies, and not just those that enjoy monopolies based on intellectual property, are always seeking to avoid competition, and, so, undermining the good coordination by the market. Thus, markets alone are ineffective in industries in which the complexity is very large and where a reasonable degree of non-competition is present.

The thesis I am developing seems diametrically opposed to that of Hayek, who used the argument of complexity to support an extreme liberal position against state regulation and principally state intervention. According to him, the complexity would make the state unable to regulate and more efficient the economic system. The state would miss the necessary and sufficient knowledge to interfere. Still according to Hayek, it is possible only to have knowledge about the general patterns of behavior of complex systems, not a precise knowledge of the laws governing its operation that would be necessary for the regulations and interventions to be successful. I would subscribe these words if I thought in binary terms as Hayek: either coordination by the market, or by the state planning. But binary thinking does not make sense in this case, because there are many intermediary points between neoliberalism and statism. It also makes little sense the way Hayek (1973 chap. 2) "solves" the problem of complexity. He supposes that every society has an "order" that keeps the whole institutional system standing, which is truth. But then he says that this order is a purely "spontaneous" outcome, and that there is nothing "built" or "constructed" in it. In fact, the market seems a spontaneous institution, but as already thoroughly demonstrated, it is "socially built". The fundamental reason for the failure of the Soviet system was because its leaders did not realize that, from a certain degree of complexity on, market coordination is a necessary condition of efficiency. Something that the Chinese leaders understood and, since 1979, they gave to the market a greater coordinating role as to the competitive sector. But this does not mean that they have withdrawn the state from the coordination of the Chinese economy. The state continues to plan and control tightly the non-competitive sector, especially the infrastructure sector and the big banks, continues to adopt strategic industrial policy, while leaving the rest of the economy as free as possible.

No matter the ideology of the political party or the ruling coalition, the larger and more complex is an economic system, the more detailed, in practice, will be the regulations made by the state, and the more often the state will intervene with industrial policy. Despite its professed economic liberalism, the United States, for example, are home to a surprisingly large and complex regulatory system, and industrial policy is present in the more technologically sophisticated industries where the frontier between science and technology is thinner. Regulation is not the result of a "bureaucratic distortion", as is often stated, but a proof that markets need regulation, which is also made by a myriad of non-profit agencies involved in political accountability and advocacy.

In short, I understand that developmentalism, when thought as a really existing form of economic organization and capitalism (not as a theory as is the case of New Developmentalism), is superior to economic liberalism, and therefore tends to prevail. Not because it is more "rational" (this is a too strong word), but because it takes into account the limited capacity of the market and the state to coordinate effectively the economic system and, therefore, is more reasonable. The neoliberal proposal to coordinate advanced economic systems almost exclusively through market proved to be almost as inefficient as the proposal that intended to be socialist but was only statist to coordinate them almost exclusively through the state. I am well aware that my statement will not make

sense to radical liberals, who, despite all the evidence, continue to view the market as a magical “mechanism”, and also by radical critics of capitalism, who still hope for the socialist revolution in their lifetime. The fact is that, properly combining market and state as developmentalism proposes, capitalism can offer positive economic results. It also can reduce inequality and be effectively social-democratic, but in the present moment this is less probable because immigration and the competition in developing countries will continue to pressure wages down.

The approach to complexity is gaining increasing influence not only in the social sciences. Used to help us think about the coordination of contemporary economic systems, it also helps us to understand how the regulation and planning by the state, combined with coordination by the competition, can make more efficient capitalist societies. Simple coordination tools can coordinate simple systems; only ever more complex instruments are capable of efficiently coordinating complex systems. Eleutério Prado (2012: 32) points out that the complexity of the world is structural, that the whole can not be grasped by the sum of its elements that would be analyzed and then summed up to return to the whole; the whole or the economic system "is a set of elements linked together internally, or expressed in another way, as a kit of parts effectively structured - not just configured as an array of externally attached elements." This is a way of seeing the world that is already present in Marx and in Durkheim. Robert Delorme (2010: 74), to conceptualize the complexity in the social sciences, refers to the concepts of organic interdependence, inductive probability and uncertainty - elements that are present in Keynes's view of the economy - and calls for "anchoring", a component of complex systems that is implicit in this view. He meant by anchoring a way in which "the substantive opening is subjected to a procedural closure," or, in other words, as a response to the "question of the validity of the arguments that are not supported by formal logic." Ash Amin and Jerzy Hausner (1997: 1) observe that the approach to complexity "assumes that both society and social knowledge are regenerated in an interactive and procedural way," and that, in governing complexity, the neoliberal programs dogmatically defined are powerless, as are also powerless the schemes led and coordinated only by the state.

The superiority of the combination of state and market coordination, instead of just market coordination, may be seen when we compare the European and the American models of capitalism, which have been the subject of a broad comparative literature. The European capitalism is more developmental than the American, besides being more social; Hall and Soskice (2002) call them, significantly, “liberal market economies” and “coordinated market economies”. When I compare the European and the American capitalisms, it is clear to me that the Europeans have been more successful in achieving the political objectives that modern societies defined for themselves: security, individual liberty, standard of living, social justice, and protection of the environment. In his 2005 book, Jonas Pontusson (2005: 4; 219) compares “social Europe with liberal America”. He observes that according to “the market-liberal view governments may create a more equal distribution of income and consumption through taxation, transfer payments and provision of services, but in so doing they

inevitably distort market forces and undermine inefficiency". Nevertheless, after an exhaustive comparison between the two models, he recognizes that the United States fell behind and conclude that "any serious effort to address these problems would inevitably involve the introduction of social democratic elements into economic and social policy and may, over the long run, entail the build up of institutional arrangements that resemble, in some aspects, those of the social market economies". Considering only the United States and Sweden, the economy of the first is now less regulated by the state than the Swedish economy, and its per capita income is higher. Thus, given the neoliberal hegemony up to 2008, one could conclude that the United States' economy is more "successful" than the Swedish economy. That is not my conclusion. The United States is not a more developed society, progress or human development is not more advanced in this country than in Sweden, and, more broadly, not more advanced than in the more developed countries of Europe. If we look at the American economy from a historical point of view, state intervention was strong in the past and today continues stronger than generally admitted. In the nineteenth century, the United States' growth was extraordinarily benefited by favorable material, social and political conditions, and therefore was probably the country that least made use of state support to the industrial revolution, but even then the state's role was decisive in the protection of their industry; since the beginning of the twentieth century, the huge state expenditures supporting military technology were essential in maintaining the United States' technological leadership. The protection of the manufacturing industry is a policy practically since the Independence; one of the founding fathers, Alexander Hamilton (1791), when secretary of the Treasury, classically demonstrated the need and the logic of the protection of the infant manufacturing industry. The import tariffs were extremely high until 1939. Only on the eve of World War II, when the American industry was already highly developed and the competition coming from Europe had collapsed, President Franklin D. Roosevelt drastically reduced import tariffs. That was not in conflict with the fact that, after the 1929 crisis, under the New Deal and the Fordist class coalition, the United States adopted a developmental policy, as did Western Europe in the 30 Golden Years of Capitalism, with the difference that in Europe developmentalism was social democratic.

Developmentalism and social-democracy

Depending on the state capacity and on the competence of politicians, a third developmental capitalism may rise and be successful. Rich and middle-income countries are reasonably well governed, but the same is not true of the poor or preindustrial countries, that did not complete their capitalist revolution, that is, that are not independent nation-states, did not industrialize, and still do not have a large class of entrepreneurs, executives or private and public technobureaucrats. That is why is valid my statement that developmentalism is a superior form of economic and political organization capitalism when compared to economic liberalism, with the condition that the developmental state is a reasonably capable state and counts with reasonably competent politicians and bureaucrats to manage it – a condition that often is not warranted.

The liberal state will usually fail to promote the rapid and stable growth, while the developmental state may in some cases be successful. In the case of the liberal state, given the tendency to insufficient demand, there will be no sufficient motivation for investment, and due to the false assumption that a permanent balance current account deficits in the private sector should not be cause for concern, the country will be subject to recurrent financial crisis. Therefore, growth will be low, and the financial crises, recurrent. In the case of developmentalism, this conclusion is not necessary, but competent governments, which achieve growth with stability, are also the exception, not the rule. Poorly managed, developmental or Keynesian administrations may incur fiscal populism (the state expending irresponsibly more than it gets) as much as exchange rate populism (the nation-state expending irresponsibly more than it gets), while liberal administrations are likely to incur in exchange rate populism, not so much in fiscal populism. Besides incurring in exchange rate populism, liberal administrations usually adopt excessively austere fiscal policies, while the common error in developmental governments is being loose in relation to fiscal responsibility, supported by a *vulgar* Keynesianism, which considers that the economic system always suffers from insufficient demand, and defends chronic public deficits that disrupt state finances and lead to fiscal crisis, inflation, the loss of confidence in government and the reduction in investment.

Developmental capitalism in democratic societies is politically progressive or social; therefore, corresponding to social-democratic capitalism. Adam Przeworski (1985) showed classically that social democracy is essentially a distributive compromise between social classes. Similarly, developmentalism is a coordinative compromise between the market and the state besides a compromise between the social classes. However, contrary to what neoliberal ideologues say, this dual commitment does not imply loss of efficiency; there is *not* a trade-off between policy coordination and coordination by the market. On the contrary, since the degree of regulation of competitive and complex industries and the degree of planning of the non-competitive industries are moderate and transparent, the economy will grow with more stability and efficiency than if the neoliberal policies were adopted.

In democracies, the option for a developmental or a liberal form of state depends on the elected politicians. Thus, they are powerful, and they are feared, particularly by liberal ideologues who want to diminish their ability to take decisions that may affect the interests of their rentier and financier constituency. What liberal ideologues do not recognize is that in democracies there is *political* control of the state financial imbalances, while there is not the same control in relation to the private sector, and the market is unable to perform this control. This happened in the crisis of the euro, in which countries such as Spain and Ireland had their public finances best balanced than those of Germany before 2008, while its external accounts (which include the private sector and are expressed in current account deficits) had huge imbalances. While politicians who take economic policy decisions are permanently under the relative political control of society, and are constantly being criticized for their fiscal errors, millions of consumers and business enterprises can take wrong decisions, which

result into asset or credit bubbles, that the market is unable to control. The history of capitalism is filled with examples.

Conservative developmentalism?

Social-democracy is usually developmental, but developmentalism may be either progressive or conservative. Historically developmentalism was conservative. It was conservative in the case of mercantilism, an economic system highly successful because it was in its framework that England, Belgium and France held their industrial revolutions. It was conservative when countries that are rich today, as Germany and Japan, experienced late industrialization. Was conservative when countries that today are middle-income, such as Brazil and India, held their capitalist revolutions in the twentieth century. We cannot say that Russia and China are exceptions, because it makes little sense to consider leftist or progressive the statist system that presided their industrialization.

We have seen that the left developmentalism corresponds, in political terms, to social democracy. But for both to be successful it is essential that the compromise between productive entrepreneurs and workers is real, that there are real mutual concessions. If the regime calls itself "social developmental", but the workers have wage increases while the rate of profit of business industrialists continues very low, we cannot call it developmental. That is what happened in Brazil between 2003 and 2014.

I understand the recent form of economic liberalism - neoliberalism - as a distorted and regressive form of capitalism, but it can also be seen as the "real face" of capitalism; neoliberalism would be the rule, and the Golden Years after the war, the exception. This is, for example, the argument adopted by Wolfgang Streeck (2011: 5-6): "I suggest that is not the *trente glorieuses*, but the series of crises that followed that represents the normal democratic capitalism". This approach would make sense if we understand capitalism as a "natural" phenomenon, rather than see it as the result of a social construction - as an institutional system characterized by the modern state and the market, which was politically built by men and women, at the same time that they were building the respective economic structure. When Marx and Engels made their original analysis and critique of capitalism, was legitimate to adopt this approach, because capitalism was "just there" - was something that had evolved from the development of productive forces and the relations of production - from medieval feudalism and from literate agrarian societies and their absolute monarchies that followed. But even then the "natural" character of capitalism was questionable because the state and the markets were already institutions - were already socially constructed normative systems. In modern democracies, in which the political debate, the drawing of good institutions, and the adoption of good public policies, especially macroeconomic policies, are a central concern, it makes sense to see capitalism as a natural phenomenon subject to natural forces. In the same paper, however, Streeck (2011: 7) defined "democratic capitalism as a political economy governed by two conflicting principles, or schemes of

resource allocation: one, that operates according to the marginal productivity, or - what is revealed as merit - for a 'free game market forces', and another based on social need or law certified by their own collective choices of democratic politics". Well, if so, then capitalism is not a natural phenomenon – it makes more sense to view it as a social construction, or to go back to Karl Polanyi, who saw the nineteenth century liberal capitalism as an exception, not the rule; the same applies with more vigor to the 1980-2008 neoliberal years: it was as a reactionary exception. On the other hand, if this building involves not only the productive capitalists, workers, and public technobureaucrats in conflict with rentier capitalists, middle class rentiers, financiers, private technobureaucrats, this construction necessarily implies a political compromise within each class coalition, and among the two class coalitions. These two kinds of compromises involve not only the distribution between profits, rents, wages and salaries, but also the allocation of roles between state and the market.

Neoliberalism was demoralized by the global financial crisis of 2008, but the neoclassical economic theory – the "scientific" ideology of economic liberalism – is still taught in major universities, as if its mathematical castles built in the air were a science. That will not change for sometime given the bureaucratic power of the academic elite, and given his Platonism, i.e., the preference for formal consistency in relation to adaptation to reality. On the business side, neoliberalism also has the support of the rentier capitalists, financiers and top executives of large corporations because they enrich more with neoliberalism and they do not want to pay taxes – taxes that a social and developmental state requires.

At this point a caveat is necessary. Conservatism, which should not be confused with economic liberalism, is not defeated. Neoliberalism is really not conservative; is reactionary; is a regression experienced by capitalism. But the same cannot be said of conservatism. In capitalist societies conservatism and progressive politics, the right and the left, are constantly alternating in power, because social order and social justice are two major values that often do not match in the short term. Conservatism is the ideology and the political attitude that gives priority to social order or security in relation to social justice or equality, and sees the inequality in each social order as natural, impossible to be changed, while progressivism is the ideology and political attitude that accepts to risk order in the name of social justice, and is more optimistic about the possibility of change social order for the better. Conservatism remains strong because security is a major policy goal; because even the poor, the exploited and the excluded are often not willing to risk the existing social order in the name of the social justice promised but not guaranteed. Conservatives and progressives, right and left, are always present in capitalist societies, and will alternate in power.

We should not confuse the conservatives with the neoliberals. In Germany, the Agenda 2010 was an example of developmental conservatism. It was a social agreement sewn in 2002 that guaranteed employment for workers in exchange for wages growing less than productivity, which led to significant growth in the country and led to the crisis the southern Europe countries, which did not make a similar political agreement and have lost competitiveness and got indebted.

Conservatives often adopt a liberal discourse because political liberalism, which they today accept, is a universal value, and they wrongly believe that political liberalism depends on economic liberalism, but they are not radical on that matter, and accept a moderate state intervention. Conservatism is associated with the existing social order, which is the state of affairs that interests the rich and the middle classes. They were associated with neoliberalism from the 1970s, because postwar democracy allowed gains to the poor and organized labor that the rich and the middle class viewed as excessive as they were a cause of the low growth rates in that decade. Conservatism has a second attraction for the rich: the most advanced societies are necessarily democratic. Capitalists know this; they settled down to democracy after rejecting it throughout the nineteenth century. They only accepted democracy when they lost the fear of being expropriated in case of the election of a socialist party. But they continue to fear democracy – what means that they fear the democratic state – because they want to pay the minimum taxes possible. So their feelings towards the state are contradictory; capitalist entrepreneurs, who may profit from state protection, mainly when the problem is foreign competition, are more favorable to state intervention than rentier capitalists and financiers. The former often combine conservatism with moderate state intervention. Differently, rentier capitalists know they cannot count on the support of government, because they have little to offer to society; therefore, they, usually adopt a radical neoliberal discourse, hoping to derive gains from financialization.

Conclusion

These ideas can be considered optimistic, because what we see around us is confusion and unease, while the Eurozone remains in crisis. In the late 1970s we saw a movement of the center to the right and to the economic liberalism, and neoliberalism turned dominant; now, it would be reasonable to expect that the new change will be to the left. But this is not what we are seeing.

There is an argument that would allow us to predict a progressive developmentalism. Democracy today is much stronger in the world than it was in the 1930s, and it has always been a demand and an achievement of the poor or the people. Economic liberalism only accepted democracy as a lesser evil. Thus, the existence of democracy is an argument for a progressive, social democratic developmentalism. But I suggest that the greater probability is that the third developmentalism will be conservative.

A problem in rich countries today, mainly in Europe, but even in many middle-income countries like Brazil, is the fact that capitalist elites, intellectuals and technobureaucrats lost confidence in the possibility of economic development, and an increasing number began to no longer consider it as a goal. Before, continued economic growth was seen as something given, and the problem was how to divide the economic surplus that was almost automatically produced. Now, after 30 years of neoliberalism and low growth, this continuity is not assured, nor progressives or conservatives have a recipe on growth and distribution, and a sense of indeterminacy and pessimism is dominant. The world is in need of new ideas that open room for the future. New

Developmentalism – a new framework to understand growth and human development – is one of these ideas. It benefits from the Classical Developmentalism, from Keynesian Macroeconomics, and from the French Regulation School. But we are far from the minimum developmental and social-democratic consensus that today is required for progress. If a third developmentalism is approaching, it is more probable that it will be conservative.

References

- Amin, Ash and Jerzy Hausner (1997) “Interactive governance and social complexity”, in Ash Amin and Jerzy Hausner, orgs. (1997) *Beyond Market and Hierarchy*, Cheltenham: Edward Elgar: 1–31.
- Boyer, Robert (2006) *La Flexisécurité Danoise*. Paris: Éditions Rue d’Ulm.
- Bresser-Pereira, Luiz Carlos (2009) *Mondialisation et Compétition*, Paris: La Découverte.
- Bresser-Pereira, Luiz Carlos (2013) “The value of the exchange rate and the Dutch disease”, *Brazilian Journal of Political Economy* 33(3) July 2013: 371-387.
- Bresser-Pereira, Luiz Carlos, José Luis Oreiro and Nelson Marconi (2014) *Developmental Macroeconomics*. London: Routledge, 2014.
- Chick, Victoria (2004) “On open systems”, *Brazilian Journal of Political Economy* 24 (1): 3–16.
- Delorme, Robert (2010) *Deep Complexity and the Social Sciences*, London: Edward Elgar.
- Dow, Sheila C. (1996) *The Methodology of Macroeconomic Thought*, Cheltenham: Elgar Press.
- Hamilton, Alexander (1791 [2001]) *Report on Manufactures*, scanned in January 2001 from primary source. <http://bit.ly/1FaVTTg>
- Hayek, Friedrich A. (1973 [1983]) *Law, Legislation and Liberty*, vol. I *Rules and Order*, Chicago: The University of Chicago Press. Originally published by Routledge & Kegan Paul, 1973.
- Polanyi, Karl (1944 [1957]) *The Great Transformation*. Boston: Beacon Press. Originally published in 1944.
- Pontusson, Jonas (2005) *Inequality and Prosperity: Social Europe vs. Liberal America*. Ithaca: Cornell University Press.
- Przeworski, Adam (1985) *Capitalism and Social Democracy*. Cambridge: Cambridge University Press.
- Schwartzman, Hélio (2013) “Por que o inferno é aqui, e o paraíso, também”, *Folha de S.Paulo, Ilustríssima*, May 19.
- Streeck, Wolfgang (2011) “The crisis of democratic capitalism”, *New Left Review* 71, September: 5-30.

¹ The net public debt is equal to gross public debt less reserves; the two times net public debt is the net public less the treasury bonds bought by the central bank as it engages in quantitative easing.

² On that matter, see Bresser-Pereira, Oreiro and Marconi (2014).