

Escola de
ECONOMIA
de São Paulo

**Textos para
Discussão**

193

Junho
de 2009



**FROM OLD TO NEW DEVELOPMENTALISM IN
LATIN AMERICA**

LUIZ CARLOS BRESSER-PEREIRA



Os artigos dos *Textos para Discussão da Escola de Economia de São Paulo da Fundação Getúlio 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 Getúlio Vargas FGV-EESP
www.fgvsp.br/economia

FROM OLD TO NEW DEVELOPMENTALISM IN LATIN AMERICA

Luiz Carlos Bresser-Pereira

Abstract. The failure of the Washington Consensus and of macroeconomic policies based on high interest rates and non-competitive exchange rates to generate economic growth prompted Latin America to formulate national development strategies. New developmentalism is an alternative strategy not only to conventional orthodoxy but also to old-style Latin American national developmentalism. While old national developmentalism was based on the tendency of the terms of trade to deteriorate and, adopting a microeconomic approach, proposed economic planning and industrialization, the new national-developmentalism assumes that industrialization has been achieved, although in different degrees by each country, and argues that, in order to assure fast growth rates and catching up, the tendency that must be neutralized is that of the exchange rate to overvaluation. Contrary to the claims of conventional economics, a capable state remains the key instrument to ensure economic development, and industrial policy continues to be necessary; but what distinguishes the new approach is principally growth with domestic savings instead of with foreign savings, a macroeconomic policy based on moderate interest rates and a competitive exchange rate instead of the high interest rates and the overvalued currencies prescribed by conventional orthodoxy.

Key words: national strategy structuralism developmentalism orthodoxy

JEL classification: O10 – 011 – O54

Sumário. O fracasso do consenso de Washington e das políticas macroeconômicas, baseadas em altas taxas de juros e taxas de câmbio não-competitivas para promover o crescimento da economia, levou os países da América Latina a formularem estratégias nacionais de desenvolvimento. O novo desenvolvimentismo é uma estratégia alternativa não apenas à ortodoxia convencional, mas também ao antigo nacional-desenvolvimentismo latino-americano. Enquanto o antigo nacional desenvolvimentismo era baseado na tendência à deterioração dos termos de troca e, adotando uma abordagem microeconômica, propunha planejamento econômico e industrialização, o novo nacional-desenvolvimentismo pressupõe que a industrialização foi alcançada, apesar de em diferentes estágios em cada país, e argumenta que, para assegurar rápidas taxas de crescimento e o *catch up*, a tendência que deve ser neutralizada é a da sobrevalorização da taxa de câmbio. Contrariamente à economia convencional, um estado capaz continua sendo o instrumento chave para assegurar o desenvolvimento econômico, a política industrial continua sendo necessária; mas o que distingue a nova abordagem é principalmente o crescimento com poupança interna, ao invés de com poupança externa. Uma política macroeconômica baseada em taxas de juros moderadas e uma taxa de câmbio competitiva, e não altas taxas de juros e moeda sobreapreciada conforme recomenda a ortodoxia convencional.

Palavras-chave: estratégia nacional estruturalismo desenvolvimentismo ortodoxia

In a time of globalization and democracy, economic competition has spread worldwide, embracing not only business firms but nation-states, and the re-election of governments and their supporting politicians now depends on how successful they are in promoting economic growth and in reducing economic inequality. Thus, although countries have become more interdependent and must cooperate to achieve common goals, the pressures emanating from national societies remain as strong as they were before globalization and democracy became dominant. And the institutional role of national development or national competition strategies remains as salient. From the 1930s or, at least, the 1950s, Latin American countries adopted a successful national development strategy, namely, national developmentalism. In the late 1980s, after ten years of foreign debt crisis combined with high rates of inflation, this strategy required redefinition. It was replaced by the Washington Consensus, or conventional orthodoxy – an imported strategy based on the deregulation of markets, growth with foreign savings, high interest rates and overvalued exchange rates. Ten years later, after the 1994 Mexican, the 1998 Brazilian and the 2001 Argentinean financial crises, the failure of this strategy became evident, as it caused repetitive balance of payment crises and failed to improve living standards. Thus, since the early 2000s, Latin America countries have been once again seeking a national development strategy. In the political realm, this search for an alternative has been expressed by the successive elections of center-left and nationalist political leaders. Yet the success of this search is not assured. What is the economic policy alternative? Which institutional reforms and which economic policies does such a project entail? More broadly, which are the competing strategies for Latin America? How should a national development strategy look today?

To respond to these questions we must make a realistic assessment of the different realities and levels of development existing in Latin America. The poorer a country is, the more unequal and poorly educated its society will be, and the more difficult it will be to govern and to formulate appropriate economic policies. The challenges that all backward or developing countries have faced the 1950s, when this question was first asked by the pioneers of the development economics school,¹ vary from country to country according to the stage of development. Countries are, first, supposed to undertake primitive

¹ I refer to economists like Albert Hirschman, Arthur Lewis, Celso Furtado, Gunnar Myrdal, Hans Singer, Michel Kalecki, Ragnar Nurse, Raul Presbisch and Paul Rosenstein-Rodan.

accumulation and to create a minimal capitalist class; second, they must complete their modernization or capitalist revolution, which involves the formation of a truly national state and industrialization; and third, now equipped with a modern business class, a large professional middle class, and a large wage-earning class, and with the basic institutions required for economic growth, countries must prove themselves capable of continuing to grow fast and of gradually catching up with the growth levels of rich countries. In Latin America I would say that all countries, with the possible exception of Haiti and perhaps Nicaragua, have completed primitive accumulation, and that a group of countries, including at least Argentina, Brazil, Mexico, Chile, Uruguay and Costa Rica, have completed their capitalist revolutions and may be considered middle-income countries. This being so, it is not sufficient just to ask what the alternative to conventional orthodoxy is; in defining this alternative it is also necessary to distinguish middle-income countries from poor countries in the region, because the challenges they face are different.

Considering the questions and the caveats set out above, I will adopt an historical method to compare the two competing strategies that Latin America faces today: conventional orthodoxy and new developmentalism. The paper is divided into seven short sections. In the first, I discuss the need for a national development strategy to compete in the present stage of capitalism; in the second, I discuss old or national developmentalism, its relation to the Latin American structuralist school of thought, and its success in promoting economic growth between 1930 and 1980. In the fourth section I ask why national developmentalism was discarded in the late 1980s and replaced by conventional orthodoxy, and suggest five causes for it: the hegemony of the associated dependency interpretation of Latin America in the 1970s and 1980s, the exhaustion of import-substitution industrialization, the 1980s debt crisis, the new hegemony of neoliberalism, and the training of Latin American economists abroad. In the fifth section I discuss briefly why this imported strategy failed to generate growth and why, during its short dominance, growth rates were lower than before, financial instability increased and inequality deepened. Finally, in the sixth and seven sections I compare, first, new developmentalism with old developmentalism, and, second, new developmentalism with conventional orthodoxy. My concern in these two sections is to demonstrate that there is a sensible alternative to the Washington Consensus.

The need for national development strategies

Economic development requires a national development strategy. Historically, countries that were successful in developing and in catching up adopted national development or national competition strategies. What is a national development strategy? It is a set of economic development-oriented values, ideas, laws and policies conducive to the creation of opportunities for risk-taking entrepreneurs to invest and innovate. The key institution or cluster of institutions behind economic growth is not the guarantee of property rights and contracts, as the new institutionalists suggest, but a national development strategy.² It is less than a national development project or plan because it is not formal; it lacks a document that accurately describes objectives or the policies to be implemented in order to attain such objectives, because the inherent accord among the social classes has neither text nor signatures. And it is more than a national development project or plan because it informally embraces the whole of society or a large share thereof; it illuminates for all a path to tread and sets out certain very general guidelines to be observed; and, although it does not assume a conflict-free society, it does require a reasonable consensus when it comes to competing internationally. It is more flexible than a project, and it always considers the actions of opponents or competitors. It recognizes that the factor that drives individual behavior is not just personal interest but competition with other nations. A national development strategy reflects all of this. Its leadership falls to the government and the more active elements of civil society. Its fundamental instrument is the state itself: its norms, policies and organization. Its outcome, when a major accord establishes itself, when strategy becomes truly national, when society begins sharing, loosely but effectively, methods and goals, is accelerated development – a period during which the country enjoys high per capita income and high growth rates of living standards.

A national development strategy implies a set of fundamental variables for economic development. These variables are real and institutional alike. The nation's increased savings and investment capacities; the means by which it incorporates technical progress into production; human capital development; increased social cohesiveness, resulting in

² The guarantee of property rights and contracts is naturally important but difficult to assure in the initial phase of economic development. On the other hand, entrepreneurs are risk-taking individuals or groups who are motivated by their inner need to achieve and by opportunities for profit (Bresser-Pereira, 2009b: ch. 2).

social capital or in a stronger, more democratic nation; a macroeconomic policy capable of ensuring the state's and the nation-state's financial health, leading to moderate domestic and foreign debt ratios – these are all constituents of a national development strategy. In this process, institutions, instead of being mere one-size-fits-all abstractions, are seen and construed concretely, historically. A national development strategy will gain meaning and strength when its institutions – be they short-term (public policies) or relatively permanent (laws, institutions proper) – respond to societal needs, when they are compatible with the economy's factor endowment, or, more broadly, when they are consistent with the elements that make up the structure of society.

All countries, beginning with England, required a national development strategy to bring about their industrial revolutions and to continue to develop. The use of a national development strategy was particularly evident among late-developing countries such as Germany and Japan, which were never characterized by dependence. Peripheral countries, on the other hand, like Brazil and other Latin American countries that had lived through the colonial experience, remained ideologically dependent on the center after achieving their formal independence. Both late-developing central countries and former colonies needed to formulate national development strategies, but the task was easier for the former. For peripheral countries, there was the additional hurdle of facing their own “dependency”, that is, the subordination of local elites to central countries' elites. The structuralist social scientists who participated in national developmentalism in Latin America did not ignore this phenomenon, but assumed that economic development was characterized by a division between the progressive or nationalist elite associated with industrialization, and the conservative elite associated with the primary exports model that prevailed before 1930. They were nationalists because they acknowledged the existence of economic imperialism characterized by pressures from rich countries to prevent the industrialization of developing countries, or, once industrialization had become a fait accompli, to capture domestic markets for their multinational manufacturing enterprises by means of financial exploitation and unequal exchange in international markets. Besides, their nationalism was the ideology for strengthening state capacity and forming genuinely autonomous national states; it was the affirmation that, in order to develop, countries

needed to define their own policies and institutions, their own national development strategies.³

National developmentalism and structuralism

Between the 1930s and the 1970s, Brazil and other Latin American countries grew at an extraordinary pace. They took advantage of the weakness of the center in the 1930s in order to formulate national development strategies that, in essence, implied protection of the infant national industry (or import-substitution industrialization) and the promotion of forced savings by the state. Additionally, the state was supposed to make direct investments in infrastructure and in certain basic industries whose capital requirements and risks were large. This strategy was called “national developmentalism.” Such a name was designed to emphasize that, first, the policy’s basic objective was to promote economic development, and, second, in order for this to happen, the nation – that is, businessmen, the state bureaucracy, the middle classes, and the workers united in international competition – needed to define the means to reach this objective within the framework of the capitalist system, with the state as the principal instrument of collective action. The statesman who first devised national developmentalism in Latin America was Getúlio Vargas, who governed Brazil in 1930–45 and 1950–4. On the other hand, the notable Latin American economists, sociologists, political scientists and philosophers who formulated this strategy in the 1950s came together in the Economic Commission for Latin America and Caribbean (ECLAC) in Santiago, Chile,⁴ and in Instituto Superior de Estudos Brasileiros (ISEB) in Rio de Janeiro.⁵ They developed a theory of underdevelopment and a nationalist view of economic development based on the critique of imperialism or of “the center–periphery relation” – a euphemism proper to public intellectuals associated with an

³ Nationalism can also be defined, as did Ernest Gellner (1983), as the ideology that attempts to endow every nation with a state. Although this is a good definition, it is applicable to central Europe rather than to Latin America. In Latin America, nations were not yet fully formed but nevertheless were endowed with states. The nations, however, were incomplete, and their regimes were semi-colonial; with independence, the main change was that the dominant power shifted from Spain or Portugal to England and other major central European countries.

⁴ Principally Raul Prebisch, Celso Furtado, Osvaldo Sunkel and Anibal Pinto.

⁵ Principally Ignacio Rangel, Helio Jaguaribe and Guerreiro Ramos.

organization of the United Nations. Latin American economists, among them Raul Prebisch, Celso Furtado, Osvaldo Sunkel and Ignacio Rangel, drew on the classical political economy of Adam Smith and Karl Marx, the macroeconomics of John Maynard Keynes and Michael Kalecki, and the new ideas of the development economics school (of which they were part) to form the Latin American structuralist school.⁶ The central elements of structuralism were the critique of the law of comparative advantage in international trade, the dualist character of underdeveloped economies with unlimited supplies of labor, and the role of the state in producing forced savings and directly investing in key industries. National developmentalism was not an economic theory but a national development strategy based on the assumption that markets are effective in resource allocation in so far as they are combined with economic planning and the constitution of state-owned enterprises. It was a strategy sponsored in one way or another by industrialists, the public bureaucracies and urban workers. It faced intellectual opposition from neoclassical or monetarist economists and political opposition from the liberal middle classes and the old oligarchy whose interests were based on the export of primary goods.

The demise of national developmentalism

Although the demise of national developmentalism and its replacement by conventional orthodoxy would happen only in the late 1980s, its causes, and – more generally – the weakening of the Latin American nations (after the relative strengthening associated with nationalism and industrialization) originated in the mid-1960s in the aftermath of the first major crisis to affect the region since 1930. The following historical factors contributed to this outcome: (a) the exhaustion of the import-substitution strategy; (b) the dominance of the associated-dependency interpretation of Latin America in the early 1970s; (c) the major foreign debt crisis of the 1980s, which weakened Latin American countries; (d) the neoliberal wave and, in the academic world, the rise of neoclassical economics, public choice theory, and new institutionalism – three sophisticated attempts to ground

⁶ By “the development economics school” I mean the school that, besides the economists cited in the text, included, among others, Paul Rosenstein-Rodan, Arthur Lewis, Ragnar Nurkse, Gunnar Myrdal, Hans Singer and Albert Hirschman.

neoliberalism scientifically; and (e) the success of the US policy of training Latin American economists in doctoral programs in the United States and Britain.

The first reason for the demise of national developmentalism is well known: even in the larger countries in the region, like Brazil, Mexico and Argentina, the strategy had become exhausted. The countries in the Latin American region had industrialized and completed their capitalist revolutions, and now needed to compete internationally if they were to continue to grow. As old developmentalism was based on import substitution, it carried the seeds of its own demise. Protection of national industry, the focus on the market, and the reduction of an economy's coefficient of openness to foreign trade, even in a relatively large economy such as Brazil's, are greatly constrained by economies of scale. For certain industries, protection becomes absurd. As a result, while the import-substitution model was maintained through the 1970s, it was severely distorting the leading Latin American economies. On the other hand, as Furtado remarked as early as 1966,⁷ after the initial import-substitution phase of consumer-good industries, continued industrialization implies a substantial increase of the capital-labor ratio, with two consequences: income concentration and reduced capital productivity (or product-capital ratio). The response to income concentration was expanded production of luxury consumer goods, which characterizes what I have termed the "industrial underdevelopment model." This model, besides being perverse, carries the seeds of the dissolution of the national pro-development alliance. In sum, as old developmentalism was an inward-oriented strategy, it was time to replace it.

The dependency interpretation was the second reason for the final demise of old developmentalism in so far as it contributed to the weakening of economic nationalism in Latin America. A nation is a society of individuals sharing a common political destiny that has or expects to have a territory on which to build a state and form a nation-state. Nation-states or sovereign countries or just states (in the plural) are the political-territorial units that emerge from capitalist revolutions to replace old empires or other forms of traditional political society. A nation is always nationalist in as much as nationalism is the ideology of the formation of the nation-state and of its permanent reaffirmation. Yet a nation-state may formally exist in the absence of a true nation, as happened in the Latin American

⁷ Celso Furtado (1966 [1970]).

countries, which, in the early 19th century, were endowed with nation-states due not only to the patriotic efforts of nationalist groups but also to the good services of Britain, whose aim was to oust Spain and Portugal from the region. In this way, and very differently from the United States, these countries were born dependent: they were endowed with states – constitutional-legal systems and the apparatus that guarantees them – without having strong nations to sustain them. For a true nation to exist, the political center must be effectively national, and the social classes must, despite their mutual conflicts, cooperate when it comes to competing internationally. The 1930s were a turning point in Latin America, because in this decade or around it many countries were able to internalize political decision-making instead of just accepting the policies originating in the rich countries; in other words, they were successful in neutralizing their dependency and defining national development strategies. Yet in the 1960s the resulting state-led strategy faced its first major economic crisis at a moment that coincided with the 1959 Cuban revolution and the heightening of the Cold War between capitalism and communism. While the economic crisis disrupted the national economies, the Cuban revolution radicalized both left and right in the region. In consequence, military coups broke out in Latin America, principally in the South Cone, starting with the Brazilian 1964 coup, sponsored by the local bourgeoisie and the public bureaucracy, which feared communism. Although these coups could count on the support of United States, the ensuing authoritarian regimes, principally in Brazil, remained nationalistic, and national developmentalism was resumed.

The reaction of the intellectual left to the military coups was expressed in the overexploitation and the associated dependency interpretations – which shared a Marxist root but involved different outcomes. Both rejected the dual character of Latin American societies, the possibility of the existence of a national bourgeoisie, and the feasibility of a capitalist revolution in the region; in other words, both were critical of ECLAC's and ISEB's national-bourgeoisie interpretation (Bresser-Pereira 2009a). The relative success of this internal critique, particularly of the associated dependency interpretation, was instrumental in weakening the idea of nation in the region. The overexploitation interpretation was originally outlined by Andre Gunder Frank, a distinguished German Marxist who published in 1966 "The development of underdevelopment" – a decisive critique of national developmentalism that since 1965 had been circulating among the resented Latin American left with the 1964 Brazilian military coup. Ruy Mauro Marini

was Frank's most distinguished follower. As for the associated dependency interpretation, it originates in the book by Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (1969 [1979]), who also criticized the national-developmental strategy and the structuralist claim that underdevelopment was defined by dualism – by the coexistence and conflict between a coalition of patriarchal landowners and merchant capitalists on the one hand and a coalition of industrialists and public bureaucrats on the other, the former adopting a colonialist or dependent ideology, the latter a nationalist one. Instead, both interpretations adopted an anti-nationalist stand, fully rejecting the possibility of the existence of a national bourgeoisie in the region, despite historical evidence in contrary. Since this impossibility made the existence of true nations unviable, the overexploitation interpretation coherently – but with no basis on reality – proposed the socialist revolution; less coherently, the associated dependency interpretation executed a complete reversal, assumed that economic development was guaranteed by the investments of multinational enterprises in the manufacturing sector, and proposed an economic association with the capitalist center combined with the pursuit of democracy and of social justice – two values that were denied under the military regimes. The third version of dependency – the “national-dependent interpretation” – was nationalist, and so consistent with national developmentalism while critical of the authoritarian regimes established in Latin America after 1964. Actually, its main representatives, Celso Furtado and Osvaldo Sunkel, had been part of the previous national-bourgeois interpretation and partially changed their views in response to the new historical facts that in the early 1960s brought about the collapse of the national-developmental political pact. This interpretation was equally critical of the authoritarian regimes and of their concentration of income in favor the upper middle class and the capitalist class, but not of their relatively nationalist character.⁸ It did not accept the radical view of the impossibility of a national bourgeoisie in the major countries, but recognized the ambiguous or contradictory character of this industrial bourgeoisie. The name of this interpretation – “national-dependent” – is an oxymoron that reflects this contradictory character of the industrial

⁸ I have been identified with this interpretation since 1970, when I published “Concentration of income and the recovery of the Brazilian economy”. In my 1977 book on the economic model prevalent under the military regime, I called it a model of “industrialized underdevelopment”.

bourgeoisie: in some moments identified with the nation, in others with the domestic financial and agrarian elites and with the elites in rich countries.

Of these three versions of the dependency interpretation, the dominant one since the 1970s has been the associated dependency interpretation. As in the authoritarian regimes, national developmentalism and state-led growth remained dominant in Latin America up to the 1980s; the democratic opposition tended to identify with this version rather than with the overexploitation version, which was too radical, or with the national-dependent version, whose nationalism could be confused with that of the authoritarian regimes. Eventually, associated dependency contributed to re-democratization and the ensuing struggle to reduce inequality in the region, but it weakened the idea of the nation in each country, and in the late 1980s and early 1990s it was instrumental in the abandonment of a national development strategy in the Latin American countries and in their subordination to the Washington Consensus.

The third reason for the demise of national developmentalism was the great debt crisis of the 1980s. This crisis, whose consequences were disastrous for Latin America, was not directly related to the import-substitution model, but was an outcome of the strategy of growth-*cum*-foreign savings that rich countries proposed and development economics as well as Latin American structuralism was unable to criticize. Yet it further weakened the national alliance that was behind national developmentalism. The debt crisis paved the way for the high inflation that, in the countries in which the indexation of inflation was adopted, became inertial and proved highly persistent (Pazos 1972; Bresser-Pereira and Nakano 1984). This high inflation was a factor for the transition to democracy in Brazil and Argentina, but, in so far as the developmentalist administrations in these two countries did not realize that old developmentalism was finished and adopted populist policies to confront the foreign debt crisis and to control inflation, they failed, which further contributed to the demise of national developmentalism, now identified with economic populism.⁹

⁹ Economic populism is the irresponsible practice of an administration of systematically spending more money than it receives. Economic populism originated not only in budget deficits (fiscal populism); exchange rate populism (when an appreciating exchange causes real wages to artificially increase) was originally identified in the 1970s by Adolfo Canitrot (1975). In the case

The success of the US policy of training Latin American economists in US doctoral programs is the fourth cause of the demise of national developmentalism. When the foreign debt crisis hit Latin America in the 1980s, the intellectual arena was ready for the rejection of national developmentalism. Marxists who had been influential in the 1960s and 1970s were, curiously, joined in their critique of national developmentalism by the opposite side – by the young and bright economists returning from the United States with their Ph.D.s and with the market fundamentalist neoclassical teaching that had become “mainstream” in the major universities as part of the new neoliberal ideological wave. The first to return, in the 1970s, did not find the ambiance in their home countries friendly.¹⁰ Yet in the 1980s, at the moment when the new neoliberal ideas were successfully identifying developmentalism with populism, this attitude changed. Since then, obtaining a Ph.D. from a foreign institution has become almost a condition for the occupation of high positions in the economic ministries and in the central banks. This allowed Latin America to become a kind of laboratory of the departments of economics of the major American universities. Since the professors were unable to apply their macroeconomic counsels in the United States, whose politicians were sufficiently pragmatic to reject them,¹¹ their disciples had the opportunity to apply them in Latin America.

This fifth and final reason for the demise of developmentalism and its replacement by conventional orthodoxy is related with the neoliberal hegemony that, in the early 1990s,

of fiscal populism, the state spends more than it receives and incurs recurrent public deficits; in the case of exchange rate populism, the nation-state spends more than it receives and incurs recurrent current account deficits. A balance-of-payments crisis is usually the outcome, as Jeffrey Sachs (1990) demonstrated by analyzing and modeling populist episodes.

¹⁰ The reaction to the “Chicago boys” who were behind the 1981 financial crisis is well known. The authoritarian Chilean regime of Pinochet was successful only after the monetarist experiment was abandoned and a conservative politician, Hernán Büchi, abandoned neoclassical or monetarist principles and adopted much less orthodox policies, principally in relation to the exchange rate, whose overvaluation had been disastrous for the monetarist experiment.

¹¹ There are many indications that the American economic authorities did not apply the neoliberal macroeconomics (monetarist, new classical, neo-Keynesian) taught in their universities. Yet the paper by Gregory Mankiw (2006) is definitive on the fact the mathematical, rational expectations macroeconomics taught in graduate courses in economics is not adopted by policymakers in the United States.

became overwhelming with the collapse of Soviet Union. The victory of capitalism over statism was understood as the confirmation of the correctness of neoliberal ideology. Since the late 1970s, neoliberal ideas and neoclassical macroeconomics had been advancing in response to the fall in profit rates in the United States and to the emergence of the newly industrializing countries (NICs) that for the first time were competing with the original rich countries. Profiting from the foreign debt crisis in Latin America, a new and stronger conventional orthodoxy established itself. The Baker Plan (1985), named after the US Secretary of the Treasury James Baker, gave an official stamp to the new ideas. Developmentalism became the target of a systematic attack. Taking advantage of the economic crisis, conventional orthodoxy identified developmentalism with economic populism, that is, with irresponsible economic policies.

Conventional orthodoxy

To replace developmentalism, Washington proposed a “consensus” formed from a cluster of orthodox macroeconomic policies and market-oriented institutional reforms including (not originally but since the early 1990s) the most debatable policy of all: financial liberalization. It further proposed that developing countries abandon the antiquated concept of “nation” and accept the globalist thesis according to which, in the age of globalization, nation-states had lost autonomy and relevance: worldwide free markets (including financial ones) would take care of promoting economic development for all, provided that property rights and contracts were assured by the state.

The failure of conventional orthodoxy to promote Latin America’s economic development is today widely acknowledged. It may be checked in Table 1, which shows the rates of growth of the main Latin American countries during 1950–80, 1980–90, and 2006. While between 1950 and 1980 the average annual growth rate of Latin American countries listed in the table was 3.11 per cent, after 1981 it was 0.77 per cent and after 1990 1.6 per cent. The low rate since 1981 was also caused by the great debt crisis of the 1980s, which reflected the mistaken policy of growth with foreign savings of the 1970s. The poor 1.6 per cent rate since 1990 – practically half the rate achieved between 1950 and 1980 – is a consequence of the application of neoliberal policies or of the Washington Consensus in the region. The failure of conventional orthodoxy would not be demonstrated by these contrasting growth figures if developing countries in the countries that rejected the Washington Consensus and retained control over their economies, principally their foreign

economic relations and their exchange rates, had also experienced falling growth rates since 1981 or 1990; but, in view of the experience of the Asian developmentalist countries like China, India or Indonesia, it was just the opposite that happened after either 1981 or 1990. Their growth rates in the second period greatly increased. Thus, while convergence was taking place in the case of the fast-growing Asian countries, Latin American countries lagged behind, clearly demonstrating what Ocampo and Parra (2007: 101 and 111) call the “dual divergence: between developing countries and the industrial world, on one hand, and among developing countries, on the other”. I am, however, critical of the explanation that Easterly et al. (1993) gave of this truncated convergence of developing countries.

Table 1: Growth and per capita income in selected countries 1950–2006
(constant 2000 dollars)

Country	1950–1980 Annual growth rate (%)	1981–2006 Annual growth rate (%)	1990–2006 Annual growth rate (%)	2006 Income per capita ¹
Argentina	1.60	0.54	2.55	8733,4
México	3.37	0.93	1.61	6951,5
Uruguay	1.30	1.23	2.17	6770,2
Chile	1.38	3.01	4.13	5889,1
Costa Rica	3.16	1.56	2.75	4819,8
Panama	3.24	1.55	3.03	4743,6
Brazil	4.12	0.53	1.18	4043,1
Venezuela	2.20	– 0.01	0.74	5429,6
Colombia	2.28	1.50	1.64	2673,9
Peru	2.08	0.36	2.77	2555,8
Ecuador	3.16	0.63	1.35	1608,0
Paraguay	2.67	0.07	-0.01	1397,9
Bolivia	0.92	0.00	1.27	1064,4
Cuba	-----	1.22	0.98	3890,4
Average	3.11	0.77	1.60	----

Source: www.eclac.org. Observation: average annual growth rate weighted by population.
1. Per capita income (constant 2000 dollars)

What is conventional orthodoxy? It is an ideology exported to developing countries that, despite its promise of promoting general prosperity, in fact serves rich nations’ interests in neutralizing these middle-income countries’ ability to compete. It may be summarily defined by four propositions: first, middle-income countries’ major problem is the lack of microeconomic reforms capable of enabling the market to operate freely; second, controlling inflation is the main purpose of macroeconomic policy, even if inflation rates are moderate; third, in order to achieve such control, interest rates must inevitably be high,

and the exchange rate correspondingly appreciated; fourth, economic development is a competition among countries to obtain foreign savings (current account deficits), and, so, the foreign exchange appreciation caused by capital inflows required to finance the deficits is no cause for concern because the returns on the increased investment rate pay for it. The disastrous effects of this discourse, which proved in practice to be wrong in terms of balance-of-payments crises and low growth in Latin American countries that adopted it after the late 1980s, are well known today.¹²

At the level of macroeconomic policies, conventional orthodoxy failed because it was associated with high rates of interest and the cyclical overvaluation of national currencies. While national developmentalism intuitively acknowledged the existence of a structural tendency of the exchange rate to overappreciation, and worked to neutralize it, conventional orthodoxy ignored this tendency, secured capital account liberalization, proposed the growth with foreign savings policy and led countries into balance-of-payments crises. While Latin American countries lost control over their exchange rates, Asian countries achieved current account surpluses and retained control over their foreign exchange rates (the four countries that experienced the 1997 Asian crisis were those that for a moment relaxed their foreign exchange controls). At the reform level, Latin American countries indiscriminately accepted all liberalizing reforms, irresponsibly privatizing public services monopolies, while the Asians were more prudent. In sum, by bowing to the Washington Consensus, Latin American countries interrupted their national revolutions, their nations became disorganized, lost cohesiveness and autonomy, and lost the ability to sustain a national development strategy.

New developmentalism

Yet the era of the long-run hegemony of one country over others is at an end. Thus, it is not surprising that, when it became manifest that the Washington Consensus was not causing growth but rather financial instability and increasing inequality, a reaction took hold in Latin America. It began initially at the political level with the election of a

¹² See Frenkel (2003), Bresser-Pereira and Nakano (2002), Bresser-Pereira and Gala (2008), Bresser-Pereira (2009b). In my studies since 2002 I have shown how the policy of growth with foreign savings or current account deficits that is central to conventional orthodoxy, instead of increasing the investment rate, causes the substitution of foreign for domestic savings.

succession of nationalist and left-wing leaders, starting in Venezuela and including Argentina, Brazil, Bolivia, Ecuador, Nicaragua, Paraguay and Santo Domingo. In Mexico, the opposition candidate lost by a very small margin. This fact created room for national policies. Yet these countries, excluding Argentina and Brazil, are poor, and so very difficult to govern. It is clear that in all of them the new administrations are searching for an alternative economic strategy, but the probability of success is low. At the level of knowledge, economists and other social scientists in Latin America are seeing the success of the fast-growing Asian countries and are persuaded that, despite cultural and economic differences, such experiences may be helpful to the devising of a Latin American development alternative. The name that I have been giving this alternative strategy is “new developmentalism”.

New developmentalism is a set of values, ideas, institutions, and economic policies through which, in the early 21st century, middle-income countries seek to catch up with developed countries. It is not an economic theory but a strategy; it is a national development strategy, based mainly on Keynesian macroeconomics and development economics. It is the set of ideas that enables developing nations to reject rich nations’ proposals and pressures for reform and economic policy, like capital account liberalization and growth with foreign savings, in as much as such proposals are neo-imperialist attempts to neutralize the economic growth of competing countries – the practice of “kicking away the ladder” identified by Ha-Joon Chang (2002). It is the means by which businessmen, government officials, workers and intellectuals can stand together as a true nation to promote economic development. New developmentalism is suitable for middle-income countries rather than for poor countries, not because poor countries do not require a national development strategy, but because their strategies involve accomplishing primitive accumulation and industrial revolution, or, in other words, because the challenges they face are different from those faced by middle-income countries.

New developmentalism is a “third discourse” between the old developmentalist discourse and conventional orthodoxy. The conventional orthodoxy, or the Washington Consensus, is the form that neoliberal ideology assumes when it becomes a package of macroeconomic policies and market-oriented reforms. Neoliberalism is not just a radical form of economic liberalism. Historically, while liberalism was the 18th-century ideology of the bourgeois middle class against a military and landowning oligarchy and against an autocratic state, neoliberalism is the late 20th-century ideology of the capitalist rentier

class and of financial professionals, against the workers and the poor and against the democratic and social state.¹³ It is a reactionary ideology that eventually turned against its creators and was a central cause of the 2008 global crisis. The opposite discourse is the bureaucratic-populist discourse associated with old developmentalism. From this perspective, Latin American ills are due to globalization and to financial capitalism, which burdened countries with high foreign indebtedness. The proposed solution is, first, to renegotiate the country's foreign and public debt at a great discount, independently of whether or not the country is insolvent; and second, to incur long-term public deficits to stimulate demand that is otherwise insufficient.¹⁴ The first discourse served the interests of the North and reflected its formidable ideological hegemony over Latin American countries. Locally, it sprang chiefly from the Brazilian rentier class, which depends essentially on interest income for a living, and from economists affiliated to the financial industry; a confused, disoriented upper-middle class also shared it. The second discourse came from the lower-middle class and labor unions, reflecting the old bureaucratic left-wing perspective. Neither discourse had a chance of achieving a reasonable consensus in Latin America, due to its irrationality and biased nature. Neither ideology reflected national interests.

National developmentalism is the alternative to conventional orthodoxy that has been evolving in Latin America since the early 2000s with the participation of development economists and post Keynesian economists. But is not new developmentalism also an ideology, like conventional orthodoxy and the bureaucratic-populist discourse? Yes and no. Yes, because every national strategy implies an ideology, a set of political action-oriented ideas and values. No, because, unlike conventional orthodoxy, which rich countries have been imposing on developing countries, new developmentalism will make sense only if it arises from broad national agreement or consensus and, therefore, counts as a true national development strategy. A full consensus is impossible, but, taking advantage of the failure of conventional orthodoxy, a consensus bringing together industrialists,

¹³ By "rentier class" we no longer mean the class of large landowners but that of inactive capitalists whose livelihood is derived mainly from interest income. The "financial industry," in turn, involves, besides rentiers, businessmen and managers who collect commissions from rentiers.

¹⁴ In Brazil, the Workers Party (PT) adopted such a discourse, but once it had gained power in 2003 it adopted more sensible policies.

workers, government officials and middle-class professionals – a national agreement, therefore – is gradually being formed. This agreement regards globalization as neither a blessing nor a curse, but as a system of intense competition among national states through their firms. It realizes that, in such a competition, the state must be strengthened fiscally, administratively and politically, and, at the same time, must provide national firms with the conditions to become internationally competitive. It acknowledges, as Argentina did after its 2001 crisis, and as Brazil has begun to do since the start of the second Lula administration in 2007, that exceedingly high short-term interest rates and an overvalued exchange rate are major obstacles to growth.

New developmentalism starts from the theoretical assumption that developing countries face two structural tendencies that must be checked by economic policy if these countries are to grow fast and catch up: the tendency to the overvaluation of the exchange rate and the tendency of wages to increase more slowly than productivity. The former derives from the definition of a developing country as a dual economy and from the classic work of Arthur Lewis (1954) showing that developing countries face an unlimited supply of labor. This fact implies a rise in wages when the worker migrates from the traditional sector to the modern sector, but thereafter it suppresses wages in the modern sector – which causes increasing inequality and a chronic insufficiency of demand. The second problem may be “solved” either by the production of luxury goods that the middle class and the rich consume, or by exporting wage goods and importing luxury goods and capital goods, as happened in Latin America in the 1970s. An equally perverse alternative is to create facilities for poor families contracting debt.

The second structural tendency – the tendency to the overvaluation of the exchange rate – derives from the “Dutch disease” that drives down (appreciates) the exchange rate from the “industrial equilibrium” to the “current account equilibrium”, and from the higher profit and interest rates prevailing in developing countries, which attract foreign capitals and appreciate the exchange rate below the current account equilibrium and cause current account deficits. This second factor, however, would not be sufficient to cause balance-of-payments crises if it were not amplified by economic policies inspired by conventional orthodoxy (growth with foreign savings policy, use of the exchange rate as a nominal anchor, capital deepening policy) and also by development economics (solving the two-

gap problem)¹⁵. If this tendency is not checked, financial crises will be frequent even if the country tries to keep the public finances and inflation under control.¹⁶

Old and new developmentalism

I see three main differences between national developmentalism and new developmentalism, all related to the fact that many countries remain developing but have ceased to be poor, are marked by infant industries, and have turned into middle-income countries. This fact has a first and major consequence: while old developmentalism was relatively protectionist, new developmentalism is not. In the golden age after the Second World War, middle-income countries did not represent competition or a threat to rich nations. Since the 1970s, however, with the NICs and, since the 1990s, with China, they have become much more competitive: the threat their cheap labor poses to rich nations is clearer than ever. In the golden age, rich nations, and the United States in particular, in need of Cold War allies were far more generous; today, only the poorest African countries can expect some generosity – but even these must be wary, because the treatment the rich nations and the World Bank afford them and the help, or alleged help, they receive are often perverse.

At the national level, manufacturing industry has ceased to be infant, requiring generalized protection; it is now mature. Between the 1930s and the 1950s, the import-substitution model was effective in establishing the industrial bases of Latin American countries. After the mid-1960s, however, governments should have begun dropping some of their tax barriers to imports and adopting an export-led model combined with the development of the domestic market. Some countries, principally Brazil and Mexico, did orient their exports to manufacturing, but retained high import taxes. It was only in the early 1990s that trade liberalization took place, in the middle of a major economic crisis, and often hurriedly and haphazardly. Yet it is important to note that in countries like Brazil and Argentina a large proportion of the import taxes was intended, not as a response to the infant industry problem, but as a way of neutralizing, on the import side, the Dutch disease caused by the highly favorable natural conditions that these countries offer for cattle

¹⁵ The two gap model asserted that besides the savings constraint, developing countries face a foreign currencies constraint, thus needing loans or investments from rich countries.

¹⁶ For a discussion of this tendency, see Bresser-Pereira (2009b: chs. 4–7).

breeding and agricultural exports. This 20-year lag was one of the distortions endured by national developmentalism of the 1950s.

New developmentalism is not protectionist: it simply emphasizes the need for a competitive exchange rate. It assumes that middle-income countries have already passed through the infant-industry stage but still face the Dutch disease: the fact that countries producing goods that use cheap natural resources experience the long-term appreciation of their exchange rate that is consistent with equilibrium in the the current account balance, but renders economically not viable other tradable industries using technology in the state of the art. Thus, the country is impeded of transferring labor from the production of lower to higher per capita valued-added goods – a key condition for economic growth. This transfer requires not protection, but management of the exchange rate to neutralize the market failure that the Dutch disease represents, thus supporting potentially viable industries with high knowledge content that adopt state-of-the-art technology.¹⁷ Unlike old developmentalism, which embraced the export pessimism of development economics, new developmentalism lays odds on developing countries' ability to export medium value-added manufactured goods or high value-added primary products. The experience of the past 30 years has clearly shown that export pessimism was one of the great theoretical mistakes of development economics. In the late 1960s, Latin American countries should have begun shifting decisively from the import-substitution model to the export-led model, as did Korea and Taiwan. In Latin America, Chile was the first to effect such a change and, as a result, its development is often pointed to as an example of a successful neoliberal strategy. In fact, neoliberalism was fully practiced in Chile only between 1973 and 1981, coming to an end with a major balance-of-payments crisis in 1982.¹⁸ The export-led model is not specifically neoliberal if it is combined with an expanding domestic market. The fast-growing Asian countries originally adopted an import-substitution

¹⁷ Since the Dutch disease is defined, and its gravity measured, by the difference between the “current exchange rate equilibrium” (which intertemporally balances the current account) and the “industrial exchange rate equilibrium” (which makes viable tradable industries without any protection), one way of partially neutralizing it is by imposing tariffs on imports. The more complete way is by levying a tax on sales of the commodity in which the disease originates (Bresser-Pereira 2008).

¹⁸ See Alejandro (1981) and Ffrench-Davis (2003).

strategy, but soon changed to an export-led model, which has two main advantages over the import-substitution model. First, the market available to industries is not limited to the domestic market. This is important for small countries but equally fundamental to a country with a relatively large domestic market, such as Brazil. Second, if a country adopts this strategy, the economic authorities, by framing an industrial policy to benefit their national firms, automatically establish an efficiency criterion to guide them: only firms that are efficient enough to export will benefit from the industrial policy. In the case of the import-substitution model, very inefficient firms may be enjoying the benefits of protection; in the case of the export-led model, the likelihood of this happening is substantially smaller.

Chart 1: Old and new developmentalism

Old developmentalism	New developmentalism
1. Industrialization is based on import substitution.	1. Export-led growth combined with strong domestic market.
2. Leading role for the state in obtaining forced savings and in making investments.	2. The state is supposed to create investment opportunities and reduce economic inequalities.
3. Industrial policy is central.	3. Industrial policy is subsidiary.
4. Mixed attitude in relation to budget deficits.	4. Rejection of fiscal deficits.
5. Relative complacency towards inflation.	5. No complacency towards inflation.

A second difference between old developmentalism and new developmentalism concerns the role of the state. Under national developmentalism, countries were poor, and the state was supposed to play a leading role in achieving forced savings and in investing not only in monopolistic industries but also in industries characterized by large economies of scale and, so, requiring huge sums of capital. Fifty years later, most of the Latin American nation-states are middle-income countries; they have already completed or are involved in their own capitalist revolutions; they are equipped with a stock of capital that did not exist before, able to finance investment; they are equipped with entrepreneurial, professional and working classes able to industrialize and modernize their countries. The state

continues to play a key role, but a normative, enabling and encouraging role rather than a direct role in production. Both forms of developmentalism cast the state in a leading role in terms of ensuring the proper operation of the market and providing the general conditions for capital accumulation, such as education, health, transportation, communications and power infrastructures. In addition, however, under the developmentalism of the 1950s, the state also played a crucial role in promoting forced savings, thereby contributing to countries' primitive accumulation processes; furthermore, the state made direct investments in infrastructure and heavy industry where the sums required exceeded the private sector's savings.

This has changed since the 1980s. With new developmentalism, the state still can and must promote forced savings and invest in certain strategic industries, but the national private sector now has the resources and managerial ability to provide a sizable portion of the investment needed. New developmentalism rejects the neoliberal thesis that "the state no longer has resources," because whether or not the state has resources depends on how its finances are managed. But new developmentalism understands that, in all sectors where reasonable competition exists, the state must not be an investor; instead, it must concentrate on defending and ensuring competition. Even after these investments have been excluded, there are many left to the state to finance with public savings rather than debt.

Third, new developmentalism supports industrial policy but rejects the preeminent role it played in national developmentalism. More important than an industrial policy is a competent macroeconomic policy based on fiscal balance, moderate interest rates and a competitive exchange rate – an exchange rate that makes viable or competitive industries using the best technology available in the world. The state may, and is supposed to, support business enterprises, but only strategically, not permanently. And it is supposed to make this support conditional on businesses achieving international competitiveness.

Fourth, new developmentalism rejects misleading notions of growth based chiefly on demand and public deficits – an equivocal idea that became popular in Latin America but was not shared by the main economists who originally defined it. This was one of the most severe distortions that national developmentalism endured in the 1980s in the hands of its latter-day populist advocates. Keynes, in whose name economic populism was promoted, pointed out the importance of aggregate demand and legitimized resorting to public

deficits in recessions, but he never advocated chronic public deficits. He always assumed that a fiscally balanced national economy might, for a brief while, give up this balance to re-establish employment levels. The notable economists who formulated the developmentalist strategy, such as Furtado, Prebisch, and Rangel, were Keynesians, and they regarded aggregate demand management as an important tool for promoting development. But they never defended the economic populism of chronic deficits. Those who came in their wake, however, did. When Celso Furtado, faced with the severe crisis of the early 1960s, proposed his *Plano Trienal* (1963), these second-rate propagandists accused him of having an “orthodox rebound.”

New developmentalism defends fiscal equilibrium, not in the name of “orthodoxy” but because it realizes that the state is the nation’s instrument for collective action par excellence. If the state is so strategic, its apparatus must be strong, sound and capacious; and, for this very reason, its finances must be in balance. More than this, its debt must be small and long in maturity. The worst thing that can happen to a state as an organization (the state also stands for the rule of law) is to be in thrall to creditors, be they domestic or foreign. Foreign creditors are particularly dangerous, for they and their capital may, at any time, leave the country. However, domestic creditors, transformed into rentiers and supported by the financial system, can impose disastrous economic policies on the country, as has been the case in Brazil.

Fifth and last, new developmentalism is different from national developmentalism because, while the latter was relatively complacent about inflation, new developmentalism is not. Old developmentalism had good reason to be relatively complacent: the structural theory of inflation asserted that, due to the imperfections of domestic markets, developing countries would have to live with moderate rates of inflation. In middle-income countries, markets are not so imperfect, and experience has shown that inflation may turn into a curse.

In sum, and, again, because middle-income countries are at a different stage, new developmentalism is more favorable to the market as an efficient institution capable of coordinating the economic system than was old developmentalism, although its perspective is far removed from the irrational faith in the market evinced by conventional orthodoxy.

New developmentalism and conventional orthodoxy

In this paper I am sponsoring new developmentalism, but conventional orthodoxy is not dead. To the contrary, it is still dominant, principally in defining macroeconomic policy in Latin America. Let us now examine the differences between these two competing strategies, quite apart from the fact that one is imported while the other is national. Conventional economic orthodoxy is made up of the set of theories, diagnoses and policy proposals that rich nations offer to developing countries. It is based on neoclassical economics but is not to be confused with it, because it is not theoretical but openly ideological and oriented toward institutional reforms and economic policies. While neoclassical economics is based in universities, particularly in the United States, conventional orthodoxy springs mainly from Washington, DC, home to the US Treasury Department and to the two agencies that are supposedly international but are, in fact, subordinate to the Treasury: the International Monetary Fund and the World Bank. The former is charged with macroeconomic policy and the latter with development. Second, conventional orthodoxy originated in New York, the headquarters or the point of convergence of major international banks and multinational corporations. Conventional orthodoxy changes over time. Since the 1980s, it has become identified with the “Washington Consensus,” which cannot be understood simply as the list of ten reforms or adjustments that John Williamson wrote in the paper that gave birth to the expression. (His list included reforms and adjustments that are, indeed, necessary.)¹⁹ The Washington Consensus is, in fact, the effective shape that neoliberal and globalist ideology has assumed at the level of the economic policies recommended to developing countries.

In previous studies I distinguished between the First and the Second Washington Consensus, to highlight the fact that the former was concerned mostly with the macroeconomic adjustment that became necessary as a result of the great debt crisis of the 1980s and with trade liberalization and privatization, while the latter, prevalent since the 1990s, also seeks to operate as a development strategy based on an open capital account (which Williamson explicitly excluded from the first Washington Consensus) and on growth with foreign savings. Together, however, they form a single consensus – that of rich nations in relation to their competitors, the middle-income countries. Although the term “Washington Consensus” is useful, I prefer “conventional orthodoxy” because it is

¹⁹ Williamson (1990).

more generic and portrays “orthodoxy” as merely conventional knowledge.²⁰ Conventional orthodoxy is the means by which the United States, at the level of economic policies and institutions, expresses its ideological hegemony over the rest of the world and mainly over dependent developing countries that lack nations strong enough to challenge this hegemony, as has traditionally been the case with Latin American countries. This hegemony purports to be “benevolent,” while, in fact, it is the arm and mouth of neo-imperialism – that is, imperialism without formal colonies that characterizes the relation of rich countries with the dependent countries that are formally independent.

In as much as conventional orthodoxy is the practical expression of neoliberal ideology, it is the ideology of the market versus the state. While new developmentalism wants a strong state and a strong market, and sees no contradiction between them, conventional orthodoxy wishes to strengthen the market by weakening the state, as if the two institutions were parties in a zero-sum game. Since the second half of the 20th century, therefore, conventional orthodoxy has been a version of the *laissez-faire* ideology that prevailed in the previous century. Regardless of the fact that the state has grown in terms of tax load and of the level of market regulation as a result of the increased dimensions and complexity of modern societies, and of the fact that a strong and relatively large state is a requirement for a strong and competitive market, conventional orthodoxy is the practical reaction against the growth of the state’s apparatus. Certainly, the state has also grown as a result of mere clientelism, to create jobs and employ the bureaucracy, but conventional orthodoxy is not interested in distinguishing legitimate state growth from the illegitimate variety. It is the ideology of the minimal state, of the *laissez faire* state, of the state that is concerned only with domestic and foreign security, leaving economic coordination, infrastructure investments, and even social services like health and education to the devices of the market. It is the individualistic ideology that assumes that all are equally capable of defending their interests. It is, therefore, a right-wing ideology, an

²⁰ I have no sympathy with any orthodoxy whatsoever, since orthodoxies are a way of renouncing thinking, and none for unorthodoxy, where the economist, upon identifying himself as unorthodox, renounces the implementation of his ideas and policies and reserves for himself the role of eternal minority opposition. A good economist is neither orthodox nor unorthodox but pragmatic: he can make good economic policy based on an open, modest theory that forces him to constantly consider and decide under conditions of uncertainty.

ideology of the powerful, the rich, the better educated – the *haute bourgeoisie* and the high techno-bureaucracy. Its goal is to drive down direct and indirect real wages by leaving labor unprotected, thus making firms more competitive in an international market of developing countries and cheap labor.

The central difference between conventional orthodoxy and new developmentalism lies in the fact that conventional orthodoxy is market fundamentalist, believing that the market is an institution that coordinates everything optimally if it is free of interference, whereas new developmentalism is pragmatic. New developmentalism views the market as an efficient institution to coordinate economic systems, but knows its limitations. Factor allocation is the task that it performs best, but even here it faces problems. In stimulating investment and innovation, it is insufficient. It fails to neutralize two structural tendencies in developing countries: the tendency of the exchange rate to overappreciation and the tendency of wages to increase more slowly than productivity. And markets are a clearly unsatisfactory mechanism not only in distributing income but also because they favor the stronger and the more capable participants. While conventional orthodoxy acknowledges market failures but asserts that state failures are worse, new developmentalism rejects such pessimism about the possibilities of collective action and demands a capable state – not as compensation for a weak market but combined with a strong market. If human beings are able to build institutions to regulate human actions, including the market itself, there is no reason why they should not be able to strengthen the state organization or apparatus (making its administration more legitimate, its finances more solid, and its management more efficient) or to strengthen the constitutional or legal system (increasingly adjusting its institutions to social needs). Politics and democracy exist precisely for that purpose; and the more advanced democracies have been making major advances in this area in the last century.

In so far as one of the foundations of new developmentalism is classical political economy, which was essentially a theory of the “wealth of nations” (Smith) and of capital accumulation (Marx), social structures and institutions are fundamental to its reasoning. Besides, as it adopts a historical approach to economic development, the teachings of the German Historical School and of the American institutionalists are an essential part of its

vision.²¹ Thus, institutions are fundamental, and to reform them is a permanent requirement in so far as, in the complex and dynamic societies in which we live, economic activities must be constantly re-regulated. In contrast, conventional orthodoxy, based on neoclassical economics, only recently acknowledged the role of institutions, in the context of “new institutionalism.” In contrast to historical institutionalism, which in relation to economic development sees obstacles to economic growth in precapitalist institutions and in the distortions of capitalist institutions, and actively seeks to develop a set or cluster of institutions (a national growth strategy), new institutionalism offers a simplistic answer to the problem: it is sufficient that institutions guarantee property rights and contracts, or, more broadly, the good working of markets, which will automatically promote growth. According to the neoliberal jargon adopted, for instance, by *The Economist*, a good government will be a “reformist” one, involved in market-oriented reforms. According to new developmentalism, a government will be good in economic terms if it is able to promote economic growth and a more equal distribution of income by the adoption of economic policies and institutional reforms that are oriented, whenever possible, to the market, but often correcting it – in other words, if the country grows within the framework of a national development strategy. According to conventional orthodoxy, institutions should limit themselves almost exclusively to constitutional norms; according to new developmentalism, economic policies, and particularly monetary policies, must undergo permanent reform, a continual and gradual adjustment within the framework of a broader growth strategy. Industrial policy is required, but for new developmentalism a moderate interest rate and a competitive exchange rate are more important than an industrial policy.

New developmentalism and conventional orthodoxy share many institutional reforms, but their objectives are often different. Take, for instance, public management reform. New developmentalism supports it because it wants a more capable and more efficient state apparatus; conventional orthodoxy supports it because it sees in such reform an opportunity to reduce the tax burden. To new developmentalism, such a consequence may be desirable, but this is a different issue. The tax burden is a political question that depends on how democratic societies assign roles to the state, and on how efficient public

²¹ The Historical School is the school of Gustav Schmoller, Otto Rank, Max Weber, and, in a different line, of Friedrich List; the American Institutional School is the school of Thorstein Veblen, Wesley Mitchell, and John R. Commons.

services are. Another example: Both approaches favor more flexible labor markets, but new developmentalism looks at the experiences of northern Europe and does not mistake flexibility for lack of protection, while conventional orthodoxy wants to make labor standards more flexible in order to weaken the labor force and reduce wages. In other reforms, the difference is one of degree. New developmentalism favors, for instance, an open and competitive economy because it sees commercial globalization as an opportunity for middle-income countries, but it rejects unilateral opening and requires reciprocity from trade partners. And there are cases where there is definite disagreement, such as with regard to opening capital accounts. While conventional orthodoxy strongly favors it, new developmentalism rejects it, because the middle-income country loses control of its exchange rate. New developmentalism views commercial globalization as an opportunity but sees financial globalization as a risk that developing countries should not take.

In comparing new developmentalism and conventional orthodoxy, we can distinguish growth strategies from macroeconomic policies, although the two are closely correlated. Since growth is impossible without stability, let us begin by comparing macroeconomic policies. Since in references to “new developmentalism” we are thinking of middle-income countries, the macroeconomic policies that are required are not essentially different from those adopted in rich countries: they are based on fiscal balance, moderate interest rates and competitive exchange rates, which are common among rich countries. Yet, since conventional orthodoxy observes the principle “do as I say, not as I do”, it differs significantly from new developmentalism. As we can see in Chart 2, both value macroeconomic stability; but, while conventional orthodoxy reduces macroeconomic stability to price stability and control of public debt, new developmentalism requires a moderate interest rate and a competitive exchange rate that guarantee the intertemporal equilibrium of both the public account (of the state) and the foreign account (of the nation-state). Conventional orthodoxy’s approach may be summed up as follows: In order to guarantee macroeconomic stability, a country should achieve a primary surplus that keeps the public debt–GDP ratio at an acceptable level for creditors. The central bank is supposed to have a single mandate, namely, to control inflation, since it has at its disposal a single instrument, namely, the short-term or basic interest rate. This rate is essentially endogenous, corresponding to the equilibrium or non-accelerating-inflation rate of interest, and, given fiscal imbalance, it should be high. The exchange rate is also endogenous, that

is, it is market-defined, and its equilibrium will be automatically ensured by the market once a floating exchange rate is adopted.

New developmentalism takes a substantially different, Keynesian approach: Fiscal adjustment should not have as a parameter primary surplus but the budget deficit and, more than that, positive public saving that finances the required public investments without public indebtedness. The central bank, in association with the finance ministry, should not be limited to a single mandate but should have a triple one: to control inflation, to keep the exchange rate competitive (compatible with the current account balance and the gradual transfer of manpower to more knowledge-intensive or high per capita value-added industries – something that a recurrent Dutch disease prevents) and to achieve reasonably full employment. In order to perform these tasks, the central bank does not have at its disposal a single instrument (as neoclassical macroeconomics asserts) but several instruments besides the interest rate: it may buy reserves and establish capital inflow controls to avoid the tendency of the exchange rate to relative appreciation that is common among middle-income countries. The interest rate is an instrument to control inflation, but its average level may be considerably lower than conventional orthodoxy assumes for developing countries; the exchange rate should be kept floating, but managed – there is no such thing as a completely free exchange rate.

Chart 2: Macroeconomic policies compared

Conventional orthodoxy	New developmentalism
1. The primary surplus is the central fiscal standard.	1. The budget deficit and public savings are the central fiscal standards.
2. The central bank has a single mandated target: inflation.	2. The central bank has three mandated targets: inflation, exchange rate, and employment.
3. The central bank uses a single instrument: the short-term interest rate.	3. The central bank may also buy reserves or impose controls on capital inflow to manage the exchange rate.
4. The short-term interest rate is endogenous and should be high.	4. The short-term interest rate is exogenous and can be moderate.
5. The exchange rate is floating and endogenous.	5. The exchange rate is floating but administered.

Let us now compare the growth strategies that I present in Chart 3. Conventional orthodoxy supports institutional reforms that reduce the size of the state and strengthen the market. It ascribes a minimal role to the state in investment and industrial policy, and it

does not envisage any role for the nation (an absent concept). It proposes the opening of the capital account and a growth-*cum*-foreign-savings policy.

In contrast, new developmentalism wants institutional reforms that strengthen the state as well as the market – only a capable state organization and state normative institutions endowed with legitimacy can serve as instruments of the nation’s collective action. New developmentalism sees the nation as a national society with a sense of common destiny and of solidarity when competing internationally, as the fundamental actor defining a national growth strategy. It views as the fundamental institution for this growth the national development strategy, which creates incentives for entrepreneurs to innovate and invest. It gives priority to export industries and to industries characterized by high per capita value-added, that is, industries with a high technological or knowledge content. It believes that it is not only necessary but possible to increase domestic saving, for all developed countries did so in the past. The Dutch disease, the growth-*cum*-foreign-savings policy recommended by conventional orthodoxy, is a major cause of exchange-rate appreciation – appreciation that must always be prevented, since a competitive exchange rate, relatively depreciated, is the central condition for growth.

Before the 1990s, conventional orthodoxy was concerned with foreign exchange rates and, during balance-of-payments crises, always demanded foreign-exchange depreciations in addition to fiscal adjustments. Since the 1990s, however, the IMF has practically forgotten current account deficits (they were foreign savings, after all) and exchange rate depreciations. The twin-deficit hypothesis exempted it from worrying about current account deficits: all it had to do was concern itself with the primary surplus. For a while, it chose to talk about foreign exchange-rate anchors and dollarization; after that strategy failed in Mexico, Brazil and, above all, Argentina, the IMF turned to fully floating exchange rates to solve all external problems.

New developmentalism is strongly critical of this perspective and wants control not only over the state’s public accounts (public deficit) but also over the nation’s total accounts (current account). It wants not only the state’s debt to be low but also the state to show positive public savings. It also wants a nation-state to have foreign accounts that ensure its national security and autonomy. It wants not only interest rate management but also foreign exchange-rate management, even if it’s within the framework of a floating rate

regime – which it does not call “dirty,” as conventional orthodoxy is wont to do, but “managed.”

Chart 3: Growth strategies compared

Conventional orthodoxy	New developmentalism
1. No economic role for the nation or for national development strategies.	2. The nation is the agent defining the national development strategy.
2. Reforms reducing the size of state and deregulating markets.	2. Reforms strengthening the state and regulating markets.
3. The fundamental institutions to promote growth are property rights and contracts.	3. The key institution to promote growth is a national development strategy.
4. Minimal role of the state in investing and in industrial policy.	4. Moderate role in investing and in industrial policy; large role in redistribution.
5. No structural tendencies.	5. Tendency to the overvaluation of the exchange rate and of wages increasing less than productivity.
6. Capital account liberalization and floating exchange rate.	6. Floating but managed exchange rate to neutralize its tendency to overvaluation.
5. Growth financed with foreign savings.	5. Foreign savings appreciate the exchange rate and cause substitution of foreign for domestic savings.

Each of the above points is deserving of a lengthy analysis, but that is beyond the scope of this paper. In both comparative charts, my objective was to show that, contrary to the hegemonic ideology that assumes that conventional orthodoxy is the “golden straightjacket” for all countries proposed by ideologues of neoliberalism, there is a viable and responsible alternative. The experience of East Asian countries that never accepted conventional orthodoxy was already clear on the existence of this alternative; it has become even clearer with the recent experience of Russia and Argentina. In the 1990s, these two countries adopted conventional-orthodoxy models and then fell into deep crisis; after rejecting this economic model in the 2000s, the two countries are now performing in high-growth mode. Thus, new developmentalism is not a theoretical proposal but expresses successful national experiences. And conventional orthodoxy is neither a growth strategy nor a derivation from sound development macroeconomics; it is stagnation macroeconomics.

The policies derived from sound development macroeconomics must be oriented to responsible fiscal practices, a moderate average interest rate and a competitive exchange rate; this is the policy tripod of new developmentalism. When macroeconomists in rich

countries discuss monetary and fiscal policies in their own countries they do disagree, but they agree on the three above points. The conventional orthodoxy that is applied in developing countries, however, shows a quite different practice. Although it is always asking for fiscal discipline, it is soft on this matter; Brazil, for instance, has achieved the fiscal target defined by conventional orthodoxy in each of the last eight years,²² but fiscal problems have not been overcome. Conventional orthodoxy shows no discomfort in asserting that Brazil's real equilibrium interest rate is 9 percent a year and in defending the central bank's interest rate policy that has averaged 12 percent in real terms in recent years – a short-term interest rate that, in the special case of Brazil, directly aggravates the public debt.²³ And conventional orthodoxy insists, against the evidence, that it is impossible to manage the long-term exchange rate; this may be true for the United States, where the dollar is the international reserve currency, but it is not true for other countries.

Of these three policies, the crucial one is the requirement of a competitive exchange rate. By “competitive” I understand the exchange rate that besides equilibrating intertemporally the current account ensures international competitiveness for tradable industries if they adopt state-of-the-art technologies. The currencies of developing countries face a tendency to relative overvaluation, for several reasons: In the case of a growth-*cum*-foreign-savings policy, the overvaluation implies a current account imbalance; in the case of the Dutch disease, a relatively overvalued currency that makes economic development just not possible is consistent with current account equilibrium. There is nothing more disagreeable to conventional orthodoxy than the exchange rate topic. For years, development economists did not discuss the exchange rate – that was the concern of macroeconomics. A competent development macroeconomics and, in strategic terms, new developmentalism are correcting the course and showing how central the exchange rate is not only to keeping the current account balanced but also to promoting savings and investment.

²² Between 1999 and 2002, the primary surplus target defined by the IMF was 3.5% of GDP; thereafter, the target was increased to 4.25%.

²³ In Brazil, there is no difference between the short-term and the long-term interest rates, since it is the short-term interest rate set by the Central Bank that defines the interest paid on Brazilian domestic treasury bonds. This is an absurd financial institution – an inheritance from the times of high inertial inflation that is carefully preserved by the representatives of conventional orthodoxy.

Finally, since developing countries are dualistic countries that face the problem of an unlimited supply of labor, there is the tendency of wages to increase more slowly than productivity. Thus, there is a tendency to the concentration of income that must be checked by economic policy – particularly by a minimum wages policy and a large program of social expenditures in education, health care, social assistance and social security – not only for distributive reasons, but also because inequality is a source of political instability that is eventually a major obstacle to growth (Przeworski and Curvale 2006).

Conclusion

What are the results of the two approaches? The outcome of conventional orthodoxy in Latin America is well known: quasi-stagnation. Since 1990, at least, the truth from Washington and New York became hegemonic in this region marked by dependence. Reforms and adjustments of all sorts took place, but no development ensued. The results of new developmentalism in Latin America, in turn, cannot be measured. Chile has used it, but it is a small country, and its policies are halfway between one strategy and the other. The Argentina of Kirschner and former Finance Minister Roberto Lavagna is the only concrete experiment, but this is much too recent to enable an objective appraisal. Still, new developmentalism is more than proven, because it is none other than the strategy that Asia's dynamic countries have been using.

Can new developmentalism become hegemonic in Latin America, as developmentalism was in the past? The failure of conventional orthodoxy assures me that, indeed, it can. Argentina's 2001 crisis was a turning point: the requiem of conventional orthodoxy. No country was more faithful in the adoption of its prescriptions; no president was ever more dedicated to confidence-building than Carlos Menem. The results are common knowledge. On the other hand, new developmentalist thinking is renewing itself. It has available a younger generation of development macroeconomists who are able to think on their own account instead of just accepting the recommendations of the international financial institutions. There is, however, an issue of ideological hegemony to resolve. Latin American countries will resume sustained development only if their economists, businessmen and state bureaucrats recall the successful experience that old developmentalism was, and reveal themselves capable of taking a step forward. They have already criticized the former mistakes and realized the new historical facts that affect

them. They must now acknowledge that the national revolution that was under way, with the old developmentalism as the national strategy, was interrupted by the great crisis of the 1980s and by the neoliberal ideological wave from the North. They must perform an in-depth diagnosis of the quasi-stagnation that conventional orthodoxy caused. They are supposed to consider that the key policies that need change are the macroeconomic ones, particularly those related to the interest rate and the exchange rate. They must turn an attentive eye toward the national development strategy of dynamic Asian countries. They must become involved in the great collective national work of rejecting the macroeconomics of stagnation that conventional orthodoxy implies, and of formulating a new national development strategy for their countries. I believe that this resumption of awareness is fully under way. Latin America's development has always been "national-dependent," because its elites were always in conflict and ambiguous or ambivalent – now affirming themselves as a nation, now yielding to foreign ideological hegemony. There is, however, a cyclical element to this process (Bresser-Pereira 1993). Since the early 2000s it has been becoming clear that the era of neoliberalism and of its proposed economic strategy, the Washington Consensus, is over; the present global financial crisis has put a definitive end to it. New perspectives are opening up for Latin America. In the framework of new developmentalism, each individual country now has the possibility of adopting effectively national development strategies – strategies that widen the role of the state in regulating and in stimulating private investment and innovation, strategies that increase the country's international competitiveness while protecting labor, the poor and the environment.

References

- Alejandro, Carlos Diaz (1981) "Southern Cone stabilization plans," in W. Cline and S. Weintraub, eds. *Economic Stabilization in Developing Countries*. Washington DC: Brookings Institution.
- Bresser-Pereira, Luiz Carlos (1970 [1984]) "Concentration of income and the economy's recuperation", section in Chapter 7 of *Development and Crisis in Brazil, 1930–1983*. Boulder, CO: Westview Press: 143–49. Original Portuguese edition, 1970.
- Bresser-Pereira, Luiz Carlos (1977) *Estado e Subdesenvolvimento Industrializado* [State and Industrialized Underdevelopment]. São Paulo: Editora Brasiliense.

- Bresser-Pereira, Luiz Carlos (1993) "Economic reforms and cycles of state intervention", *World Development* 21(8): 1337-1353.
- Bresser-Pereira, Luiz Carlos (2008) "Dutch disease and its neutralization: a Ricardian approach", *Brazilian Journal of Political Economy* 28 (1): 47–71.
- Bresser-Pereira, Luiz Carlos (2009a) "From the national-bourgeois to the associated dependency interpretation of Latin-America", forthcoming in the *Journal of Interamerican Studies*.
- Bresser-Pereira, Luiz Carlos (2009b) *Globalization and Competition*, Cambridge: Cambridge University Press (forthcoming).
- Bresser-Pereira, Luiz Carlos and Paulo Gala (2008) "Foreign savings, insufficiency of demand, and low growth", *Journal of Post Keynesian Economics*, 30 (3): 315–34.
- Bresser-Pereira, Luiz Carlos and Yoshiaki Nakano (1984 [1987]) *The Theory of Inertial Inflation*, Boulder: Lynne Rienner Publishers. Original Portuguese edition, 1984.
- Bresser-Pereira, Luiz Carlos and Yoshiaki Nakano (2002) "Economic growth with foreign savings?" Paper presented at the Seventh International Post Keynesian Workshop, Kansas City, Missouri, June 28–July 3 2002. Available at www.bresserpereira.org.br. In Portuguese, *Revista de Economia Política* 22(2): 3–27.
- Canitrot, Adolfo (1975) "La experiencia populista de distribución de renta", *Desarrollo Económico* 15(59): 331–51.
- Cardoso, Fernando Henrique and Enzo Faletto (1969[1979]) *Dependency and Development in Latin America*. Berkeley: University of California Press. Original Spanish edition, 1969.
- Chang, Ha-Joon (2002) *Kicking Away the Ladder*, London: Anthem Press.
- Easterly, William, Michael Kremer, Lant Pritchett and Larry Summers (1993) "Good policy or good luck? Growth country performance and temporary shocks", *Journal of Monetary Economics* 32 (3): 459–84.
- Ffrench-Davis, Ricardo (2003) *Entre el Neoliberalismo y el Crecimiento com Equidad*, third edition. Santiago de Chile: J. C. Sáes Editor.
- Frank, Andre Gunder (1966) "The development of underdevelopment", *Monthly Review* 18(4): 17-31.

- Frenkel, Roberto (2003) “Globalización y crisis financieras en América Latina.” *Revista de Economía Política*, 23(3): 94–111.
- Friedman, Thomas L. (2000) *The Lexus and the Olive Tree*. 2nd edn. New York: Random House.
- Furtado, Celso (1959 [1963]) *The Economic Growth of Brazil*. Los Angeles: University of California Press. Original Brazilian publication, 1959.
- Furtado, Celso (1963) *Plano Trienal de Desenvolvimento Econômico e Social (1963–1965)*. Rio de Janeiro: Síntese.
- Furtado, Celso (1966 [1970]) *Obstacles to development in Latin America*. New York: Anchor Books-Doubleday. Original Brazilian publication, 1966.
- Gellner, Ernest (1983) *Nations and Nationalism*. Ithaca: Cornell University Press.
- Gellner, Ernest (1993 [2000]) “O advento do nacionalismo e sua interpretação: Os mitos da nação e da classe.” In Gopal Balakrishnan & B. Anderson, eds.. *Um Mapa da Questão Nacional*. Editora Contraponto: 107–34.
- Lewis, Arthur W. (1954) “Economic development with unlimited supply of labor”. *The Manchester School* 22: 139–91.
- Mankiw, N. Gregory (2006) “The macroeconomist as scientist and engineer”, *Journal of Economic Perspectives* 20 (4): 29–46.
- Ocampo, José Antonio and María Angela Parra (2007) “Explaining the dual divergence: the role of special shocks and specialization patterns”, in José Antonio Ocampo, K. S. Jomo and Rob Vos, eds. (2007): 98–127.
- Ocampo, José Antonio, K. S. Jomo and Rob Vos, eds. (2007) *Growth Divergences*, London: Zed Books, in association with United Nations.
- Ocampo, José Antonio and Rob Vos (2008) *Uneven Economic Development*, London: Zed Books, in association with United Nations.
- Pazos, Felipe (1972) *Chronic Inflation in Latin America*. New York: Praeger Publishers.
- Przeworski, Adam and Carolina Curvale (2006) “Explica la política la brecha económica entre Estados Unidos y América Latina?”, in Francis Fukuyama, ed. *La Brecha entre América Latina y Estados Unidos*, Buenos Aires: Fondo de Cultura Económica: 129–66.

Available in English with the title “Does politics explain the economic gap between the United States and Latin America?” in www.bressserpereira.org.br.

Sachs, Jeffrey D. (1990) “Social conflict and populist policies in Latin America”, in R. Brunetta and C. Dell-Arringa, eds. *Labor Relations and Economic Performance*. London: Macmillan.

Williamson, John (1990) “The progress of policy reform in Latin America”, in John Williamson, ed. *Latin American Adjustment: How Much Has Happened?* Washington, DC: Institute for International Economics: 353–420.