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The economics and the political economy of new-developmentalism

Luiz Carlos Bresser-Pereira

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Abstract: This paper resumes new developmentalism – a theoretical framework being defined since the early 2000s to understand middle-income countries. It contains a political economy, the beginning of a microeconomics and a macroeconomics. It is originated in development economics or classical developmentalism and in post-Keynesian macroeconomics. While classical developmentalism asked for protection of the manufacturing industry, new developmentalism asks for the levelling of the playing field, which the tendency to the cyclical and chronic overvaluation of the exchange rate denies. New developmentalism is focused in the current account and the corresponding exchange rate. It offers a new theory of the determination of the exchange rate, based on the distinction between a value and a price of the foreign money, and on the tendency to the overvaluation of the exchange rate. Counterintuitively, it argues that middle-income countries do not require foreign finance, and, so, it defends that developing countries show a balanced current account, or, if it faces the Dutch disease, a current account surplus proportional to the severity of the disease.

Key words: developmentalism, macroeconomics, political economy, exchange rate, current account.

JEL classification: E10, E22, F31, F43, O011

The word developmentalism has at least three senses: it is a form of economic and political coordination of capitalism alternative to economic liberalism, it is the corresponding ideology defending a moderate intervention of the state in the economy, and it is a theoretical effort to understand economic growth with stability. As a form of capitalism, it will be developmental, or liberal depending on the use that it makes of the two institutions that respond for the coordination of modern economic systems – the state and the market. It will be developmental if it combines in an “even” way the state and the market; liberal, if it attaches full priority to the market. As an ideology associated to economic nationalism, it defends a moderate intervention of the state in the economy and the national interest. As a theoretical framework, there are two developmentalisms: classical and new-developmental developmentalism. The latter is being designed from the beginning of the twenty-first century; it originates from development economics or classical developmentalism and from Keynesian macroeconomics. It contains a political economy and an economics. Its political economy has a national and an international dimension; it discusses on one side the interests of individuals and of the social classes, the formation of developmental class coalitions, and the alternative forms that capitalism assume, either developmental or liberal, and, on the other side, the conflicting interests of nation-states competing in globalization and the soft power or the ideological

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hegemony exerted the central countries on the peripheral ones. Its economics focuses in the exchange rate and the corresponding current account deficit or surplus. It is a historical-deductive theory, critical of neoclassical economics and of new institutionalist approaches, i.e., it is critical of theories that view as their object abstract market economies instead of historical forms of capitalism, and of new institutionalist theories that view institutions as exogenous instead of viewing the economic, the institutional and the cultural instances changing interdependently and dialectically.

Economic development means a sustained increase in wages and living standards of the population or, under a different angle, an increase in labour productivity and per capita income. Progress or human development is a broader historical process than economic growth. It is the gradual and contradictory historical process through which modern societies achieve the main political objectives that they defined: security, individual liberty, economic development, which is associated to economic nationalism or to developmentalism, the social justice, and the protection of the environment. To achieve these political goals, capitalist societies organize themselves into nations and use two main institutions: the modern state and the market. New developmentalism is devoted to the study of the economic development of middle-income nation-states that, in the framework of globalization, are supposed to compete with rich central countries. This paper is an overview of new developmentalism; it's an attempt to resume the main ideas of a work in progress.¹

From classical to new developmentalism

The new developmentalism emerged as a response to the crisis of development economics from the late 1970s, and as a reaction to the dominant neoclassical economics and its liberal orthodoxy which, at that time, turned dominant. On its hand, classical developmentalism was born in the United Kingdom in the 1940s, in the transition from the League of Nations to the United Nations, under the name of "development economics", and, in Latin America, in the late 1940s, of "Latin American structuralism", as a complement to the Keynesian macroeconomics. Today, I prefer to call it classical developmentalism, because development economics is a vague excessively embracing expression that may include neoclassical and new institutional theories. Between 1940 and 1980, classical developmentalism was the mainstream theory of economic development, adopted by the World Bank. Among its economists were Rosenstein-Rodan, Ragnar Nurkse, Raul Prebisch, Arthur Lewis, Albert Hirschman and Celso Furtado. Its purpose was to promote the economic development of underdeveloped or peripheral countries, which had not yet realized their industrial and capitalist revolution.

The main contribution of classical developmentalism was the definition of economic development as "structural change" or industrialization. Industrialization was supposed to be initially substitutive of imports, and had as justification Alexander Hamilton and Friedrich List's thesis of the infant industry. To this argument, Raúl Prebisch (1949) added the tendency to the deterioration of terms of trade and the model of the balance of payments constraint, per which the income-elasticity of imports of industrialized goods in peripheral countries is greater than one, while the income-elasticity of the import of primary goods in rich countries is also less than one. The political economy of classical developmentalism assumed that in the periphery of capitalism economic development was the outcome of developmental and nationalist class coalitions involving basically but not exclusively the national industrial bourgeoisie, the public bureaucracy and the urban workers, which engaged the country in a nationalist and capitalist revolution having as

adversaries the local oligarchies and rich countries. Following this basic idea, Celso Furtado (1961) argued the theory that underdevelopment is not made up for "backward" countries facing the same experiences that central countries faced previously, but for *underdeveloped* countries, contemporaneous to and relatively dependent of the central countries.

Classical developmentalism defined economic growth as industrialization or structural change, criticized the central countries and their economists that opposed it with liberal arguments, advocated strong protection to the national manufacturing industry, and, so, defended an import substitution model of growth. His economists intuited the existence of a Dutch disease, which appreciated in the long term the exchange rate of the country, but instead of trying to neutralize directly this competitive disadvantage, they preferred pragmatically to face a problem (which, at that time, economics did not identify), with high tariffs that only neutralized the disease in relation to the domestic market, and or, with multiple exchange rate regimes that could also neutralize the Dutch disease in the international markets if it contained a preferred exchange rate for the export of manufactures.²

The crisis of classical developmentalism began in the late 1960s with the emergence and twenty years long intellectual dominance of dependency theory – a Marxist critique of classical developmentalism. Dependency theory (which emerged just after the 1964 military coup in Brazil),³ instead of focusing in the critique of the West's imperialism or of "centre-periphery relationship", assumed that the industrial bourgeoisies in Latin America *were not and could not* be "national" – they would be essentially dependent, unable to assume the leadership of a developmental class coalition. Per the new credo, the military coups that occurred in Latin America in the 1960s confirmed this view in so far that they got the support of the industrial bourgeoisies. Two currents evolved from dependency theory: one, radical, proposed the socialist revolution, the other, "associated dependency", concluded that the alternative to developing countries was their association with the central countries.⁴ The crisis of classical developmentalism deepened in the turn of the 1970s to the 1980s, when neoclassical economics became dominant in the universities, while, at the political level, the election of Ronald Reagan represented rich countries' abandonment of Keynesian macroeconomic policies, and World Bank's desertion of developmentalism.⁵ Albert Hirschman (1981) wrote a kind of "epitaph" of classical developmentalism: "Rise and decline of development economics". The crisis of classical developmentalism became definitive in Latin America in the late 1980s and early 1990s, when rich countries, profiting from the fragility of the developing ones, which had been caught in the 1980s' Foreign Debt Crisis, pressed them to desert the industrialization strategy and engage into exogenous institutional reforms. The assumption was that growth would be assured once markets were turned "free", although that had not been the central countries' historical experience when they were in the same stage of growth, nor was the experience that they were having from 1980.

In the 1980s, in the framework of the Foreign Debt Crisis and of a sharp rise in inflation, the economies of the heavily indebted countries stagnated. Some, such as Argentina and Brazil, made their transition to democracy in that decade, and the new governments, inspired by classical developmentalism and Keynesian macroeconomics, tried to resume growth accordingly, but got involved in fiscal and exchange rate populism and failed.⁶ Already in the second half of the 1980s, neoliberal reforms began to be adopted in Mexico, and in the following decade, they were implemented throughout the Latin America and in many other developing countries. Necessary fiscal adjustment policies contributed to controlling inflation, which in some countries had risen sharply,

but it soon became clear that the liberal orthodoxy besides counting with an ideal market coordination of the economy that never materialized in any country, was marked by an intrinsic “exchange-rate populism”: the growth with foreign indebtedness (“savings”) policy, which, instead of increasing savings and investment rates, led to exchange rate appreciation, the consequent increase of the real wages and of the rentiers’ revenues (interests, dividends and real-state rents), increased consumption, loss of competitiveness for the manufacturing industry, discouragement of investment, increase in the foreign debt, and, finally, balance of payments crisis.

It was this sad picture (the failure of the developmentalism, the surrender of the national elites in developing the failure of liberal-orthodoxy in restoring the growth rates that had allowed Latin American to catch up between 1950 and 1980) that motivated Bresser-Pereira and a growing group of economists in Brazil and Argentina to start designing new developmentalism. In the early 2000s these failures in the liberal as well as in the developmental side pointed out that neither classical developmentalism or liberal orthodoxy offered theoretical instruments to understand the quasi-stagnation of the Latin American economies. The time for a new theoretical approach to economic development was ripe.

New developmentalism received this name not because some Latin American were adopting again developmental policies after the 1990s neoliberal reforms, but because the their change to the condition of middle-income countries and the new challenges associated to globalization required new development economics. The new thought gained body in the debate and approval of the Ten Theses on New Developmentalism (2010).⁷ Gradually, new-developmentalism theoretical elaboration turned into a critique as well as a complement to classical developmentalism. New developmentalism is *a complement* to classical developmentalism because: (1) classical developmentalism's main object are the pre-industrial countries, while new developmentalism, the middle-income countries, which have already realized their industrial and capitalist revolution; (2) classical developmentalism didn't count with a macroeconomics and reproduced post-Keynesian macroeconomics,⁸ while new developmentalism counts with a macroeconomics; (3) classical developmentalism was based on the thesis of the infant industry and defended an import substitution strategy, while the new developmentalism assumes that middle-income countries are able and should export manufactured goods.⁹ It *diverges* from classical developmentalism because: (a) classical developmentalism defended protection, while new developmentalism essentially demands the levelling of the playing field for the manufacturing industry – something that the market does not guarantee due to the tendency to the cyclical and chronic overvaluation of the exchange rate, which makes the exchange rate to be overvalued in the long-term; (b) classical developmentalism defended the growth with foreign indebtedness policy, while new developmentalism rejects it and defends balanced or surplus current accounts;¹⁰ (c) classical developmentalism defended the import substitution model, while new developmentalism defends growth based on the export of manufactured goods, and, so, the competitive integration in international markets; (d) classical developmentalism was sceptical about an exchange rate policy, preferring high tariffs,¹¹ while new developmentalism has a theory on the determination of the exchange rate and gives to the exchange rate policy a major role in assuring to the national companies equal conditions of competition. In the following sections I will elaborate on these differences.

The default form of capitalism

We can distinguish in the new developmentalism three areas: a political economy, a microeconomics that is still poorly developed, and a macroeconomics that has already reached a reasonable degree of sophistication. New developmentalism's political economy studies questions as the concepts of nation and nationalism, the formation of the nation-state and industrialization, the character of developmental class coalitions, the two forms of economic and political organization of capitalism (developmentalism and economic liberalism), the critique of economic liberalism and liberal-orthodoxy, and the critique of modern imperialism.

The political economy of new developmentalism starts by distinguishing business entrepreneurs from rentier capitalists, the former investing and innovating, the later receiving interests, real state rents and short-term dividends out of their capital. It associates the interests of rentiers with the interests of financiers, top executives of the great corporations, and foreign interests. It opposes these short-term rentier-financier revenues to the profits and the innovations of business entrepreneurs, or economic liberalism and liberal orthodoxy to developmentalism. From the 1980s, developmental class coalitions have faced increasing difficulty in being built, on one side, because of the new ideological hegemony of economic liberalism, and, on the other side, due to the ambiguous or contradictory character of the industrial elites, which sometimes are developmental, sometimes just dependent, particularly when they fell is some way threatened by the lower classes. And also because many of them ceased to be real business entrepreneurs and, as a survival strategy, turned into rentiers.

There are two forms of economic and political organization of capitalism and two basic forms of state: the developmental and the liberal. Capitalism will assume this or that form depending on how the state performs its coordinative role. Capitalism and the state are liberal, insofar as, in the economic sphere, the state limits itself to guaranteeing property and contracts and to properly managing its fiscal accounts; they are developmental if, in addition, the state moderately intervenes in the market through an active macroeconomic policy and a strategic industrial policy, and adopts a reasonable economic nationalism in competing with other nation-states.

Nation-states – the specifically capitalist political-territorial society formed by a nation, a state, and a territory – are intrinsically devoted to economic development. In each nation-state that succeed in industrializing, the nation organizes itself into developmental class coalition, which has as opposition a liberal class coalition. The participants of developmental and liberal class coalitions varied in history. Today, in middle-income countries, the industrial bourgeoisie, the urban industrial workers, part of the salaried middle class, and the public bureaucracy form typically the developmental class coalitions, while rentier capitalists, financiers and the top executive of the great private corporations form the liberal class coalitions, dominant in the rich world since the 1980s. For that reason, present capitalism may be called a rentier-financier capitalism.

Developmentalism, not economic liberalism, is the default form of capitalism. Historically, capitalism was born developmental during mercantilism. The first industrial and capitalist revolutions, in England, France, and Belgium, have occurred at that time. Liberal economists since Adam Smith tried to dismiss mercantilism as an economic theory, but the fact is that as a historical form of organization of capitalism, it was a very successful one. Second, developmentalism was the form of coordinating capitalism in all industrial revolutions, either in the centre or in the periphery of capitalism. After the industrial revolution in those three countries, economic liberalism was dominant for a

century, between 1830 and 1929, but it was far from being a case of *laissez-faire*. This was a period of low growth and many economic crises. Meanwhile, latecomer central countries, like Germany and the United States, engaged in their own industrial revolutions, following the developmental, not the liberal form. The liberal period ended with the stock market crash in 1929 and the Great Depression. It followed the second developmentalism, comprising the New Deal, the Bretton Woods Agreement, the Golden Years of Capitalism, and the formation of Social State. Outside the central countries,¹² some countries such as Japan, other East Asian countries, India, Russia, the major Latin American countries, South Africa and Turkey have also made their industrial and capitalist revolutions, invariably adopting developmental strategy. Most East Asian countries already turned rich, or, in the case of China, are striving in this direction, while the other countries referred have been growing slowly from 1980 and are just middle-income countries. Conventional economics proposed that these countries are facing a “middle-income trap”; new developmentalism prefers to associate this new inability of middle-income countries to catch up to a historical new fact: the radical economic liberalism that central countries adopted from the 1980s and searches to impose to peripheral ones. This imperial policy remembers the conversion to Christianity program that the colonial powers used as means to legitimize their domination of the rest of the world. At that time, such conversion was combined with the direct use of force. Today, force is in the background, while the ideological and cultural hegemony of the West combined with the use of international institutions like the WTO and the World Bank to impose the adoption of economic liberalism by developing countries. East Asian countries, Vietnam and India are an exception, because they proved to be more autonomous nations and the other ones, and, so, were able to resist to neoliberalism.

Capitalism emerged developmental everywhere. We can see five forms of developmentalism: four, per the moment in which industrialization occurred historically and per the fact that they were “central” or “peripheral” countries (had to face modern imperialism to realize their industrial revolution, or not), and a fifth one, social developmentalism, which was a second developmentalism in the central countries. The five forms of developmental capitalism and developmental state are:

1. *Mercantilist (or first) developmentalism* – it was the first developmentalism; it was proper of the central countries that originally realized their industrial and capitalist revolution and have become rich; it involved a developmental class coalition; England and France are the best examples.

2. *Bismarckian or Hamiltonian developmentalism* – it characterized the industrial revolution in central latecomer countries such as Germany, the United States and Australia; these countries also have become wealthy.

3. *Independent East Asian developmentalism* – it is a form based on the Japanese peripheral industrialization, which started up in 1868, after 24 years of foreign domination; in this form of developmentalism, the economic and political elites shared a strong idea of nation and formed strong developmental class coalitions, as it had happened in the two previous forms; the countries that adopted it are completing the catching up, as China, or already turned rich, as South Korea.

4. *National-dependent developmentalism* – it is a form of developmentalism in peripheral countries where the political and economic elites proved contradictory, national-dependent, sometimes national, other times, dependent; it was typical of Latin American countries like Brazil and Mexico, which completed their capitalist revolution, but grow slowly and remain middle-income countries.

5. *Social (or second) developmentalism* – it was the second developmentalism; it applies to the countries that for some time were liberal, but return to developmentalism, this time a democratic and social developmentalism; it began in the United States with the New Deal, and was fully defined in the Golden Years of Capitalism; in this period, the optimism post-World War II moved the political centre to the left, and the conservative countries, as well as the social democratic ones, built of the welfare or social state, more in the rich countries of Europe than in the United States.

The first four forms of developmentalism experienced authoritarian rule in different degrees; none have assured to its people the civil rights, nor the universal suffrage. Only in the Golden Years, developmentalism (a second developmentalism for the central countries) proved to be consistent with democracy. Liberalism has also born rejecting the idea of democracy, but it came to accept it in the turn of the nineteenth to the twentieth century, when popular pressure demanded democracy, while the liberal fears about the "tyranny of the majority" cooled down.

In the 1970s, the fall in the profit rates and the stagflation signalled the crisis of the second developmentalism. From 1980, a rentier-financier Capitalism – a radical economic liberalism, a "neoliberalism", which immediately got engaged into institutional "reforms" to make markets work more freely. They aimed to reduce wages direct and indirectly, and to restore a "pure" liberalism, which never existed.

At the same time, capitalism was undergoing a major transformation – globalization –, which is often defined as the opening of markets, but its new and specific characteristic is the emergence of the multinational corporations, after World War II, and the formation of a global productive system. Today the multinational corporations occupy the domestic markets of all countries, while the dominant class coalition in the central countries ceased to be formed of business entrepreneurs combining dialectically developmentalism and economic liberalism, to become mostly a ruling class or rentier capitalists, financiers, and top executives of the main private corporations. In this way, capitalism ceased to be a national capitalism, as profits ceased to originate from the domestic market of each country to assume the form of dividends, interests and real-state rents achieved all over the world.¹³ On the other hand, since the 1970, central capitalism faces the competition of low wage developing countries exporting manufactures.

In comparison with the Golden Years of Capitalism, this radical and reactionary economic liberalism – neoliberalism or Rentier-Financier Capitalism – exhibited lower growth rates, greater financial instability, and a sharp rise in inequality, which culminated in the 2008 with the global financial crisis, and, in 2010, with the euro crisis. In 2016, a major political crisis manifest itself, expressed in the exit of the United Kingdom from the European Union (the Brexit) and the rise of a rightist and nationalist politician to the presidency of the United States – Donald Trump. Today capitalism faces a major long-term economic and political crisis, characterized by financial instability, low growth rates, increasing inequality, which may lead or is already leading the rich world to a third developmentalism, the outlines of which are yet to be defined. If this is confirmed, the third developmentalism will probably be conservative, because the competition of developing countries as well as the reduction of employment due to a new wave of technical progress substituting labour headed by the robots will continue to press down the wages in rich countries.

As for the developing world, economic growth remains satisfactory only in East Asia, Vietnam and India. Without Dutch disease and endowed with economic and political elite's independent from the West, these countries continue to grow and catch up. The

Latin American countries, which around 1990 surrendered to economic liberalism (the Washington Consensus), stopped neutralizing its Dutch disease when they dismantled the commercial mechanisms that neutralized it. Under the Washington Consensus, economic growth relented and inequality increased. In the 2000s, thanks to a boom in commodities caused by China's increased demand, developing countries experienced some growth, but this soon was over, growth rates have fallen back, preindustrial countries remained unable to industrialize, and the middle-income countries like Brazil continued to deindustrialize.

New developmentalism is critical of economic populism, either on the well-known form of fiscal populism (the state spending irresponsibly more than what it gets), or on the form of exchange rate populism (the nation-state spending irresponsibly more than what it gets), which is a new developmental concept. Liberal orthodoxy is invariably populist in exchange rate terms, because it defends current account deficits as foreign savings, while developmental populism falls in the two mistakes. Fiscal and exchange rate populism imply increase in real revenues and in consumption; exchange rate populism means, additionally, discouragement of investment.

The seventh condition of accumulation

New developmentalism shares with other currents of thought some basic non-economic values and institutions as democracy, security, individual freedom, the reduction of inequality, and protection of the environment. And it is specifically oriented to economic development, full employment, the increase of wages, and the improvement of the standards of living. If we assume that the economic role of the state is to guarantee the general conditions of capital accumulation, we may understand the novelty brought by new developmentalism. Economics is relatively consensual on the five general conditions. They are x (1) education and health care, (2) institutions which guarantee the well-functioning of the market, (3) investments in the infrastructure, and (4) finance to investment. Keynes added the sixtieth condition (6), the existence of demand; new developmentalism adds a seventh one: (7) access to demand, that only a competitive exchange rate may assure. While the Keynesian condition imposed itself due to the historical tendency to the insufficiency of demand, the new-developmental condition derives from another historical tendency: the fact that the exchange rate in developing countries is not just volatile, but remains in the long-term overvalued between financial crises. This idea will turn clearer ahead.

First, Antonio Serra, in the Venice seventeenth century, second, Alexander Hamilton, in the end of the eighteenth century, were the patrons of developmentalism. They understood economic growth as industrialization, and the defended developmental policy regimes. Originally, they mostly consist of high import tariffs and the prohibition of exporting inputs to encourage the exports of more sophisticated goods.

The state and the market are the two main institutions that coordinate nation-states, or, more precisely, national economies. This coordination needs to be efficient. At the microeconomic level, the market is more efficient in coordinating companies that are part of reasonably competitive markets, while the state is more efficient in coordinating the non-competitive industries, such as infrastructure companies, basic input companies and big banks "too big to fail". These industries require planning and firm regulation. At the macroeconomic level, the market is not able to ensure the right macroeconomic prices, guaranteeing full employment and growth. At the macroeconomic level, the market is also inefficient, and an *active* macroeconomic policy is required.

New developmentalism rejects statism, which is obviously inefficient, as well as economic liberalism, which is less inefficient, but not so effective in achieving growth as developmentalism. Statism, from which Soviet Union was the best example, worked just in the beginning of industrialization; it proved unable to coordinate an economic system once it becomes complex and depending on innovation. In the microeconomic level, economic liberalism is the best way to coordinate competitive economic agents, but even in this realm there is room for a selective or strategic industrial policy, and the market is definitively inefficient in relation to the non-competitive sector – particularly the infrastructure, the basic input industries – where government planning is required. On the macroeconomic level, the market is unable to assure the macroeconomic equilibrium – to guarantee that the five macroeconomic prices remain “right”: the profit rate, the interest rate, the exchange rate, the wage rate, and the inflation rate. Thus, an active macroeconomic policy is required, not only a fiscal policy and an interest rate policy but also an exchange rate policy. The developmental state is the form of coordinating capitalism that acknowledges the real constraints just posed. We can *define* it as the state that is committed to the national interest and to economic development, coordinates the non-competitive sector of the economy, practices strategic industrial policy, and performs an active macroeconomic policy aiming at making the five macroeconomic prices right, while leaves to the market the coordination of the competitive industries.

The capitalist system is not only a system of competition between companies, but also of competition among nation-states. Since companies need managerial strategies to be successful in competition, nation states also must define a national project and development strategies. In this competition, profit and expansion are the objective for the companies, and strategic planning combined with Schumpeterian innovation, the means to achieve them. For the individual countries, the main objective is growth, and means to achieve it are the fulfilment the seven general conditions of investment above referred.

Determining factors

New-developmental microeconomics is a tributary of the classical political economy, which was based on the labour theory of value and on the tendency to the equalization of the profit rates. And of classical developmentalism that defines growth as industrialization or as productive sophistication. Per it, labour productivity increases are rather the outcome of the transference of labour from less to more productive industries that are more sophisticated, imply higher added value per capita, and pay higher wages, than the result of the increase of the productivity in the production of the same goods and services.

New developmentalism views industrial policy not as the main policy to achieve growth, but as a strategic complement to an active macroeconomic policy able to assure the “right” macroeconomic prices (the profit rate, the interest rates, the exchange rate, the wage rate and the inflation rate). Industrial policy was undoubtedly important for East Asian countries, as demonstrated in the remarkable books of Chalmers Johnson (1982), Alice Amsden (1989) and Robert Wade (1990) on Japan, South Korea, and Taiwan respectively. But their readers did not pay due attention to the fact that in these countries an active macroeconomic policy, especially an exchange rate policy, kept the five macroeconomic prices right or very close to being right. And, for that reason, they are the countries materialize what the new-developmental theoretical framework defends. Industrial policy, and within it, the policy of supporting technological progress, is especially important to make competitive the production of goods with high degree of

complexity.¹⁴ But keeping the right macroeconomic prices right and neutralizing the competitive disadvantage represented by tendency to the cyclical and chronic overvaluation of the exchange rate are the key policies proposed by new developmentalism.

New-developmental macroeconomics is the most elaborate part of new developmentalism. It is focused on the exchange rate, the current account and the expected profit rate. In relation to other macroeconomic prices, and in relation to fiscal and monetary policy, new developmentalism does not add anything significantly new to the post Keynesian macroeconomics. It is oriented to developing countries, but one core idea – the idea that the exchange rate as all other goods and services has a value and a price – it is valid to all countries.

New developmental macroeconomics is interested in the five macroeconomic prices, from which two of them are mostly instrumental, two, outcomes, and one, mixed. The interest rate and the exchange rates are the instrumental prices, requiring a fiscal, a monetary and an exchange rate policy; the profit rate and the inflation rate are outcomes of such policies; and the wage rate is mixed. These five prices must be “right”: (a) the level of the interest rate around which the central bank conducts monetary policy should be low, corresponding to neutral or natural level, i.e., the international basic interest rate plus no more than two percentage points; (b) the exchange rate that should make competitive the companies using technology in the state of the art world; (c) the wage rate should be compatible with a satisfactory rate of profit and should grow with increased productivity; (d) a) the rate of profit should be satisfactory for firms to invest; and (e) the rate of inflation should be low.

It is in relation to the exchange rate that new developmentalism offers a new explanation. It, on one hand, remarks that there is a close *correspondence* between the current account and the exchange rate. The exchange rate that corresponds to a current account deficit is more appreciated than the one that balances the country's current, and still more appreciated than the exchange rate that corresponds to a current account surplus. Other variables constant, the more negative is the current account, the more appreciated the exchange rate will be, and vice versa. Change on the other variables, particularly the interest rate, will cause shifts in curve. We usually assume that changes in the exchange rate cause changes in the current account, but it can be the other way around. When a country *decides* (what most developing countries do) to grow with foreign savings or foreign indebtedness, that is, with current account deficits funded either by direct investment or by loans, it is deciding to appreciate its exchange rate.¹⁵ As shown in the Figure 1, for each current account balance there is a corresponding exchange rate. The vertical line in the middle of the graph indicates the point at which the current account is balanced or zero. This line is straight and tilted up and to the right, meaning that the more the exchange rate depreciated, the greater the current account surplus, and vice versa.

On the other hand, new developmentalism proposes that not only the supply and demand for foreign money, but also its *value* determine the exchange rate. As all goods and services, the foreign money has a value and a price. The value of the foreign money is, simply, the value that covers the *cost plus reasonable profit* of the companies that participate from foreign trade. The value, on its turn, depends on the variations of the country's comparative unit labour cost. It is not equal to the *current equilibrium* – the exchange rate that balances intertemporally the current-account – because this one depends not only on the value of the foreign money but also on the variations of the terms

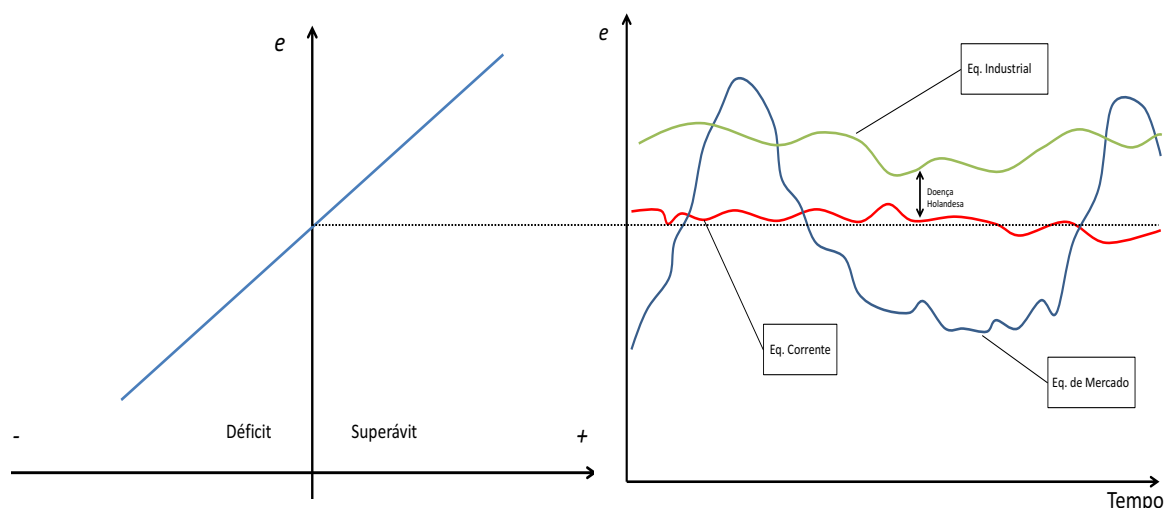
of trade of the country, which affect the supply and demand of foreign money, not on its value.

When the country faces the Dutch disease, besides the current equilibrium there is a second equilibrium, the *industrial equilibrium*, which is the exchange rate that turns competitive the companies utilizing technology in the world state-of-the-art. It also depends on the value of the foreign money, but only in relation to the industrial or tradable non-commodity goods. While the industrial equilibrium depends more on the variations in the respective value, than on the changes in the terms of trade, because the prices of the non-commodity goods tend to be near to their value, the opposite is true for the current equilibrium, because it depends on the commodities that the country exports, whose prices instead of floating compliantly around its value, move wildly, following a trajectory of booms and boosts. These two equilibriums were originally formulated in Bresser-Pereira's 2008 model of Dutch disease.¹⁶ While the first model (Corden and Neary 1981, 1984) focuses on the three sectors that emerge from the disease, the new developmental model focus in the exchange rate and the corresponding current account. It claims that the disease is the competitive disadvantage, which originates from the fact that Ricardian rents and/or commodity booms allow that the commodities are competitive at an exchange rate (corresponding to the current equilibrium) substantially more appreciated than the exchange rate that makes profitable the tradable non-commodity companies (essentially, the manufacturing industry). The severity of the Dutch disease depends on the distance between the two equilibrium values. As a structural cause, the Dutch disease is also a long-term cause of overvaluation of the exchange rate.

Besides depending on the terms of trade, the supply and demand for foreign money depends on the capital flows which, on their turn, depends on the interest rate in the country compared with the interest rate on its competing countries, and on financial speculation, particularly the carry trade practice. Instead of saying that the demand and supply depends on the interest rate, we may say, adopting a historical approach, that they depend the three "usual policies" that developing countries usually adopt; not only on the central banks' practice of defining a high level for the interest rate, but also on two related policies, the growth with foreign indebtedness policy, and the use of the exchange rate as a monetary anchor to control inflation.¹⁷

Figure 1: Current account and the exchange rate

Figure 2: Two equilibriums and the tendency



New developmentalism is critical of the neoclassical “capital deepening” model that defends high basic interest rates. It is also critical of the growth with foreign indebtedness policy – to incur into current account deficits (“foreign savings”) and finance them with loans or foreign direct investments.¹⁸ The first critique is intuitive, not the second, and for that reason it intends to be a real contribution of new developmentalism. While it seems logical that capital-rich countries transfer their capitals to poor countries in capital, this thesis is generally false. We saw that, in static terms, a current account deficit corresponds to an overvalued exchange; in dynamic terms, the capital inflows required to finance the deficit also appreciate the national currency. Contrarily to the claim of the defenders of the growth with foreign savings policy, the resulting overvaluation of the exchange rate coupled with a usually high marginal propensity to consume cause increased consumption rather than investment. Only at very special moments this is not true: when the economy is already growing fast and high expected profit rate causes a fall in the marginal propensity to consume and a paired increase in the marginal propensity to invest. New developmentalism is also critical of the usual policy of using the exchange rate as a nominal anchor to control inflation.

These three factors (the value of the foreign money, the Dutch disease and the three usual policies) and also the speculative capital flows determine the exchange rate, and explain also how it fluctuates around the equilibrium. But in this framework, the exchange rate is not just “volatile”; it’s volatile with a sense: the tendency to the cyclical and chronic overvaluation of the exchange rate, which result from the Dutch disease and the three usual policies. This means that developing countries follow a cyclical pattern, going from financial crises to financial crises, intermediated by long-term periods in which the national currency is overvalued. In Figure 2, we have three curves: the current and the industrial equilibrium, both defined in value terms, and the market price of the of the foreign currency, which follows the cyclical tendency. In the financial crisis, the national currency depreciates violently; then begins to appreciate back, crosses the lines of industrial equilibrium and reaches the line of the current equilibrium, pushed by the Dutch disease. Following, it plunges in the domain of the current account deficits, now not anymore pulled by the commodities, but by three interdependent “usual policies” adopted by developing countries. In other words, there are two “systemic” causes for the appreciation of the exchange rate first, the Dutch disease, which pulls the exchange rate to the current equilibrium; second, the three usual policies pull down the exchange rate

below the current equilibrium, in the realm of current account deficits, up to a kind of “bottom” where only the very efficient commodity producers remain competitive. While the exchange rate is appreciating financial speculators gain twice from “carry trading”, with the appreciation and with the high interest rates. Thus, during several years, between financial crises, the exchange rate remains overvalued in consequence of the Dutch disease and of the three usual policies, the manufacturing industry is left behind, the investment and the savings rates are discouraged, and the growth rate is low.

The process ends when, eventually, the foreign creditors lose confidence, stop the rollover of the debt, and the ensuing currency crisis breaks up, or, less often in developing countries, when the domestic banks suspend the rollover of the debt of business enterprises and they stop investment, or, associated with the former, when a banking crisis breaks.

This tendency to the cyclical and chronic (in the long-term) overvaluation of the exchange rate is in the core of the developmental macroeconomics. Its investment function, and, so, its growth theory, in which the exchange rate is a key variable, will only make sense if, indeed, the exchange rate tends to be appreciated during long periods in developing countries. But this is essentially what happens to countries that follow the liberal orthodoxy recommendation of letting the exchange rate free. They go from financial crisis to financial crisis, while the tradable non-commodity industries face a competitive disadvantage and industrialization does not materialize, or, if the country industrialized before but bowed to free trade and dismantled the mechanisms that neutralized this tendency, it will face deindustrialization, as is happening in Brazil since 1990.

Growth and the investment function

New developmentalism adopts a simple growth model where growth depends on investment and on technological progress, which is embodied in physical and in human capital. Using not the Harrod-Domar model, but simply the respective accounting identity,

$$g = \alpha I/Y - n$$

in which g is the per capita growth rate, α is the output-capital ratio or the productivity of capital, I/Y is the rate of investment, and n , the growth of the population. Considering the later, constant, we see that the higher the investment rate and the higher the productivity of capital are, the higher will be the growth rate.¹⁹

Investment, on its turn, depends on the expected profit rate minus the interest rate or the cost of capital. Keynes started from that, but revolutionized the investment function and the growth theory by arguing that the expected rate of profit depends on the effective demand, which was not automatically assured, given the failure of Say’s law and the existence of the tendency to the insufficiency of demand. The new developmentalism agrees with Keynes, but argues that demand is not enough to assure investment and growth, for a very simple reason: the exchange rate is a kind of light switch that turns on or turns off the capable companies from their domestic and foreign markets; when it is overvalued in the long-term, instead of just volatile, it gives or denies *access* to the existing demand. If the exchange rate was just volatile, as the other theories assume, it would affect investment marginally, in so far that such volatility is an additional source of uncertainty for the business entrepreneur. Instead, in the case of new developmentalism, given the tendency to the overvaluation of the exchange rate and its

causes, the exchange rate remains appreciated for several years between financial crises. Thus, when the business entrepreneur makes his calculations, he will realize that this production ceased to be competitive, and will not invest. Or he may invest only to modernize his plant, not to expand it.

When I claim that demand is not enough to motivate investment, that, additionally, the business enterprises must have access to demand, which an exchange rate overvalued in the long term denies, I am not criticizing Keynes. He knew well how strategic is the exchange rate, and he was not interested in developing countries, but in rich countries. In post-Keynesian economics, as well in all other economic theories, investment and growth don't depend on the exchange rate, because the assumption was that the exchange rate was just volatile. It depends in new developmentalism because of the tendency to the cyclical and chronic overvaluation of the exchange rate.

Crises and adjustment

Currency or balance of payment crises play a major role in harming economic development. New developmentalism shares this view, but is critical of the currency crises models which dominate conventional economics – the models that make the balance of payment crisis a function of excessive fiscal expending, which cause the increase in imports, current account deficits, and the suspension of the rollover or the foreign debt (Krugman: 1979, 1999). For new developmentalism, currency crises may have such origin, since fiscal populism is a recurrent problem. But it can have a more direct cause, which is often independent of the budget deficit: the growth with foreign indebtedness policy. In many cases the fiscal accounts are under control, but the private accounts either of the enterprises or of the households are not, and the country incurs in high current account deficits. These deficits don't worry conventional policymakers, either liberal or developmental, because they wrongly believe that additional foreign savings will mean additional total savings and investments. But, as we already saw, in most of the time this is false. What is sure is that a chronic current account deficit appreciates chronically the national currency, and the accumulation of current account deficits leads necessarily to excessive debt of firms, households and the state, in various intensities, which represent macroeconomic maladjustment and lead, sooner or later, to financial crisis.

The market solution for the lack of macroeconomic adjustment due to current account deficits is exchange rate devaluation. An alternative is “internal devaluation”, as the one that was required from the “South” countries in the euro crisis (2010-16). Since these countries had no national money to depreciate, they adopted a severe fiscal austerity program that caused recession, unemployment and the fall of real wages, thus rebalancing their unit labour cost comparative index and the competitiveness of their companies. But we can have internal adjustment or an austerity program in countries that may depreciate their currencies. The country that faces lack of macroeconomic adjustment revealed in budget and current account deficits may just get involved into fiscal adjustment, while the exchange rate, although floating, remains nominally untouched. For this, is enough not to reduce the interest rate in tandem with the fiscal adjustment. In this case, the adjustment cost falls only to the workers, who lose their jobs or see their wages fall in real terms, while the revenues of rentiers remain untouched, both because the interest rate (their main form of revenue) remains high and they and because the exchange rate overvalued, thus not reducing their real revenues.

Economic policy

We are now ready to discuss the macroeconomic policies that derive from this theoretical framework. To achieve stability and growth, the government should, on one side, assure that the two main accounts, the fiscal account and the foreign account were under control, and, on the other side, it should keep the five macroeconomic prices right. The accounts and the prices are interrelated, but I will first discuss the accounts. First, differently from liberal orthodoxy, new developmentalism does not believe that the government is just supposed to keep the fiscal accounts under control while the market takes care of the rest. And it is also critical of a certain vulgar Keynesianism or populist developmentalism that assumes a permanent insufficiency of demand. New developmentalism defends a responsible fiscal policy – essentially the achievement public savings that finance partially public investments (a budget deficit may complement such financing) of around 20 percent of GDP. A primary surplus that keeps the public indebtedness in a comfortable level is also required, but should not be achieved by cutting public investments. A fiscal policy that is countercyclical, expanding in recession and contracting in the booms. Since new developmentalism assigns a major role to the state in coordinating the economic system complementarily to the market, it reclaims a capable state – a developmental state able to perform its main economic roles. A capable state cannot be a broken state.

Second, given the correspondence between the current account and the exchange rate, the objective should be a balanced current account. Or, if there is Dutch disease, the objective should be a surplus current account, because only a surplus will make competitive the national currency. The size of the current account surplus in relation to GDP will depend on the severity of the disease, on how far the current and the industrial equilibrium are apart. Note that, by rejecting current account deficits, new developmentalism does not reject the multinational enterprises; it is just not interested in their capitals. They are welcome, but not to finance current deficits, but to bring technology, or to open new markets. China, which does not suffer from the Dutch disease, did not registered a current account deficit since it liberalized trade and start growing incredibly fast. If this was right to China, it will be righter to other developing countries that export commodities.

Let us now move to the macroeconomic prices. An essential objective is to assure that the manufacturing business enterprises and, more broadly, the tradable non-commodity companies that are administratively and technologically capable obtain a satisfying expected profit rate, which will motivate them to invest.

To achieve this objective without requiring a high profit rate, first, the interest rate, or, more precisely, the level of the exchange rate around which the central bank conduces its monetary policy, should be as small as possible. The interest rate should correspond to the international basic interest rate practiced by the main central banks plus a small spread. Should definitely be set “to attract foreign capitals”; much less, to satisfy the interests of rentiers and financiers. High interest rates contribute negatively to the investment and growth rates of the country; they are good for rentiers, not for business entrepreneurs and the workers. The arguments that capital deepening is beneficial, or that a high interest rate is required to control inflation, or to attract capitals, reflect essentially the financier-rentier interests, not the interests of the country.

Second, to make the expected rate of profit satisfying, the administration should conduce a responsible exchange rate policy – a policy that keeps the national currency competitive.²⁰ To do that, it must (1) neutralize the Dutch disease and (2) reject the three

usual policies, thus neutralizing the tendency to the cyclical and chronic overvaluation of the exchange rate.

Since the Dutch disease is the difference between industrial and current equilibriums, and since these equilibriums are expressed in value or in cost of production, not in price terms, a variable export tax on the commodities that originate the disease equal to the difference between the two equilibriums will duly increase the cost of production and neutralize the disease. The tax is supposed to be variable, because the severity of the disease changes mainly due to the variations in the commodities' international prices. Who pays for this export tax or retention? Not the commodity producers, because they get back on the form of exchange rate what they paid as tax. Who pays is the population, except the producers of non-commodity tradable goods and services, which the policy is supposed to turn competitive, i.e., to increase their expected profit rate and. Those who pay are not only the workers and salaried middle class, but are also the rentiers. The reason why so many countries fail to neutralize the Dutch disease and, more broadly, the tendency to the cyclical and chronic overvaluation of the exchange rate is that it not only the fact that they don't know the theory that explains it and from the theory deduces policies to neutralize it; it is also the fact that, in the short term, devaluation is not on the interest of workers as well as of rentiers.

The Dutch disease is as old as capitalism, international trade and the exchange rate, but it was turned into a model only in the 1980s, and its neutralization through an export tax is no more than ten years old. Policymakers didn't know the origin of the competitive disadvantage, the Dutch disease, but they knew that to grow a developing country must industrialize, and intuitively adopted pragmatic policies that neutralized it –high import tariffs for manufactured goods and multiple exchange rate regimes. Despite the incessant liberal critique, they adopted high tariffs – for a much longer time than the infant industry argument would allow. Economists characterized these policies as “protectionist”, but if they they were just levelling the playing field, neutralizing the competitive disadvantage represented by the Dutch disease, they were not. The pragmatic adoption of high import does not apply just to developing countries. Take, for instance, the case of the United States, where petroleum became a major industry following the oil discovery at Oil Creek, in 1859. The Dutch disease was present since this time (not considering the cotton exports which was, in the South, an earlier source of the disease), and it would have blocked industrialization, but American policymakers maintained very high tariffs up to 1939 – much later that when their manufacturing industry could be viewed as “infant” – and, in this way, they pragmatically neutralized the disease in relation to the domestic market. Another example is Brazil, that from 1930 to 1960 neutralized the Dutch disease with multiple exchange rate regimes and/or with high import tariffs, and successfully industrialized. But this strategy just neutralized the disease in relation to the domestic market, and, in the 1960s, it showed clear signals of exhaustion. Then, from 1967 to 1990, the government established an export subsidy for the exports of manufactured goods, thus completing the neutralization of the disease, and total exports of manufactured goods jumped from 6% in 1965 to 62% in 1990. Policymakers did that also intuitively. In 1990, under the aegis of the liberal orthodoxy, trade liberalization dismantled this pragmatic mechanism without that its authors knew what they were doing. Not per chance, since then the country faces high financial instability, deindustrialization and low growth.

As to the three habitual policies, if the administration neutralizes the Dutch disease with an export tax on commodities, but keeps untouched the three usual policies (keeping high the level of the interest rate, viewing current account deficits as foreign savings that add to domestic savings, and using the appreciation of the exchange rate to control

inflation), the devaluation caused by the export tax will be incomplete (counterbalanced by these policies), and the devaluation of the national currency will not compensate the tax paid. I already discussed why to reject high interest rates and the growth with foreign indebtedness policy, now, one word on the use of the exchange rate as an anchor against inflation. Economists are dully indignant when populist governments fix the prices of state-owned enterprises or of private public services monopolies to control inflation. They should be still more offended when populist governments fixe *the price of the country* – the exchange rate – to achieve the same objective.

The commodity exporters, who play a crucial role in the countries that are rich in natural resources, may eventually accept an export tax provided that is compensated by the devaluation. This compensation will follow from the market. But, if the three usual policies are not permanently rejected, they will suffer losses, and they will feel cheated. This happened in Argentina, when, in the 2001 major financial crisis, the government created an export tax, which was fully compensated by the devaluation of the peso. But, from 2007, given the rise of inflation, the government used the exchange rate as an anchor to control inflation. The ensuing appreciation of the peso turned the commodity exporters indignant, while the manufacturing industry lost competitiveness, and fast growth was over.

Besides rejecting these three usual policies, the government must adopt capital controls whenever necessary. In principle, they should not be required, if the country presents a balanced or a surplus current account. But financial markets are highly unstable and speculative, and the possibility of controlling capital inflows and capital outflows must be always open. In 2016, for instance, despite its enormous reserves and enduring current account surpluses, China faced a huge capital outflow and adopted capital controls.

Distribution

In the 1950s, we have learned with the Kuznets curve, and with Lewis's unlimited supply of labour model that capitalist development tends to produce inequality. Governments that industrialize and become democratic must deal with this problem. In democratic societies, capitalism cannot be just developmental; it must also be social. But should not be populist, either in fiscal or in exchange rate terms. When the once and for all depreciation advocated by new developmentalism takes place, there will be some reduction in real wages, as there will be also reduction in rentiers' real interests, dividends, real-state rents. Thus, the required adjustment will be shared. What is unacceptable is that the burden of the adjustment falls just on the workers, as is the case of the *austerity* programs defended by liberal orthodoxy, which evade the depreciation of the currency, and do only a fiscal adjustment.

New developmentalism's distributive policy is based on (a) ensuring a decent minimum wage, (b) increasing and turning progressive the tax burden, (c) using the resources to build a large social or welfare state based on public education and public universal health care, (d) creating or maintaining a protection system for labour contracts, and (e) keeping the interest rate as small as possible. The difference between the distribution in the Scandinavian countries and the United States, between the most equal countries and the most unequal among rich countries, does not happen before taxes, but *after* them. In the United States the progressive tax system created by President Franklin Delano Roosevelt's democratic and developmental government was

dismantled from the 1980s – making the United States a deeply unequal country and a divided society.

As to the exports policy, from the 1940s to the 1960s, classical developmentalism defended the import substitution model of industrialization – a model oriented to the domestic market, “*hacia adentro*” as Latin Americans used to say. They were against an export-led strategy, because in the beginning of the growth process the country was unable to export manufactures competitively. But, even in countries with large domestic markets as Brazil and Mexico, this strategy soon got exhausted, and the countries that have successful were the ones that exported manufactures. Notwithstanding, many developmental economists in Latin America still thinks in terms of classical developmentalism, and remain critical of an export-led strategy, “because it would be consistent with the increase of inequality”. When a given country whose exchange rate is competitive shuns the import substitution model and start exporting manufactured goods, a short-term increase of inequality may happen. But soon the inverse will happen, because the manufacturing industry is able to pay higher wages and salaries than the primary industries. Classical developmentalism defended protection, new developmentalism defends *levelling the playing field*. To grow in a global economy, either developing countries compete with rich countries, or get subordinated. In this competition, they have just one advantage: low labour costs. They must profit it, while they must improve the competitive capacity of the country, not only by neutralizing the tendency to the overvaluation of the exchange rate, but also by improving education and the institutions, and by investing in infrastructure. The objective is to increase wages, but they increase more due to growth than due to the reduction of inequality. The countries that developed and achieved the catching up in the twentieth century were the East Asian countries by adopting an export-led strategy. The new developmentalism backs the integration of the developing countries into the world system, but competing, exporting manufactured goods, not just commodities. In other words, it advocates a competitive, not a subordinate integration. A country integrates subordinatesly when accepts current account deficits, the corresponding appreciation of the exchange rate, and the resulting unilateral occupation of its domestic market by multinational companies to finance such deficit;²¹ it integrates competitively when a competitive exchange rate guarantees equal conditions of competition.

Conclusion

New developmentalism is new theoretical framework whose political economy argues for developmental class coalitions associating business entrepreneurs, workers and the public bureaucracy, and whose economics is focused on the balance of the five macroeconomic prices. To achieve growth, financial stability, reduction of inequality and protection of the environment the main policies that it defends are:

- A responsible fiscal policy, which should be countercyclical, while, in the long-term, should achieve public savings consistent with the finance of public investments (which should correspond to around 20 percent of the total investment);
- A monetary policy that makes the level of the basic exchange rate around which the central bank practices its policy no more than two percent points above the international rate of interest;

- An active exchange rate policy, that neutralizes tendency to the cyclical overvaluation of the exchange rate, by neutralizing the Dutch disease (if it exists), by keeping the level of the interest low, and by rejecting the growth with foreign indebtedness policy and the policy of exchange rate anchor to control inflation;
- A progressive tax system to finance a large social state, which provides collective consumption – a form of consumption more efficient and fairer than private consumption;
- A minimum wage policy aiming to reduce wage-salary inequality;
- A reasonable protection of labour contracts;
- The protection of the environment, mainly by imposing taxes on the environment offenders, and by creating national and global investments funds to finance the large investments required to limit global warming – a major collective threat that humanity is or should be facing cooperatively.

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¹ There is already a large literature on new developmentalism, which can be found in www.bresserpereira.org.br. Considering only the books on new developmentalism, see Bresser-Pereira (2010), and Bresser-Pereira, Marconi and Oreiro (2014). Given that new developmentalism is a work in progress, the Portuguese version of the second book (2016) is more complete in what concerns the determination of the exchange rate.

² See Bresser-Pereira and Rugitsky (2017). In this paper, the authors show Prebisch's skepticism in relation to the exchange rate and his preference for tariffs and, so, for the import substitution model.

³ The founding article of dependency theory was "The development of underdevelopment" (Gunder Frank 1986).

⁴ The main representative of the radical version was Andre Gunder Frank, who would remain Marxist throughout his life; from the associated one, Fernando Henrique Cardoso, who would gradually disconnect himself from Marxist ideas and changed into a liberal politician. See Bresser-Pereira (2011).

⁵ Since the Great Depression, rich countries had been involved in "second" developmentalism (the first had happened in their original industrial revolution) – the Golden Years of Capitalism or Fordism –, and the World Bank adopted a developmental approach in financing developing countries. In 1980 the World Bank changes and gradually turns into the international agency uncombed of promoting market-oriented reforms in developing countries (Bresser-Pereira 1995).

⁶ There is fiscal populism when the state expends irresponsibly more than what it gets, and there is exchange rate populism, when the nation-state expends irresponsibly more than what it gets.

⁷ The Ten Theses of New Developmentalism was discussed and signed by a group of economists and political scientists. See <http://www.tentheseesonnewdevelopmentalism.org/>.

⁸ Except in relation to the "structuralist theory of inflation", which eventually proved to have limited scope.

⁹ Classical developmentalism's pessimism in relation to the exports of manufactured goods was a major mistake that Latin American developmental economists made. When, 1967, Brazil abandoned such pessimism and created an export subsidy that neutralized the Dutch disease on the export side (high tariffs already neutralized it on the domestic market side), Brazilian exports of manufactured goods soared. They went from 6% in 1965 to 62% of GDP in 1990.

¹⁰ In the Rosenstein-Rodan's (1943) big push model, which founded classical developmentalism, the huge and simultaneous investments that would benefit from crossed externalities, become internationally competitive and trigger economic growth were supposed to be financed by foreign money. Some developmental economists defended some conditions for the admittance of foreign investments, but none rejected foreign borrowing. Up to 1970 they viewed the shortage of foreign capitals as a major obstacle to growth. When, after the 1973 first oil shock, the major international private banks resumed finance to Latin-American countries, which was unavailable since the 1929 crash and the Great Depression, developmental economists in Brazil have commemorated the "good new".

¹¹ See footnote 2.

¹² By central countries I mean the Western Europe countries, the United States and the other ex-Britain colonies, where the population came to be essentially European.

¹³ This is an explanation for the rise of a conservative nationalism in rich countries or the political crisis of globalization which materialized in 2016 with the Brexit and the election of Donald Trump to the presidency of the United States.

¹⁴ As Nassif, Bresser-Pereira and Feijó (2017) pointed out, "no industrial policy will succeed in promoting structural change and the catching-up process if macroeconomic prices are not at their correct levels."

¹⁵ This was, for instance, the case of Brazil in 1995, when Fernando Henrique Cardoso assumed the presidency of the Republic, and asserted that his fundamental growth policy would be "to grow with foreign savings".

¹⁶ More precisely, the concepts of current and industrial are in Bresser-Pereira's first model of Dutch disease (2008). The concept of the *value* of the foreign money was originally proposed in Bresser-Pereira (2013) and extensively developed in Bresser-Pereira, Marconi e Oreiro (2016), but in this book there are some imprecisions that this present paper searches to overcome.

¹⁷ Note that economic models usually predict the behaviour of consumers or of producers. Instead, in relation to the three usual policies, new developmentalism takes into consideration the behaviour of policymakers.

¹⁸ Bresser-Pereira and Nakano (2002); Bresser-Pereira and Gala (2009).

¹⁹ I have space here to discuss the productivity of capital. I did that extensively in Bresser-Pereira (1986; 2014)

²⁰ See on that topic Jan Kregel (1985).

²¹ The occupation of the domestic market is unilateral because the developing country cannot occupy the domestic market of the investing countries, differently from rich countries and developing countries, like China, which compensate the direct investments they receive with direct investments they make.