Comparing classical and New Developmentalism

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Abstract: Between the 1940s and the 1960s Classical Structuralist Developmentalism or development economics made a major contribution to economics as it defined economic development as structural change or industrialization and advocated a moderate intervention of the state. Since the 1970s, it is in crisis, while, from the 1980s, neoclassical economics returned to the condition of mainstream. At the end of this decade, Latin American countries engaged in neoliberal reforms; in the 2000s, some tried to go back to Classical Structuralist Developmentalism, but either one or the other school of thought was able to provide policies that make growth, relatively stopped in 1980, to resume. In the early 2000s, as this failure became clear, a new theory became theory, New Developmentalism, start to be built, with a new development macroeconomics and a new political economy. The paper compares New Developmentalism, which builds on post-Keynesian macroeconomics and Classical Structuralist Developmentalism with the later, and, in the last session, presents a summary of the policies that are to be maintained and the policies that are to be changed according to New Developmentalism.

Key words: development, Classical Structuralist Developmentalism, New Developmentalism, macroeconomics, political economy

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In the framework of the 1930s Great Depression, the crisis of economic liberalism and the rise of the Keynesian revolution, economic development turned into a discipline on its own in 1940s and 1950s with the contributions of economists like Rosenstein-Rodan, Raúl Prebisch, Arthur Lewis and Celso Furtado. In the North, it received the name of Development Economics, in Latin America, of Structuralism, but I call Classical Structuralist developmentalism", following a suggestion of Ricardo Bielschowsky.[1] This is a good name because the expression "developmentalism" applies also to a real historical phenomenon – the form of economic and political organization of capitalism alternative to economic liberalism – which have characterized the industrial revolutions in each and every country.[2] Since the mid 2000s, in the framework of the return of Neoclassical Economics to the mainstream, which had happened twenty-five years before, and of the adoption of neoliberal reforms that have been causing low growth, financial instability and increase of inequality, I introduced a new theory, New Developmentalism, which today counts with contributions of a growing number of economists.

Classical Structuralist Developmentalism and New Developmentalism or New-Developmental Theory are theories that search to understand the real phenomenon of economic growth, developmentalism, a historically a fast process leading to the catching up that happens when the country had national project of development and adopts a consequent moderate intervention of the state in the economy. As Classical and New Developmentalism are theories

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that adopt a historical approach, it is natural that they take as historical reference the developmental form that capitalism assumed when it is growing faster and reducing the difference in income per person in relation to rich countries.

Main contributions of Classical Structuralist Developmentalism

Classical Structuralist Developmentalism made major contributions to economic theory. First, as Keynesian macroeconomics, Classical Structuralist Developmentalism was based on a critique of neoclassical economics.[3] The main contribution of Classical Structuralist Developmentalism to economics was to affirm that economic growth is industrialization or *structural change* or, as I prefer to say today, is productive sophistication. This is explained with a series of arguments:

First, industrialization was the historical condition for all countries that developed.

Second, in the process of growth or of increase productivity, the transference of labor from agriculture to manufacturing plays a key role in developing countries, which are not supposed to develop cutting-edge technology.

Third, as Raúl Prebisch (1949) and Hans Singer (1950) noted, the increase in productivity in the manufacturing industry in rich countries is not fully transmitted into the fall of prices which also benefits the countries not producing manufactured goods, as neoclassical economics assumes, but causes the direct increase of the wages in rich countries. They argued that while the workers in these countries are organized and able to retain their productivity gains, the workers in the primary sector of developing countries are not, from what results a tendency to the *deterioration of the terms of change* in the developing countries.

Fourth, developing countries that are exporters of primary goods confront a *foreign constraint* originating from the two perverse income-elasticities: while the elasticity-income of imports of developing countries exporting primary goods is higher than one, the import-elasticity of imports of primary goods by rich countries is smaller than one. Economists derived from this simple fact, so clearly defined by Raúl Prebisch, the deeply mistaken consequences (the "two gaps model", for instance) when the only legitimate conclusion that we can derive from this constraint is that developing countries must industrialize to overcome this growth disadvantage.

Classical Structuralist Developmentalism didn't count with macroeconomics. Its "structural theory of inflation" had limited scope as countries are able to overcome bottlenecks in the productive system and production turns responsive to prices. In practice, it adopted Post-Keynesian Macroeconomics – the tendency to the insufficiency of demand and the idea that fiscal policy must be countercyclical.

Classical Structuralist Developmentalism defends a moderate but strategic intervention of the state in the economy because the state must complement with its public savings and investments the private ones, and because markets in pre-industrial countries are poorly developed, poorly regulated, and not sufficiently assured by the state.

The basic development strategy adopted by Classical Structuralist Developmentalism was the *import substitution strategy*. From the assumption that growth means industrialization, it involved setting high import tariffs on manufactured goods justified with the infant industry argument. Given the limited domestic markets, and the big economies of scale, Classical Structuralist Developmentalism acknowledged that the scope of the import substitution strategy is small unless the country is large. Nevertheless, developmental economists did not consider the alternative of exporting manufactured goods. Instead, they proposed regional integration to increase the size of their domestic markets. As countries maintained high import tariffs on manufactured goods after one could reasonably consider the manufacturing industry "infant", the liberal orthodoxy saw this practice as just "protectionism". Yet, when we discuss New Developmentalism, we will see that such tariffs (and, so, the import substitution strategy) were not so protectionist. They had a good reason which was not the infant industry argument, but an intuitive way of neutralizing the Dutch disease on the import side (subsidies doing that on the export side). The tariffs compensated for the competitive disadvantage represented by the disease.

The crisis of Classical Structuralist Developmentalism

Classical developmentalist, which was the mainstream economic theory in Latin America from the 1940s to the 1970s, came to a first crisis around 1970, when dependency theory turned the dominant interpretation of economic development in Latin America and the United States, and to a second crisis ten years later, when neoclassical economics turned again mainstream in the North. Dependency theory was a Marxist interpretation of economic development in the periphery of capitalism defined in the 1960s. It had as its distinctive thesis the impossibility of a national bourgeoisie to command a developmental class coalition, confront imperialism, and achieve the national and capitalist revolution. Rich countries had counted on national bourgeoises to realize their industrial and capitalist revolution, but for dependency theory, the industrial bourgeoisies in developing countries would be intrinsically dependent instead of nationalist. Thus, it was a direct critique of the central political economy proposal of Classical Structuralist Developmentalism: the formation of a national-developmental class coalition. Dependency theory was founded by André Gunder Frank in the paper "The development of underdevelopment". He has been in Brazil at the time and wrote the paper just after the 1964 military coup in Brazil, which had counted on the support of industrial business entrepreneurs. This coup as the ones that followed in Argentina (1967) and Uruguay (1978) were understood by the left Latin-American intellectuals as a confirmation of the dependency theory, of the "impossibility" of national bourgeoisies in developing countries. Soon dependency theory was divided in two currents, the one that remained Marxist, of Gunder-Frank and Ruy Mauro Marini, and the "associated dependency" current, which was founded by Fernando Henrique Cardoso and Enzo Faletto' (1969) book, *Dependence and Development in Latin America*, which defended the association of the Latin American countries with the United States. In a time when Marxism had become very influential, the associated dependency interpretation had a Marxist penchant as it worked with social classes, but, effectively, it defended not the resistance to the American empire, as did Classical Structuralist Developmentalism but the association or subordination to it. This view, which soon turned dominant in Latin America among the Latin-American intellectuals (most of which, including myself, not realizing the dependent character of associated dependency), reflected the frustration of the left in Latin America with military coups and a critique of Classical Structuralist Developmentalism's basic political thesis: that real or fast economic development in the periphery of capitalism depends on the formation of developmental class coalition. The new interpretation saw the multinational corporation investing in the manufacturing industry of Latin American countries as proof that the center-periphery opposition was false. Not surprisingly, it was received with joy by the American academy, as Cardoso himself acknowledged (1977).

Dependency theory hit severely Classical Structuralist Developmentalism, but the crucial blow it suffered was the major structural change that happened around 1980 in the central countries – the change from the postwar developmental and social-democratic capitalism to a neoliberal or rentier-financier capitalism and from Keynesian to neoclassical economics as mainstream economic theory. Several factors worked for the change in the mainstream. First, the permanent attraction that economists feel for the mathematical reasoning that the hypothetic-deductive method adopted by neoclassical economics. Second, the several theoretical innovations that strengthened neoclassical economics: Solow's growth model in the 1950s, Milton Friedman, with the monetarist macroeconomics, and James Buchanan, with the public choice school, both in the 1960s, Robert Lucas, with the rational expectations macroeconomics, in the 1970s, and, Paul Romer with the endogenous growth models in the 1980s. Third, the new reality and the new ideas were a reaction against the fall of the profit rate and of the growth rate in the 1980s in the United States and in Great Britain, while the inflation rate rose (stagflation), due to the increase of the power of the unions in the 1960s, and the 1973 first oil shock. The rise of neoliberalism and the return to the condition of mainstream of neoclassical economics was the response to this crisis. Forth, they were also a reaction against the new competition originated from the first developing countries that, in the 1970s, began to export manufactured goods to rich countries benefiting from their low wages. What happened was a change of "policy regime" or, more broadly, of the "form of economic and political organization of capitalism" from a developmental and social to a liberal form.[4] This change was profound and soon encompassed all rich countries, independently if whether their governments were conservative or social-democratic. It turned the neoliberal ideology dominant in the Western societies and neoclassical economic dominant in the universities and in the financial markets. The United States asked for the World Bank, which was the main think tank for Classical Structuralist Developmentalism, to be the international agency to implement the neoliberal or Washington Consensus reforms in developing countries. At the same time, powered by trade and financial liberalization, by the reduction of transport and communications costs, and by the growth of multinational corporations and their foreign direct investments, globalization turned the material expression of neoliberalism. Thus, stronger and profiting from the policy difficulties that the social-democratic and Keynesian policies were facing, the departments of economics of the major universities, with neoclassical economics, became an ideological instrument of neoliberalism, i.e., of the rentier-financier class coalition as the service of small elite rentier capitalists and financiers.[5] In this new world, Classical Structuralist Developmentalism was reduced to a "protectionist advocacy of the import substitution strategy". Albert Hirschman, one of the pioneers of Classical Structuralist Developmentalism, acknowledged its crisis in "The rise and decline of development economics" (1981).

On the other hand, in Latin America, growth had been stopped in the 1980s by a major financial crisis, the Foreign Debt Crisis, caused by the growth with foreign indebtedness policy adopted in the 1970s and its two major consequences: all countries falling into the *fiscal crisis of the state*, that is, public savings turning negative, and several experiencing high inflation.[6] Given the economic stagnation and the ideological hegemony of neoliberalism, it was not difficult to the liberal orthodoxy to attribute the crisis to the import substitution strategy, i.e., to state intervention and to the protection of the manufacturing industry. This contention was essentially false. It ignored that the trade liberalization and financial liberalization reforms adopted in the end of the 1980s by Latin American countries, have had as non-predict consequence the dismantling of the pragmatic mechanisms that, respectively, neutralized the Dutch disease in relation to the domestic markets and kept the real interest rate low. Yet, it seemed true because the states in the region experienced a fiscal crisis, which the liberal orthodoxy explained simply with fiscal populism, but it was also resulted from the fact that, given the Foreign Debt Crisis, the state was constrained to bail out the private and state-owned corporations indebted in dollars.

Among the shortcomings of the neoliberal diagnosis of what was happening with developing countries, one was particularly relevant. The East Asian countries had continued to grow fast throughout the 1980s, and, definitely, they were not an example of *laissez faire*, but an example of the developmental form of economic organization of capitalism. They followed the Japanese model of growth, which meant a strong developmentalism. They adopted a nationalist approach and very active industrial policies. Nevertheless, the liberal orthodoxy tried to argue that the East Asian growth strategy was liberal, because it soon turned export-oriented. It is true that they turned exporters of manufactured goods, but it does not mean that they turned liberal. They just realized that the import substitution strategy was not a real alternative to them, not only because their domestic markets were small, but mostly because they didn't have abundant natural resources to base their exports on commodities. Indeed, the four Asian "tigers" abandoned the import substitution strategy in the 1960s and rapidly turned exporters of manufactured goods, while they gradually opened their economies. But in the height of their growth process, they kept firm control of the macroeconomic prices and adopted capable industrial policies.

New Developmentalism emerges

In the 1980s, the developmental governments in Latin America failed to overcome the Foreign Debt Crisis, and, in the 1990s, the countries, debilitated by the crisis, bowed to the new *truth* that was coming from the North. The countries engaged not only in required structural adjustment policies led by IMF, but also in neoliberal reforms coordinated by the World Bank whose validity was questionable. Not surprisingly, the reforms were adopted but the countries failed in resuming growth. Instead, we saw a deterioration: increased financial instability, low growth rates and the deepening of inequality. On the other hand, in the 1980s and again in the 2000s Classical Structuralist Developmentalism had been unable to achieve better results. This meant that the main schools of thought at the disposal of developing countries were proving powerless in offering them an adequate guidance. This was true in relation to the two competing historical theories of economic development (Classical Structuralist Developmentalism and neoclassical institutionalism), as well as in relation to the two competing macroeconomic theories: post-Keynesian macroeconomics and neoclassical macroeconomics. In this framework in which economic theories did not have a reasonable development proposal, whether developmental or liberal, center-left or center-right, it was clear that a new theory was needed – a new developmental macroeconomics.

Post-Keynesian economics may be also viewed as a development macroeconomics, but its more celebrated model, the Thirlwall's law (1979), is a formalization of Prebisch's two perverse elasticities. The model attracted post-Keynesians because it makes development rightly dependent on demand – essentially on exports – and this was a real contribution. The formalization allowed for an infinite number of econometric studies that confirmed the obvious – that the constraint really exists, i.e., that the growth of the country is limited by exports of commodities whose demand tends to grow at a smaller pace than increase its demand for imports. But the only legitimate conclusion that we can derive from this is that the country must industrialize to get rid of the constraint, and that this will require an extra effort on the part of the country. Instead, Thirlwall and Hussain (1982: 1) searched to predict the growth rates of developing countries from the income elasticity of the imports of each country, with poor results.

New Developmentalism was a response to all these problems. It is a theoretical framework that explain growth and failure to grow of developing countries, particularly the Latin-American middle-income countries that suffer from the Dutch disease and from dependency in relation to the North. A framework that was essentially macroeconomic, not because the supply side does not matter, but because, in the supply side, developing countries (except when they have predator states, which are out of the scope of this book) are already involved in doing *their best*; they are truly involved in developing education and health care, in building the best institutions, in investing in the infrastructure, in promoting science and technology. And because the correspondent outcomes take place only in the long-term, while the right macroeconomic policies produce almost immediate results.

It was in this context that a growing group of economists, mostly in Brazil and Argentina, started building a new development macroeconomics which, eventually, came to be called New Developmentalism. In the 1980s, there was a first attempt in this direction – a first step in building a macroeconomics more adapted to developing countries with the theory of inertial inflation – a theory that is crucial to the understanding and control of high inflation, and today is part of the mainstream. This theory had as pioneers Mario Henrique Simonsen (1970) and Felipe Pazos (1972) and achieved the first complete formulation in Bresser-Pereira and Nakano (1983), who distinguished the accelerating, maintaining and sanctioning factors of inflation, supply or demand shocks and the distributive conflict responding for the accelerating factors, the formal and informal indexation of the economy for the maintaining factors, and the endogenous character of money, for the sanctioning factor.

After the Argentinean 2001 crisis, high inflation had been controlled in Latin America, and the problem now was to resume growth, which had been stopped twenty years before. Considering the Fernando Henrique Cardoso administration (1995-2002) in Brazil, which adopted formally the growth *cum* foreign savings policy, but didn't make the country resume growth (despite the Foreign Debt Crisis and the high inertial inflation had just been solved), I realized that this policy was essentially flawed – that there was an *inverse* relation between the current-account deficit of a country and the exchange rate. The higher the current-account deficit of the country, the more appreciated will be the national currency. Thus, when president Cardoso *decided* to grow with foreign indebtedness, he was implicitly deciding to appreciate in the long-term the real, thus encouraging consumption and discouraging investment. In the same 1991, I wrote a short note on the subject, and in the next year, a full paper with Yoshiaki Nakano, "Economic growth with foreign savings?".[7] In the same year, again with Nakano, I wrote a paper on the Brazilian economy, where we made for the first time a severe critique to the high interest rates practiced by the Central Bank of Brazil, which opened room for the first serious public debate on the subject.[8]

In 2003 I used for the first time the expression "New Developmentalism" (Bresser-Pereira, 2003b). I used this name not because some Latin American were again adopting developmental policies after the obvious failure of the 1990s' neoliberal reforms that derived from the Washington Consensus. Indeed, several countries adopted economic policies based on a developmental approach, but the policies were a combination of Classical Structuralist Developmentalism and economic populism in their two versions: fiscal and exchange rate populisms. New Developmentalism was so-called to underline its theoretical difference in relation to the Classical Structuralist Developmentalism and its rejection of populist or vulgar developmentalism. In 2006 I published the paper, "New Developmentalism and conventional orthodoxy", which called a general interest, but principally the interest of political scientists that understood it as a generalization of an actual form of policymaking, not as a theory: the policies that Lula in Brazil and the Kirschners in Argentina were practicing. I probably was not clear enough on that matter and created a certain confusion. Instead of opposing New Developmentalism to classical, I compared it with "old" developmentalism – the later expression with a negative tone. This was not helpful: I put together the economists that I view as my masters – the economists with whom I learned economic development like Celso Furtado and Arthur Lewis – with populist practices that had plagued really existing developmentalism in the 1980s and were present again in the 2000s. The new thought gained body in the debate and approval of the Ten Theses on New Developmentalism (2010), which was discussed and signed by a group of 81 academics, mainly economists.[9]

The theoretical innovations

In the following years, new-developmentalism continued to be built step by step, and its distinction in relation to Classical Structuralist Developmentalism turned increasingly clearer.[10] It is in obvious opposition to neoclassical economics and liberal orthodoxy. As to Classical Structuralist Developmentalism, it is rather *an addition* than a substitution. Its main theoretical innovations obeyed a time sequence: (a) from 2001-2006, the model rejecting growth with foreign savings as the additional capital inflows appreciate the national currency, encourage consumption, discourage investment, and results in a high rate of substitution of foreign for domestic savings; (b) between 2007 and 2008, the model of the Dutch disease, including the definition of the current and the industrial equilibriums, its neutralization through an export-tax on the commodities that originate the disease, and the consequent current account surplus; (c) in 2008, the model of the tendency to the cyclical and chronic overvaluation of the exchange rate, which shows that (c1) the exchange rate is not just volatile but such volatility has a sense, (c2) it happens between two financial crises, which cause a sharp depreciation and are caused mainly by the policy of growth with foreign indebtedness, (c3) in between and for several years, the exchange rate remains overvalued, (c4) in consequence, considering such exchange rate the companies make their calculations and don't invest in manufacturing, this explaining why the exchange rate is a determinant of the expected profit rate and, so, of the investment rate, thus becoming a key variable in the growth process of developing countries; (d) in the early 2000s, the idea that to grow the country must assure that the five macroeconomic prices (the interest, the exchange, the wage, the profit and the inflation rates) are kept right, but the market definitely does not assure that; (e) the realization that the right macroeconomic prices were essential for the catching up of the East Asian countries, and the endorsement of industrial policy provided that it is not understood as a substitute but as a complement to a competent macroeconomic policy; (f) in 2013, the concept of *value* of the exchange rate, around which the exchange rate floats according the demand and supply of foreign money, which varies according to several facts including the variations of the terms of trade and in the capital flows; (g) in 2015, the model explaining the value of the foreign currency with the variations in the index of the *unit labor cost* of the country in relation to its main competitors; and the variations of the current equilibrium with, additionally, the variation in the terms of trade; (h) in 2016, the completion of the model of exchange rate determination, where the structural component of such determination is the value of foreign money, and where, besides other aleatory variables, the demand and supply of foreign money vary according to three habitual policies, often adopted by developing countries: the growth with foreign savings policy and the resulting capital inflows permanently in excess of outflows, the policy of using the exchange rate as an anchor against inflation, and the policy of high interest rates that attracts capital inflows and is instrumental in relation to the two previous policies.

The microeconomic innovations are more limited. New Developmentalism *borrowed* from the classical political economy (labor value theory and the tendency to the parity of the profit rates) and, from Classical Structuralist Developmentalism, the definition of growth as industrialization and the defense of industrial policy, although, in the case of the later, with less emphasis than in Classical Structuralist Developmentalism. The whole New Developmentalism never starts reasoning from the general equilibrium model or pure competition, as it assumes competitive or relatively free markets, but it distinguishes within modern capitalist economies a competitive and a non-competitive sector – and defends for the second, formed by the infrastructure and basic inputs companies and the great banks ("too big to fail"), economic planning and strict regulation.

Third, New Developmentalism counts also with a political economy, this expression understood as the relations between the market and the state and politics. The components of this political economy were also developed gradually, out of much debate and reasoning. Some of them were already part of Classical Structuralist Developmentalism, but are important in the new-developmental framework: (a) the identification of the beginning of the economic development with the formation of the nation-state and the industrial revolution, both these two major historical changes forming the capitalist revolution in each country; (b) the *distinction* of economic from political populism, and the identification of economic populism not only as fiscal (the state spending more than it gets irresponsibly), but also if not principally, exchange rate populism: the nation-state expending more than it gets and incurring in current-account deficits; (c) the affirmation of the possibility of national developmental class coalitions, although the ambiguous and contradictory character of the Latin American business entrepreneurs; (e) the definition of the developmental state as a state that intervenes moderately in the economy (practices industrial policy) and, although cooperating with the other countries, adopts economic nationalism.

To this previous knowledge on political economy we must add other new-developmental components, which may also be depicted as a sequence: (a) from 2006 to 2009, the definition of globalization as a competition not only among companies, but among nation-states, this inducing an imperial practice on the part of the richer and more powerful countries, which explains why developing countries must recur to economic nationalism to grow; (b) from 2010 to 2014, the more precise *definition* of developmental state, which is not just characterized by economic nationalism and a moderate intervention of the state in the economy, but also if not principally by an active macroeconomic policy that keeps the five macroeconomic prices right, particularly an exchange rate policy; (c) in 2014, the classification of developmental state in four models, according to being central or peripheral countries and their degree of autonomy: the original central model, of England and France; the latecomer central model of Germany and the United States; the independent peripheral model, of East Asia; and the national-dependent peripheral model, of Brazil and South Africa; (d) in 2015-2016, the definition of developmentalism as the alternative form of economic and political organization of capitalism to economic liberalism, and the definition of the phases of capitalism in the original countries as: mercantilism or first developmentalism, economic liberalism, the Golden Years of Capitalism or second developmentalism, and neoliberalism; (e) in the same period, the definition of developmentalism as the *default* form of capitalism, to the extent that not only the original central countries, but all other countries were developmental when they industrialized; (f) in 2017, the definition of contemporary capitalism as a *rentier-financier* capitalism, and of the phases of capitalism according to dominant class coalition: classical or business entrepreneurs' capitalism, technobureaucratic capitalism, where technobureaucrats replaced entrepreneurs in the management of the corporations; and rentier-financier capitalism, when the heirs and speculators replaced entrepreneurs in the ownership of the corporations, while the financiers manage their wealth and play the role of their organic intellectuals.

Considering these new contributions, we can compare classical and New Developmentalism:

- Classical Structuralist Developmentalism's main object is the pre-industrial countries, while New Developmentalism, is the middle-income countries, which have already realized their industrial and capitalist revolution;
- Classical Structuralist Developmentalism didn't count with a macroeconomics and reproduced post-Keynesian macroeconomics,[11] while New Developmentalism counts with its macroeconomics, although firmly based on post-Keynesian macroeconomics;
- Classical Structuralist 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.[12]
- Classical Structuralist 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;
- Classical Structuralist Developmentalism defended an overvalued currency and high import taxes, while New Developmentalism defends relatively open markets and a right or competitive exchange rate which is only achievable with a low-interest rate and, in countries exporting commodities, with a variable export tax on such commodities to neutralize the Dutch disease;
- Classical Structuralist Developmentalism defended the growth with foreign indebtedness policy, while New Developmentalism rejects it and defends balanced or, when the country faces the Dutch disease, *surplus* current accounts;[13]
- Classical Structuralist Developmentalism defended the import substitution strategy, while New Developmentalism defends growth based on the export of manufactured goods, and, so, the competitive integration in international markets;
- Classical Structuralist Developmentalism was skeptical about an exchange rate policy, preferring high tariffs,[14] 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.

Ensuing new policies

I conclude this comparison between classical and New Developmentalism with a short discussion of the new policies that derive of the new reality and of New Developmentalism. I will have as reference Argentina and Brazil, which are both middle-income countries and exporters of commodities, i.e., suffer from the Dutch disease.

Before, what does not change? Essentially, industrialization or productive sophistication remains the main strategy; a moderate intervention of the state and economic and economic nationalism (the rejection of dependence) remain the main requirements for a successful catching up; third, a strategic industrial policy continues to make sense.

What changes? How should additionally act a developmental state? First, industrial policy is advisable but is *not* a substitute for a developmental macroeconomic policy.

Second, macroeconomic policy must care for the equilibrium of the fiscal account following a post-Keynesian approach on that matter. New Developmentalism is critical of the common knowledge that distinguishes developmental from liberal-orthodox macroeconomic policymaking according to the belief that progressive developmentalists would be free-expending while conservative liberals would reject free-expending. New Developmentalism is strongly against the state engaging either in fiscal or exchange rate populism – the former meaning the state to spend more than it gets irresponsibly, the second, the nation-state (the country) expending irresponsibly more than it gets. Free-expending is *fiscal populism* – is not a responsible macroeconomic policy that progressive as well as conservative governments in developing countries often practice. Engaging in current account deficits with the argument that is growth with foreign savings is *exchange rate populism*, that "austere" liberals always practice as they defend current-account deficits. The additional capital inflows that such policy requires appreciate in the long-term the national currency, and encourage consumption, not investment.

What to say of the austerity that liberals practice when there is a macroeconomic maladjustment characterized by fiscal and current-account deficits? It means "internal adjustment" – the government maintains the exchange rate while making a strong fiscal adjustment involving current expenditures and public investment, which will directly contribute to the recovery of the fiscal equilibrium if the fall of the tax revenue caused by the ensuing recession is not bigger than the reduction of the fiscal expenditures; and will balance indirectly the current-account because the recession will cause the fall of the wages and will increase the country's competitiveness without a depreciation. As there is not a depreciation, the only one that will pay for the adjustment will be the salaried class; the rentiers will pay nothing. Instead, given the maladjustment, New Developmentalism defends also a fiscal adjustment, but only of current expenditure coupled with the increase of taxes, reduces the interest rate, neutralizes the Dutch disease, makes some capital controls, and, so, devaluates the national currency. In this case, the rentier capitalists pay also for the adjustment, and more than the workers. More because with the devaluation, the fiscal adjustment will be limited to the current expenditures, the recession will be milder, and it will cause less unemployment; more because the revenues or rentiers (dividends, real-state rents and interests) lose as much acquisitive power as lose wages austere in fiscal terms; more because the wealth of the rentiers in the national money loses value, while the workers don't have wealth to be reduced; more because the reduction of the interest rate is anathema for rentier, while it is welcomed by workers; more, finally, because with the adjustment, employment is soon restored benefiting workers.

Third, macroeconomic policy must guarantee the equilibrium of the external account, thus *rejecting* firmly current-account deficits, and, if the country faces the Dutch disease the current account should not be balanced but portray a surplus. The rejection of the current-account deficits is the more counterintuitive new-developmental policy, but it is very important to the country invest and increase the investment and savings rate. Deficits should be rejected because they involve additional capital inflows that appreciate the national currency and make the country's capable manufacturing companies non-competitive. In the case of the existence of the Dutch disease, the country should achieve a surplus, because this disease is defined by the distance between the industrial equilibrium (which is the competitive equilibrium) and the current equilibrium exchange rate, that balances the current-account. As the industrial equilibrium is more depreciated than the current equilibrium exchange rate, when the country is successful in neutralizing the Dutch disease, it will necessarily present a current account surplus.

Forth, the macroeconomic policy must maintain the five macroeconomic princes *right* – something that the market is unable to do. Governments created central banks and monetary committees ted to keep two of these prices right, the inflation rate and the interest rate. An active exchange rate policy and an exchange rate committee are equally necessary.

Fifth, the interest rate is not just an instrument used by the central banks to control inflation, it is also a price whose *level*, around which the bank practices its monetary policy, should be *low*.

Sixth, in middle-income countries the tendency of wages growing below productivity disappeared because the economy already reached Lewis' point (when the unlimited supply of labor ceases to exist). The policy should be that indirect wages grow with productivity, thus not threatening the profit rate, while indirect wages (mainly social expenditures) and progressive taxation take care of the economic inequality that characterizes capitalism.

Seventh, as to the rate of profit, it is necessary to consider that we are not anymore in classical capitalism, where we had just the capitalists and the workers, but in rentier-financier capitalism, where the capitalists are either entrepreneurs, whose investment decisions are fundamental to growth and, so, must have a satisfying rate of profit, or rentier capitalists, idle people whose remuneration should be the smaller possible. Given that and given the tendency to the cyclical and chronic overvaluation of the exchange rate, which presses down the rate of profit and makes the competent manufacturing companies not competitive, not only direct wages should not increase above productivity, but, what is more important, the exchange rate must be competitive, and, so, keep satisfying the rate of profit.

As to the growth strategy that follows from New Developmentalism, it is clear that it is not the import substitution strategy, which only applies at the very beginning of economic growth (and involves reduction of the openness coefficient). But this does not mean that it is an export-led strategy involving an increase in such coefficient. The exchange rate must be competitive, floating around the industrial equilibrium. Assured that, the relative efficiency of the diverse industries that comprise the national economy will determine the openness coefficient. Now, the supply side variables that determine productivity must be considered. Industrial policy may play a role in this matter by encouraging exports of a giving industry for some time, but the essential say will be of the market; as an industrial policy is not substitute for competent macroeconomic policy, it is not also supposed the inefficiency of the companies. The state is supposed to guarantee the general conditions of accumulation by investing in the infrastructure, in health care, education and technology, to improve permanently its institutions, and to plan the non-competitive sectors of the economy, mainly in the infrastructure and the basic inputs industry.

As to distribution, this should be achieved by making the tax system progressive, keeping the level of the interest rate low so as not to remunerate excessively rentiers and financiers, by increasing taxes to finance the social state, and by increasing the minimum wage to the extent that there is room for these two last policies – this meaning that they do not harm the competitiveness of the competent companies. Yet, this room must be understood in open and dynamic terms, given the fact that increased direct and indirect wages mean more demand, more growth, and more room for distribution.

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[1] In an international conference organized by Centro Celso Furtado in Rio de Janeiro, in 2015, I asked Bielschowsky for a name for de school of thought more specific than "development economics" and not regional as is "Latin American structuralism", and he suggested "Classical Structuralist Developmentalism".

[2] The first industrial revolution – the English – is often assumed as having been of the liberal ideas, but this is false. It happened in the time of mercantilism, that was the first developmentalism. Great-Britain only turned an open economy, thus following the precepts of economic liberalism, in 1834.

[3] Actually, Keynes in the *General Theory* does not distinguish classical from neoclassical economics as both were supply-sided, having as assumption the Jean-Baptiste Say's law, which holds the supply creates its own demand.

[4] Policy regime is a concept developed by Adam Przeworski (2001), while Bresser-Pereira (2001a), writing on the "new left", remarked that in 1980s "the political center moved to the right" and the social-democratic countries adopted policies very similar to the liberal ones, while in the post-war period the inverse had happened: the conservative political parties participated in the building of the social and developmental state.

[5] Yet, Keynes remained relatively present in the mainstream, because it was divided into a radically liberal current formed by the monetarist, new classical and the Austrian school economists, and the new-Keynesian school, which is basically hypothetic-deductive and neoclassical, but reserves some room for demand and acknowledge greater market failures.

[6] See Bresser-Pereira (1989).

[7] See Bresser-Pereira (2001b) and Bresser-Pereira and Nakano (2002; 2003).

[8] See http://bresserpereira.org.br/categoria/trabalhos-de-terceiros/debate-sobre-crescimento-com-estabilidade2001/.

[9] See http://www.scielo.br/pdf/rep/v31n5/a11v31n5.pdf

[10] The more complete exposition of the new-developmental macroeconomics is in Bresser-Pereira, Marconi and Oreiro (2014; 2016). I cite also the 2016 Portuguese edition of the book because New Developmentalism is an work in progress and it is more complete the English edition as it was published two years later. The political economy of New Developmentalism is mainly in Bresser-Pereira (2016; 2017).

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

[12] Classical Structuralist 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.

[13] In the Rosenstein-Rodan's (1943) big push model, which founded Classical Structuralist 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".

[14] See Bresser-Pereira and Rugitsky (2018). In this paper we have citations of Prebisch that show clearly this skepticism.