MACROECONOMICS OF STAGNATION AND NEW DEVELOPMENTALISM IN LATIN AMERICA

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After the failure of conventional orthodoxy to promote macroeconomic stability and development, Latin America has become home to a clear movement for rejecting the "macroeconomics of stagnation" that it contains. Given that, the question is whether there is an alternative to the diagnoses and policies that the North offers to Latin America. In this paper, after examining the crisis of the national development strategy that was old developmentalism, I compare the rising new developmentalism with its earlier version, as well as with the set of diagnoses and policies that rich nations have prescribed and pushed to developing countries since the neo-liberal ideological wave became prevalent worldwide: conventional orthodoxy. In the first section, I discuss old developmentalism, its initial success, its obsolescence due to a series of new facts and distortions, and its replacement with conventional orthodoxy since the late 1980s. In the second section, I discuss the importance of the concept of the nation and of the "national development strategy" institution. In the third section, I discuss new developmentalism as a "third discourse" lying between the bureaucratic left wing's populism and conventional orthodoxy's macroeconomics of stagnation. In the fourth section, I compare new and old developmentalism. In the fifth section, I compare new developmentalism with conventional orthodoxy with regard to macroeconomic policies and growth strategies.

Old Developmentalism and Its Crisis

Between the 1930s and the 1970s, Brazil and other Latin American countries grew at an extraordinary pace. They took advantage of the weakening of the center to formulate national development strategies that, in essence, implied protection of the infant national industry and the forced promotion of savings through the state. This strategy was called "developmentalism," or "national-developmentalism." The purpose of such a name was to emphasize that, first, the policy's basic objective was to promote economic development, and, second, in order for this to happen, the nation—that is, businessmen, state bureaucracy, middle classes, and workers joined together in international competition—needed to define the means to reach this objective within the framework of the capitalist system, with the state as the principal collective action instrument. The notable economists that, then, studied development and made economic policy proposals, along with the politicians, government officials, and businessmen who were most directly involved in this process, were called "developmentalists" because they chose development as the ultimate

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goal for their economic analysis and political action. Latin-American economists who, together with a group of international economists, took part in formulating "development economics" were affiliated with three complementary schools of thought: the classical economics of Smith and Marx, Keynesian macroeconomics, and the Latin American structuralist theory.[1] Developmentalism was not an economic theory but a national development strategy. It employed economic theories to formulate, for each country in the capitalist periphery, a strategy capable of gradually leading to the development level attained by central countries: market-based theories, for there is no economic theory that does not spring from the markets, but also political economy theories that cast the state and its institutions in a leading role as auxiliary coordinator of the economy. Developmentalism faced opposition from neo-classical economists who practiced "conventional orthodoxy"—that is, the set of diagnoses and economic policies and institutional reforms that rich, or northern, nations prescribed to developing, or southern, countries. They were called "monetarists," due to the emphasis placed on the money supply as a means of controlling inflation.

Since Brazil was a peripheral, or dependent, country, whose industrial revolution was taking place 150 years after that of England, and more than 100 years after that of the United States, the remarkable development between the 1930s and 1970s was only possible inasmuch as Brazil as a nation was able to use its state as an instrument to define and implement a national development strategy where the state's intervention was significant. This was not about replacing the market with the state but, rather, about strengthening the state in order to enable it to create the required conditions for firms to invest so that their businessmen could innovate. All countries, beginning with England itself, required a national development strategy to bring about their industrial revolutions and continue to develop. The use of a national development strategy was particularly evident among late-development countries such as Germany and Japan, which, therefore, were never characterized by dependence. Peripheral countries, on the other hand, like Brazil and other Latin American countries that had lived through the colonial experience, remained ideologically dependent on the center after their formal independence. Both late-development central countries and former colonies needed to formulate national development strategies, but the task was easier for the former. For peripheral countries, there was the additional hurdle of facing their own "dependence," that is, submission of the local elites to those in central countries, who were interested in nothing other than their own development. Developmentalism was the name given to the national strategy of dependent countries, those whose industrialization began no earlier than the 1930s, or during World War II. Their developmentalism was nationalist because, in order to become industrial, these countries needed to form their national state. The nationalism present in developmentalism was the ideology for forming a national state; it was the affirmation that, in order to develop, countries needed to define their own policies and institutions, their own national development strategy.[2]

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[1] In Brazil, the two leading economists who contributed to development economics were Celso Furtado and Ignácio Rangel. Given the former's international projection, he was also part of the founding group of development economists, which included Rosentein-Rodan, Arthur Lewis, Ragnar Nurkse, Gunnar Myrdal, Raúl Prebisch, Hans Singer, and Albert Hirschman.

[2] Nationalism can also be defined, as Geller did, as the ideology that attempts to endow every nation with a state. Although this is a good definition, it is applicable to Central Europe rather than Latin America. In Latin America, nations were not yet fully formed

Late central countries also used developmentalist strategies, although they were not given the same name. Since they were nationalistic, they always followed their own criteria rather than their competitors' to formulate policies, and they used their states deliberately to promote development.

In the 1940s, '50s and '60s, developmentalists and Keynesians prevailed in Latin America; they were the mainstream. Governments used their theories first and foremost in economic policy-making. From the 1970s, however, in the context of the great neo-liberal, conservative wave that began to form, Keynesian theory, development economics, and Latin-American structuralism were successfully challenged by neo-classical economists, most of whom adopted a neo-liberal ideology. Since the 1980s, in the context of the great foreign debt crisis that added to the rich nations' political power, these economists managed to redefine in neo-liberal terms their prescriptions for developing countries. The neo-liberal ideology targeting these countries became hegemonic, expressing itself through what became known as the Washington Consensus, which I prefer to call "conventional orthodoxy," not only because this is a more general expression but because, if some "consensus" existed in the 1990s, in the 2000s it broke down. During the 1980s, the national development strategy—national developmentalism —faced a major crisis and was replaced with a foreign strategy: conventional orthodoxy.

Several factors help explain this. First, during the 1960s, the national alliance that served as the political foundation for developmentalism fell apart as a direct consequence of the military coup supported by Brazilian industrialists and the American government. The national-developmentalist approach assumed the existence of a nation and, thus, of a national agreement involving industrialists, workers, and the state bureaucracy—a reasonable assumption insofar as, after a lengthy period of dependence that followed the independence movements of the early 19th century, these countries, since 1930, had taken advantage of the crisis up north to begin their national revolutions and form autonomous national states. Based on this fact, developmentalism proposed that each country's new industrial businessmen should become a "national bourgeoisie," as had been the case in developed countries, and associate itself with government officials and urban workers to bring about a national and industrial revolution. Therefore, in every country the sense of nation, of national society, was reinforced and the possibility dawned that this society might implement a national development strategy (developmentalism), using the state as its instrument for collective action. It was at once a proposal and an assessment of the reality represented by the accelerated industrialization process that Latin America was then experiencing. The Cuban revolution of 1959, however, by radicalizing the left wing, and the economic crisis of the early 1960s, led to the dissolution of the national developmental alliance and set the stage for the establishment of military regimes in Brazil, Argentina, Uruguay, and Chile, with support from each country's businessmen and from the United States. As a consequence, the national alliance that was so essential to the constitution of a nation, broke up, and Latin America's moderate left embraced the theses of the "theory of associated dependence," which rejected the possibility of a "national bourgeoisie" (Bresser-Pereira, 2005). In doing so, it rejected the very idea of nation and of national development strategy on which national-developmentalism was based.

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and, still, were endowed with states. The nations, however, were incomplete, and their regime was semi-colonial; with independence, the main change was that the dominant power shifted from Spain or Portugal to England and other major central European countries.

Second, because old developmentalism was based on import substitution, it carried the seed of its own demise. Protection of national industry, the focus on the market, and the reduction of an economy's openness coefficient, even in a relatively large economy such as Brazil's, are greatly constrained by economies of scale. For certain industries, protection becomes absurd. As a result, when the import-substitution model was maintained through the 1970s, it was leading Latin American economies to a deep distortion. On the other hand, as Furtado remarked as early as 1966,[3] after the initial import-substitution phase of consumer-goods industries, continued industrialization implies a substantial increase of the capital-labor ratio, with two consequences: income concentration and reduced capital productivity, or product-capital ratio. The response to income concentration was to be an expanded production of luxury consumer goods, characterizing what I have termed the "industrial underdevelopment model," which, besides being perverse, carries the seed of the dissolution of the national pro-development alliance.

Third, the great debt crisis of the 1980s, which was not directly related to the import-substitution model but already an outcome of the growth-*cum*-foreign-savings strategy, further weakened the national alliance that was behind national developmentalism. The debt crisis paved the way for the rise of high inertial inflation, which would be the scourge of the Brazilian economy for 14 years. The military government had indexed prices since 1964, but it was only in the early 1980s that inflation topped 100% a year as a result of exchange rate depreciations caused by the foreign debt crisis: from this moment up to 1994, inflation would be measured in monthly terms (5%, 10%, 20% a month), configuring high inertial inflation (Bresser-Pereira and Nakano, 1987). After that, developmentalism was supported by only a populist left wing, which, while in office in the second half of the 1980s, proved unable to manage the Brazilian economy. This became apparent in the Cruzado Plan—the 1986 attempt to control inertial inflation—that ended in a major disastrous populist episode (Sachs, 1988).

The fourth reason for the replacement of developmentalism with conventional orthodoxy lies in the strength of this ideological wave that was coming from the North. In the early 1980s, in response to the foreign debt crisis, a new and stronger conventional orthodoxy established itself bit by bit. The Baker Plan (1985), named for US Secretary of the Treasury James Baker, completed the definition of the new ideas by adding market-oriented institutional reforms to orthodox macroeconomic adjustment. Developmentalism then became the target of a systematic attack. Taking advantage of the economic crisis that derived, in part, from the overcome development model and from the distortions it had suffered in the hands of populist politicians and middle classes, conventional orthodoxy gave developmentalism a negative connotation, identifying it with populism or irresponsible economic policies. In its stead, it proposed a panacea of orthodox and neo-liberal institutional reforms. It further proposed that developing countries abandon the antiquated concept of "nation" that national-developmentalism had adopted and accept the globalist thesis, according to which, in the age of globalization, nation-states had lost autonomy and relevance: worldwide free markets (including financial ones) would be charged with promoting the economic development of all.

Twenty years later, what we see is conventional orthodoxy's failure to promote Latin America's economic development. While developmentalism prevailed, between 1950 and 1980, per capita income in Brazil grew almost 4% a year; since then, it has grown four

[3] Celso Furtado, *Subdesenvolvimento e Estagnação da América Latina* (1966).

times less! The performance of other Latin American countries has been no different, with the exception of Chile. In the same period, however, dynamic Asian countries, including China since the 1980s and India since the 1990s, maintained or achieved extraordinary growth rates.

Why such different growth rates? At the more immediate level of economic policies, the fundamental problem relates to loss of control over the most strategic macroeconomic price in an open economy: the foreign exchange rate. Latin-American countries lost control over it via open financial accounts and saw their foreign exchange rates appreciate as, from the early 1990s, they accepted the proposal of growth with foreign savings from Washington and New York. Yet, at the same time, Asian countries mostly kept current account surpluses, and they retained control over their foreign exchange rates. At the reform level, Latin American countries indiscriminately accepted all liberalizing reforms, irresponsibly privatizing monopoly utilities and opening their capital accounts, while Asians were more prudent. However, it gradually became clear to me that the main difference was to be found in a new, fundamental fact: Latin American countries interrupted their national revolutions and watched as their nations became disorganized and lost cohesiveness and autonomy; as a consequence, they were left without a national development strategy. The national strategy that Latin American countries in general and Brazil in particular adopted between 1930 and 1980 was known as developmentalism. In this period, and mainly from 1930 to 1960, many Latin American countries were firmly nationalist, finally providing their formally independent states with a basic solidarity when it came to competing internationally. Yet, the weakening brought about by the great economic crisis of the 1980s, combined with the hegemonic force of the ideological neo-liberal wave coming from the United States since the 1970s, caused the interruption of the process of national and state formation in Latin America. Local elites stopped thinking for themselves and accepted the advice and pressure from the North, while the countries, devoid of a national development strategy, saw their development stall. Conventional orthodoxy, which came to replace national-developmentalism, had not been developed locally; it did not reflect national concerns and interests but, rather, the visions and objectives of rich nations. In addition, as is typical of neo-liberal ideology, it was a negative proposal that assumed the markets' ability to coordinate everything automatically, proposing that the state stop playing the economic role it always had in developed countries: that of supplementing the market's coordination to promote economic development and equity.

I have been critical of conventional orthodoxy and of the macroeconomics of stagnation that it implies since it became dominant in Latin America. I was probably the first Latin American economist to criticize the Washington Consensus at my keynote lecture during the annual congress of the Brazilian National Association of Post-Graduate Economics Courses (1990 [1991]). My criticism, however, gained a new dimension since the first quarter of 1999, after having been for four and one-half years a member of the Cardoso administration, whose economic policies, after the successful and innovative Real Plan (1994), became fully orthodox. Between 1999 and 2001, I and my close associate Yoshiaki Nakano began a more systematic critique of conventional orthodoxy based on our common structuralist and Keynesian views of economics.[4] Our criticism showed that the conventional proposal, albeit inclusive of certain necessary policies and reforms, did not, in fact, promote a country's development but kept it semi-stagnant, incapable of

[4] See Bresser-Pereira (1999 [2001]) and Bresser-Pereira and Nakano (2002a, 2002b).

competing with wealthier countries, easily falling prey to a form of economic populism: foreign exchange populism. The alternative economic strategy present in these works was innovative in that it acknowledged a series of new historical facts that implied a need to review the national development strategy. How to name this alternative? We decided that "new developmentalism" could be a good name. What does new developmentalism involve? I introduce it in this work. In the third section, I define it as a "third discourse" and a national development strategy; in the fourth section, I establish its differences from the 1950s' developmentalism; and, in the fifth section, I show how it stands as a critique and an alternative to conventional orthodoxy, that is, to the diagnoses, policies, and reforms conceived mainly in Washington for use in developing countries.

Nation and Nationalism

New developmentalism, as the national-developmentalism of the 1950s, at once assumes the presence and implies the formation of a true nation, capable of formulating an informal, open, national development strategy, as is proper of democratic societies whose economies are coordinated by the market. A nation is a society of individuals or households that, sharing a common political fate, manages to organize itself as a state with sovereignty over a certain territory. A nation, therefore, like the modern state, only makes sense within the nation-state framework that arises with capitalism. For a nation to be able to share a common fate, it must have common objectives, chief among which, in historical terms, is the objective of development. Other objectives, such as freedom and social justice, are also fundamental to nations but, like the state and capitalism, arise with economic development as part of its reasoning, of its intrinsic manner of being. Nations, nation-states, capitalism, and economic development are simultaneous and intrinsically correlated historical phenomena. In its most developed form—today's globalization—capitalism's economic constituents are not only firms operating at the international level but also, if not mainly, nation-states or national states. It is not just firms that compete worldwide in the markets, as conventional economic theory proposes; nation-states, too, are fundamental competitors. The main criterion for success for the political rules of every modern nation-state is comparative economic growth. Rulers are successful in the eyes of their people and internationally if they achieve greater growth rates than countries regarded as direct competitors. Globalization is the stage of capitalism where, for the first time, nation-states span the entire globe and compete economically through their firms.

A nation involves a basic solidarity among classes when it comes to competing internationally. Businessmen, workers, state bureaucrats, middle-class professionals, and intellectuals may come into conflict, but they know that they share a common fate and that this fate relies on their successful competitive involvement in the world of nation-states. It involves, therefore, a national agreement. A national agreement is the basic social contract that gives rise to a nation and keeps it strong or cohesive; it is the compact among social classes of a modern society that enables this society to become a true nation, that is, a society gifted with a state capable of formulating a national development strategy. The great national agreement or compact that established itself in Brazil since 1930 joined the infant national industrial bourgeoisie to the new bureaucracy or the new state technicians; add to these the urban workers and the more domestic market-oriented sectors of the old oligarchy, such as the ranchers, from which Getúlio Vargas came. Their adversaries were imperialism, represented mainly by British and American interests, and the affiliated exporting rural oligarchy. The most strategic accord in a modern nation-state is that between industrial businessmen and the state bureaucracy, which includes significant

politicians but also workers and the middle classes. And there will always be domestic adversaries, somehow identified with imperialism or today's colony-less neo-imperialism, as well as with local collaborationist or globalist groups. In the case of Brazil today, they are the rentiers who rely on high interest rates and the financial industry that collects commissions from the rentiers.

A nation is always nationalist, inasmuch as nationalism is the ideology of the formation of a national state and its permanent reaffirmation or consolidation. Another way to define nationalism is to say, after Ernest Gellner, that it is the ideology that pursues a correspondence between nation and state, that stands for the existence of a state for each nation.[5] This, too, is a good definition, but one typical of a thinker from Central Europe; it is a definition that becomes exhausted as soon as a nation-state is formed—when nation and state begin coinciding over a given territory, formally establishing a "sovereign state." It fails therefore, to take into account Ernest Renan's celebrated 1882 sentence: "A nation is a daily referendum."[6] It fails to explain how a nation-state may formally exist in the absence of a true nation, as in the case of Latin American countries, which, in the early 19th century, saw themselves endowed with a state due not only to the patriotic efforts of nationalist groups but also to the good services of England, whose aim was to oust Spain and Portugal from the region. In this way, these countries saw themselves endowed with a state in the absence of true nations, as they ceased to be colonies and became dependent on England, France, and, later, the United States. For a true nation to exist, the several social classes must, despite the conflicts that set them apart, be in solidarity when it comes to competing internationally, and they must use national criteria to make policy decisions, particularly those that involve economic policy and institutional reform. In other words, the rulers must think with their own heads instead of dedicating themselves to confidence building, and the entire society must be capable of formulating a national development strategy.

New developmentalism will become a reality when the Brazilian society becomes again a true nation. This is what happened in Brazil between 1930 and 1980, particularly from 1930 to 1960. Under the rule of Brazil's 20th-century statesman, Getúlio Vargas, the country took national decisions into its own hands and formulated a successful national development strategy. In those 30 years (or 50, if we include the military period, which remained nationalist, despite its political alliance with the United States against communism), Brazil changed from an agricultural to an industrial country, from a mercantilist social formation to a fully capitalist one, from semi-colonial status to national status. Developmentalism was the name given to the national development strategy and to its driving ideology. Therefore, the process of defining the new developmentalism equally involves resuming the idea of nation in Brazil and other Latin American countries. It implies, therefore, a nationalist perspective in the sense that economic policies and institutions must be formulated and implemented with the national interest as their main criterion and with each country's citizens as actors. Such a nationalism aims not to endow

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[5] Gellner (1983, 1993). Gellner, a Czech philosopher who took refuge from communism in England, was probably the most astute analyst of nationalism in the second half of the 20th century.

[6] Ernest Renan (1882 [1992: 55]). In the immediately preceding part, Renan wrote: "A nation is a great solidarity made up of the sentiment of the sacrifices made and those people are still willing to make. It assumes a past; its present summation is a tangible fact: the consent, the clearly expressed desire to go on with common life."

a nation with a state but to turn the existing state into an effective instrument for collective action by the nation, an instrument that enables modern nations, in the early 21st century, to consistently pursue their political objectives of economic development, social justice, and freedom within an international framework of competition, but also peace and collaboration, among nations. It implies, therefore, that such a nationalism be liberal, social, and republican, i.e., that it incorporate the values of modern industrial societies.

The "Third Discourse" and the National Development Strategy

New developmentalism is a "third discourse" between the old developmentalist discourse and conventional orthodoxy; it is a set of ideas, institutions, and economic policies through which medium income countries attempt, in the early 21st century, to catch up with developed countries. Like the old developmentalism, it is not an economic theory but a strategy; it is a national development strategy, based mainly on Keynesian macroeconomics, whereby such countries may gradually catch up with rich nations. It is the set of ideas that enables developing nations to reject rich nations' proposals and pressures for reform and economic policy, like a fully open capital account and growth with foreign savings, inasmuch as such proposals are neo-imperialist attempts to neutralize development—the "kicking away the ladder" practice. It is the means by which businessmen, government officials, workers, and intellectuals can stand as a true nation to promote economic development. I do not include poor countries in the new developmentalism, not because they do not require a national development strategy, but because they still need to accomplish their primitive accumulation and industrial revolutions, and the challenges they face and the strategies they require are different.

In terms of discourse or ideology, we have, on the one hand, the dominant, imperial and globalist discourse that flows from Washington and is embraced in Latin America by the neo-liberal, cosmopolitan right wing, comprised mainly of the rentier class and the financial industry.[7] This is conventional orthodoxy: an ideology exported to developing countries; an anti-national strategy that, despite its generous offer to promote prosperity among medium income countries, serves, in fact, rich nations' interest in neutralizing these countries' ability to compete. This, as it was applied in Brazil since the 1990s, has four things to say: first, that the country's major problem is the lack of microeconomic reforms capable of enabling the market to operate freely; second, that, even after the end of runaway inflation in 1994, controlling inflation remained the main purpose of economic policy; third, that, in order to achieve such control, interest rates must inevitably be high, because of the sovereign risk and of fiscal issues; fourth, that "development is a great race among countries to obtain foreign savings" and that the implicit current account deficits and foreign exchange appreciation brought about by capital inflows are no cause for concern. The disastrous effects of this discourse in terms of balance-of-payments crises and low growth for Latin American countries that adopted it since the late 1980s are well-known today.[8]

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

[8] See Frenkel (2003).

The opposite discourse is that of the bureaucratic-populist left wing. From this perspective, Brazil's ills are due to globalization and financial capital, which placed the country under the burden of high foreign and public indebtedness. The proposed solution was to renegotiate the country's foreign and public debt at a great discount. The second ill was insufficient demand, which could be resolved with increased public spending. And the greatest ill—unequal income distribution—could be resolved by expanding the Brazilian welfare system. This alternative was used, for example, in Peru under Alan Garcia. In Brazil, it was never fully put into practice.[9]

The first discourse served the interests of the North and reflected its deep ideological hegemony over Latin American countries. Locally, it sprang chiefly from the Brazilian rentier class, which depends essentially on interest for a living, and from economists affiliated with the financial industry; a confused, disoriented upper-middle class also shared it. The second came from the lower-middle class and labor unions, reflecting the old bureaucratic left wing's perspective. Neither discourse had a chance of reaching a reasonable consensus in Brazilian society, due to their irrationality and biased nature. Neither ideology reflected national interests. Might there be a third discourse capable of achieving such a reasonable consensus? Certainly, this third discourse is possible and is being formulated, little by little. It is the discourse of new developmentalism. But is not new developmentalism also an ideology, as are conventional orthodoxy and the bureaucratic-populist discourse? Yes and no. Yes, because every national strategy implies an ideology, a set of political action-oriented ideas and values. And no, because, unlike conventional orthodoxy, which is no more than an outside proposal, new developmentalism will only make sense if it rises from internal consensus and, therefore, stands as a true national development strategy. A full consensus is impossible, but a consensus that brings together businessmen from the production sector, workers, government officials, and middle-class professionals—a national agreement, therefore—is now forming, taking advantage of the failure of conventional orthodoxy. This forming consensus regards globalization as neither a blessing nor a curse, but as a system of intense competition among national states through their firms. It realizes that, in such a competition, the state must be strengthened fiscally, administratively, and politically, and, at the same time, must provide national firms with the conditions to become internationally competitive. It acknowledges, as Argentina did after its 2001 crisis, that development in Brazil is prevented, in the short term, by exceedingly high short-term interest rates determined by the Central Bank of Brazil, which push long-term rates upwards and uncouple them from sovereign risk. It assumes that, for development to occur, investment rates must necessarily rise and the state must contribute by means of positive public savings that are the outcome of curbing current government expenditures and not of increased taxes. Finally, and more generally, new developmentalism assumes that development, in addition to being prevented by the absence of democratic nationalism (an absence that favors conventional orthodoxy), is also hampered by income concentration, which, besides being unfair, is a culture medium for all forms of populism and, thus, for the bureaucratic-populist discourse.

What is a national development strategy? More than a simple ideology developed abroad like conventional orthodoxy, it is a set of economic development-oriented institutions and policies. It is less of a national development project or plan because it is not formal; it

[9] The Workers Party, PT, adopted such a discourse in Brazil, but, once in power in 2003, it adopted policies recommended by conventional orthodoxy.

lacks a document that accurately describes objectives to be attained and policies to be implemented in order to attain such objectives, because the inherent accord among social classes has neither text nor signatures. And it is more, because it informally comprehends all of society, or a large share thereof; it shows all a path to tread and certain very general guidelines to be observed; and, although it does not assume a conflict-free society, it does require a reasonable union of all when it comes to competing internationally. It is more flexible than a project, and it always considers the actions of opponents or competitors. It recognizes that the factor that drives individual behavior is not just personal interest but competition with other nations. A national development strategy reflects all of this. Its leadership falls on the government and the more active elements of civil society. Its fundamental instrument is the state itself: its norms, policies, and organization. Its outcome, when a major accord establishes itself, when strategy becomes truly national, when society begins sharing, loosely but effectively, methods and goals, is accelerated development—a period during which the country enjoys high per capita income and living-standard growth rates.

A national development strategy implies a set of fundamental variables for economic development. These variables are real and institutional alike. The nation's increased savings and investment capacities; the means by which it incorporates technical advances into production; human capital development; increased national social cohesiveness, resulting in social capital or in a stronger, more democratic civil society; a macroeconomic policy capable of ensuring the state's and the nation-state's financial health, leading to conservative domestic and foreign indebtedness ratios—these are all constituents of a national development strategy. In this process, institutions, instead of mere one-size-fits-all abstractions, are seen and construed concretely, historically. A national development strategy will gain meaning and strength when its institutions—be they short-terms ones I call policies or public policies, or be they relatively permanent ones (institutions proper)—respond to societal needs, when they are compatible with the economy's production-factor endowment, or, to put it more broadly, with the elements that make up society at its structural level.

Old and New Developmentalism

The developmentalism of the 1950s and the new developmentalism differ based on two variables that arose in this half-century: on the one hand, new historical facts that changed world capitalism, which moved from its "golden years" to the "globalization" phase; on the other hand, medium income countries like Brazil that changed their own development stages and are no longer marked by infant industries.

The main change at the international level was from the capitalism of the golden years (1945-1975), when the welfare state was assembled and Keynesianism ruled, while development economics prevailed as a theory and a practice of economic development, to the neo-liberal capitalism of globalization, where growth rates are smaller and competition among nation-states is far fiercer. In the golden years, medium income countries still posed no threat to rich nations. Since the 1970s, however, with the NICs (newly industrializing countries) and, since the 1990s, with China, they became much more competitive: the threat their cheap labor poses to rich nations is clearer than ever. At that time, rich nations, and the United States in particular, in need of allies for the Cold War, were far more generous; today, only the poorest African countries can expect some

generosity—but even these must be wary, because the treatment the rich nations and the World Bank afford them and the help, or alleged help, they receive are often perverse.

The main difference, at the national level, is that industry was in its infancy at that time; it is now mature. The import-substitution model was effective, between the 1930s and the 1960s, in establishing the industrial bases of Latin American countries. Since the 1960s, however, they should have begun dropping protectionist barriers and orienting themselves towards an export-led model, under which they might show themselves as competitive manufactured-goods exporters. But they did not, probably due to an export pessimism that faded out only in the 1970s. It was only in the early 1990s that trade liberalization took place, in the middle of a major economic crisis, often hurriedly and haphazardly. This 20-year lag was one of the greatest distortions endured by the developmentalism of the 1950s.

New developmentalism is not protectionist: it simply emphasizes the need of a competitive exchange. It assumes that medium income countries have already overcome the infant industry stage but still face the "Dutch disease": the tendency of countries that produce low per capita value-added goods using cheap natural resources to experience the relative appreciation of the exchange rate coupled with the current account balance, thus making unviable the key condition for growth: the transference of labor from low to higher per capita valued-added goods. Such transference requires not protection but management of the exchange rate to neutralize this market failure (the Dutch disease), thus supporting potentially viable industries with high knowledge that adopt state-of-the-art technology (Bresser-Pereira, 2007, ch. 4). Unlike old developmentalism, which embraced the exporting pessimism of development economics, new developmentalism lays odds on developing countries' ability to export medium value-added manufactured goods or high value-added primary products. The experience of the past 30 years has clearly shown that this pessimism was one of the great theoretical mistakes of development economics. In the late 1960s, Latin American countries should have begun shifting decisively from the import-substitution to the export-led model, as did Korea and Taiwan. In Latin America, Chile was the first to effect such a change and, as a result, its development is often pointed out as an example of a successful neo-liberal strategy. In fact, neo-liberalism was fully practiced in Chile only between 1973 and 1981, coming to an end with a major balance-of-payments crisis in 1982.[10] The export-led model is not specifically neo-liberal because, strictly speaking, the neo-classical economic theory that underlies this ideology has no room for development strategies. Dynamic Asian countries, having adopted a developmentalist strategy in the 1950s, lent it a manufactured-goods exporting nature in the 1960s and, since the 1970s at least, can be regarded as new developmentalist countries. The export-led model has two main advantages over the import-substitution model. First, the market available to industries is not constrained to the domestic market. This is important for small countries but equally fundamental to a country with a relatively large domestic market, such as Brazil. Second, if a country adopts this strategy, economic authorities, making industrial policy to benefit their firms, get access to an efficiency criterion to guide themselves: only firms that are efficient enough to export will benefit from the industrial policy. In the case of the import-substitution model, very inefficient firms may be enjoying the benefits of protection; in the case of the export-led model, the likelihood of this happening is substantially smaller.

The fact that the strategy new developmentalism stands for is not protectionist does not mean that countries should be willing to accept indiscriminate openness. They must

[10] See Dias-Alejandro (1981) and Ffrench-Davis (2003).

negotiate pragmatically at the level of the World Trade Organization and regional accords to secure mutual openness. And, above all, it does not mean that the country should give up industrial policies. Room for these has been reduced by the highly unfavorable agreements made in the WTO's Uruguay Round, but there is still room for such policies, if considered strategically, in consideration of future comparative advantages that may arise as some supported firms achieve success.

New developmentalism rejects misled notions of growth based chiefly on demand and public deficit that became popular in Latin America in the 1960s. This was one of the most severe distortions that developmentalism endured in the hands of its latter-day populist advocates. The theoretical roots of this national development strategy lie not in Keynesian macroeconomics and in development economics, which, in turn, are based mainly on classical economics. Keynes pointed out the importance of aggregate demand and legitimized resorting to public deficits in recessive periods, but he never stood for chronic public deficits. He always assumed that a fiscally balanced national economy might, for a brief while, give up this balance to reestablish employment levels. [11] The notable economists who formulated the developmentalist strategy, such as Furtado, Prebisch, and Rangel, were Keynesian, and they regarded aggregate demand management as an important tool for promoting development. But they never defended the economic populism of chronic deficits. Those who came in their wake, however, did. When Celso Furtado, faced with the severe crisis of the early 1960s, proposed his *Plano Trienal* (1963), these second-class followers accused him of having an "orthodox rebound." In fact, what Furtado already saw, and what new developmentalism firmly defends, is fiscal balance. New developmentalism defends it not due to "orthodoxy" but because of the realization that the state is the nation's *par excellence* collective-action instrument. If the state is so strategic, its apparatus must be strong, sound, and capacious, and, for this very reason, its finances must be in balance. More than this, its debt must be small and long in maturity. The worst thing that can happen to a state as an organization (the state also stands for the rule of law) is to be in thrall to creditors, be they domestic or foreign. Foreign creditors are particularly dangerous, for they and their capital may, at any time, leave the country. However, domestic creditors, transformed into rentiers and supported by the financial system, can impose disastrous economic policies on the country, as has been the case in Brazil.

Chart 1: Old and New Developmentalism, Compared

Old Developmentalism	New Developmentalism
1. The state plays a leading role in terms of forced savings and investment in firms.	1. The state has a subsidiary, but important, role in both activities.
2. Industrialization is based on import substitution and trade is export pessimistic.	2. Growth is export-led and trade is export-realistic.
3. There is a certain complacency towards inflation.	3. There is no complacency towards inflation.

[11] See Bresser-Pereira and Dall'Acqua (1991).

The third and final difference between the developmentalism of the 1950s and new developmentalism can be found in the state's role in promoting forced savings and investing in the economic infrastructure. Both forms of developmentalism cast the state in a leading role as regards ensuring the proper operation of the market and providing general conditions for capital accumulation, such as education, health, transportation, communications, and power infrastructures. In addition, however, under the developmentalism of the 1950s, the state also played a crucial role in promoting forced savings, thereby contributing to countries' primitive accumulation process; furthermore, the state made direct investments in infrastructure and heavy industry, where the investments required were too high for the private sector's savings.

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

In sum, and, again, because medium income countries are at a different stage, new developmentalism regards the market as a more efficient institution, one more capable of coordinating the economic system than did old developmentalism, although the perspective is far from conventional orthodoxy's irrational faith in the market.

New Developmentalism and Conventional Orthodoxy

Let us examine the differences between new developmentalism and conventional orthodoxy. Conventional economic orthodoxy or conventional economic knowledge is made up of the set of theories, diagnoses, and policy proposals that rich nations offer to developing countries. It is based on neo-classical economics but is not to be confused with it, because it is not theoretical but openly ideological and oriented towards proposing institutional reforms and economic policies. While neo-classical economics is based on universities, particularly in the US, conventional orthodoxy springs mainly from Washington, home to the US Treasury Department and to the two agencies that are supposedly international but are, in fact, subordinate to the Treasury: the International Monetary Fund and the World Bank. The former is charged with macroeconomic policy and the latter with development. Secondarily, conventional orthodoxy originated in New York, the seat or point of convergence of major international banks and multinationals. Therefore, we may say that conventional orthodoxy is the set of diagnoses and policies intended for developing countries and originating in Washington and New York. Conventional orthodoxy changes over time. Since the 1980s, it has become identified with the "Washington Consensus," which cannot be understood simply as a list of ten reforms or adjustments that John Williamson wrote in the paper that gave birth to the expression. (His list included reforms and adjustments that are, indeed, necessary.)[12] The Washington Consensus is, in fact, the effective shape that the neo-liberal and globalist ideology has taken at the level of economic policies recommended to developing countries.

[12] Williamson (1990).

In some works, I distinguish between the First and the Second Washington Consensus, to highlight that the former, materialized in Williamson's list, is concerned mostly with the macroeconomic adjustment that became needed as a result of the great debt crisis of the 1980s, while the second, prevalent since the 1990s, also intends to operate as a development strategy based on an open capital account and on growth with foreign savings. Together, however, they form a single consensus—that of rich nations in relation to their competitors, the medium income countries. Although the term Washington Consensus is useful, I prefer "conventional orthodoxy," because it is more generic and portrays a certain "orthodoxy" as merely conventional.[13]

Conventional orthodoxy is the means by which the United States, at the level of economic policies and institutions, expresses its ideological hegemony over the rest of the world and mainly over dependent developing countries that lack nations strong enough to challenge this hegemony, as has been traditionally the case of Latin American countries. This hegemony purports to be "benevolent," while, in fact, it is the arm and mouth of neo-imperialism—that is, an imperialism without (formal) colonies that established itself under the aegis of the United States and other rich nations after the classic colonial system ceased to exist, after World War II.

Inasmuch as conventional orthodoxy is the practical expression of the neo-liberal ideology, it is the ideology of the market vs. the state. While new developmentalism wants a strong state and a strong market and sees no contradiction between them, conventional orthodoxy wishes to strengthen the market by weakening the state, as if the two institutions were party to a zero-sum game. Since the second half of the 20th century, therefore, conventional orthodoxy has been a version of the *laissez faire* ideology that prevailed in the previous century. Disregarding the fact that the state has grown in terms of tax load and of the level of market regulation as a result of the increased dimensions and complexity of modern societies, and disregarding the fact that a strong and relatively large state is a requirement for a strong and competitive market, conventional orthodoxy is the practical reaction against the growth of the state's apparatus. Certainly, the state has also grown out of mere clientelism, to create jobs and employ the bureaucracy, but conventional orthodoxy is not interested in distinguishing legitimate state growth from illegitimate. It is the ideology of the minimal state, of the police state, of the state that is concerned only with domestic and foreign security, leaving economic coordination, infrastructure investments, and even social services like health and education to the devices of the market. It is the individualistic ideology that assumes that all are equally capable of defending their interests. It is, therefore, a right-wing ideology, an ideology of the powerful, the rich, the better educated—the high bourgeoisie and the high techno-bureaucracy. Its goal is to drive down direct and indirect real wages by leaving labor unprotected and, thus, making forms more competitive in an international market of developing countries and cheap labor.

The central difference between conventional orthodoxy and new developmentalism lies in the fact that conventional orthodoxy is market fundamentalist, believing that the market is

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

an institution that coordinates everything optimally if it is free of interference, while new developmentalism is pragmatic. It views the market as an extraordinarily efficient institution to coordinate economic systems but knows its limitations. Factor allocation is the task that it best performs, but, even there, it faces problems. In stimulating investment and innovation, it is insufficient. It fails to ensure an exchange rate that is consistent with the transference of man-power to higher value-added per capita industries. And, in distribution of income, it's a clearly unsatisfactory mechanism, because markets privilege the stronger and the more capable. While conventional orthodoxy acknowledges market failures but asserts that state failures are worse, new developmentalism rejects such pessimism on the possibilities of collective action and asks for a strong state—not as a trade-off of a weak market but combined with a strong market. If men are able to build institutions to regulate human actions, including the market itself, there is no reason why they are not able to strengthen the state organization or apparatus—making its administration more legitimate, its finances more solid, and its management more efficient—and to strengthen the state constitutional or law system, making its institutions increasingly adjusted to social needs. Politics and democracy exist precisely for that; and the more advanced democracies have been making major advances in this area in the last century.

Insofar as one of the foundations of new developmentalism is classical political economy, which was essentially a theory of the "wealth of nations" (Smith) or of capital accumulation (Marx), social structures and institutions are fundamental in its reasoning. Besides, as it adopts a historical approach to economic development, the teachings of the German historical school and of the American institutionalists are an essential part of its vision. [14] Thus, institutions are fundamental and to reform them is a permanent requirement, insofar as, in the complex and dynamic societies in which we live, economic activities must be constantly re-regulated. In contrast, conventional orthodoxy, based on neoclassical economics, only recently acknowledged the role of institutions, in the context of "new institutionalism." In contrast to historical institutionalism, which, in relation to economic development, sees obstacles to economic growth in precapitalist institutions and in the distortions of capitalist ones and searches actively to develop a set of institutions (a national growth strategy), new institutionalism offers a simplistic answer to the problem: it is sufficient that institutions guarantee property rights and contracts, or, more broadly, the good working of markets that will automatically promote growth. According to the neo-liberal jargon adopted, for instance, by *The Economist*, a good government will be a "reformist" one, involved in market-oriented reforms. According to new developmentalism, a government will be good in economic terms if it is able to promote economic growth and a more even distribution of income by the adoption of economic policies and institutional reforms that are oriented, whenever possible, to the market, but often correcting it—in other words, if it grows within the framework of a national development strategy. According to conventional orthodoxy, institutions should limit themselves almost exclusively to constitutional norms; according to new developmentalism, economic policies, and particularly monetary policies, must undergo permanent reform, permanent and gradual adjustment within the framework of a broader growth strategy. Industrial policies are also required, but, while old developmentalism gave a major role to them, new developmentalism uses a moderate industrial policy:

[14] The historical school is the school of Gustav Schmoller, Otto Rank, Max Weber, and, in a different line, of Friedrich List; the American institutionalist school is the school of Thorstein Veblen, Wesley Mitchell, and John R. Commons.

Government should act strategically only when the business enterprise that needs support shows that it is capable of competing internationally; an industrial policy that ends up confused with protectionism is not acceptable. For new developmentalism, a moderate interest rate and a competitive exchange rate are more important than an industrial policy.

New developmentalism and conventional orthodoxy share many institutional reforms, but their objectives are often different. Take, for instance, public management reform. New developmentalism supports it because it wants a more capable and more efficient state apparatus; conventional orthodoxy supports it because it sees in such reform an opportunity to reduce the tax burden. To new developmentalism, such a consequence may be desirable, but it is a different issue. The tax burden is a political question that depends on how democratic societies assign roles to the state, and on how efficient are public services. Another example: Both approaches favor more flexible labor markets, but new developmentalism looks at the experiences of Northern Europe and does not mistake flexibility for lack of protection, while conventional orthodoxy wants to make labor standards more flexible to weaken the labor force and reduce wages. In other reforms, the difference is one of degree. New developmentalism favors, for instance, an open and competitive economy because it sees commercial globalization as an opportunity for middle income countries, but it rejects unilateral opening and requires reciprocity from trade partners. And there are cases where there is definitive disagreement, such as with regard to opening capital accounts. While conventional orthodoxy strongly favors it, new developmentalism rejects it, because the middle income country loses control of the exchange rate. New developmentalism views commercial globalization as an opportunity but sees financial globalization as a risk that developing countries should not take.

In comparing new developmentalism and conventional orthodoxy, we can distinguish growth strategies from macroeconomic policies, although both are tightly correlated. Since growth is impossible without stability, let us begin by comparing macroeconomic policies. As we can see in Chart 2, both views value macroeconomic stability, but, while conventional orthodoxy reduces macroeconomic stability to price stability and control of the public debt, new developmentalism requires a moderate interest rate and a competitive exchange rate that guarantee the intertemporal equilibrium of public accounts (of the state) and of foreign accounts (of the nation-state). Conventional orthodoxy's approach may be summed up as follows: In order to guarantee macroeconomic stability, a country should achieve a primary surplus that keeps the public debt/GDP relation at an acceptable level for creditors. The central bank is supposed to have a single mandate, to control inflation, since it has at its disposal a single instrument, the short-term or basic interest rate. This rate is essentially endogenous, corresponding to the equilibrium or non-inflation-accelerating rate of interest, and, given the fiscal unbalance, it should be high. The exchange rate is also endogenous, i.e., it is market defined, and its equilibrium will be automatically ensured by the market once a floating exchange rate is adopted.

New developmentalism takes a substantially different approach, a Keynesian one: Fiscal adjustment should not have as a parameter primary surplus but the budget deficit and positive public savings that allow for the required public investments. The central bank, in association with the finance ministry, should not be limited to a single mandate but should have a triple one: to control inflation, to keep the exchange rate competitive (compatible with the current account balance and the gradual transference of manpower to more knowledge-intensive or high per capita value-added industries—something that a recurrent Dutch disease prevents), and to achieve reasonably full employment. In order to perform these tasks, the central bank functions not with a single instrument (which is

contradictorily viewed by conventional orthodoxy as endogenous) but with several instruments besides the interest rate: it may buy reserves and establish capital inflow controls to avoid a tendency to relative appreciation of the exchange rate that is frequent in medium income countries. The interest rate is an instrument to control inflation, but it may be considerably lower than conventional orthodoxy supposes; the exchange rate should be kept floating, but managed—there is no such a thing as a completely free exchange rate.

Chart 2: Macroeconomic Policies Compared

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

Let us now compare the growth strategies that I present in Chart 3, below. Conventional orthodoxy supports institutional reforms that reduce the size of the state and strengthen the market. It ascribes a minimum role to the state in investment and industrial policy, and it does not see any role for the nation (an absent concept). It proposes the opening of the capital account and a growth-*cum*-foreign-savings policy.

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

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

Mexico, Brazil, and, above all, Argentina, the IMF turned to full-floating exchange to solve all external problems.

The new developmentalism is strongly critical of this perspective and wants control not only over the state's public accounts (public deficit) but also over the nation's total accounts (current account). It wants not only for the state's debt to be low but also for the state to show positive public savings. It also wants a nation-state to have foreign accounts that ensure its national security and autonomy. It wants not only interest rate management but also foreign exchange rate management, even if it's within the framework of a floating rate regime—which it does not call "dirty," as conventional orthodoxy is wont to do, but "managed."

Chart 3: Growth Strategies Compared

Conventional Orthodoxy	New Developmentalism
1. Reforms reduce the state and strengthen the market.	1. Reforms strengthen the state and the market.
2. There is no economic role for the nation.	2. The nation defines a national growth or international competition strategy.
3. Institutions are supposed to merely protect property rights and contracts.	3. The national growth strategy is the key development institution.
4. The state has a minimum role in investing and in industrial policy.	4. The state has a moderate role in investing and in industrial policy.
5. Growth is financed with foreign savings.	5. Growth is financed with domestic savings.
6. Capital accounts are open and the exchange rate is not managed.	6. Capital inflows are controlled when necessary to manage the exchange rate.

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

The policies derived from sound development macroeconomics must necessarily be oriented to responsible fiscal practices, a moderate average interest rate, and a competitive exchange rate; this is the policy tripod of new developmentalism. When macroeconomists in rich countries discuss monetary and fiscal policies in their own countries they do diverge, but they agree on the three points. The conventional orthodoxy that is applied in developing countries, however, shows a quite different practice. Although it is always asking for fiscal discipline, it is soft on this matter; Brazil, for instance, has achieved each

year for the last eight years the fiscal target defined by conventional orthodoxy,[15] but fiscal problems have not been overcome. Conventional orthodoxy shows no discomfort in asserting that Brazil's real equilibrium interest rate is 9% a year and in defending the central bank's interest rate policy that averaged 12% in real terms in the last years—a short-term interest rate that, in the special case of Brazil, directly burdens the public debt.[16] And conventional orthodoxy insists, against evidence, that it is impossible to manage the long-term exchange rate; this may be true for the United States, where the dollar is the international reserve money, but it is not true for other countries.

Out of these three policies, the crucial one is the requirement of a competitive exchange rate. I understand by "competitive" or "real equilibrium exchange rate" the exchange rate that more than equilibrates intertemporally the current account, ensuring the competitive viability of industries using state-of-the-art technologies. Developing countries face a tendency toward the relative overvaluation of their currencies for several reasons: In the case of a growth-*cum*-foreign-savings policy, the overvaluation implies a current account imbalance; in the case of the Dutch disease, a relatively overvalued currency that makes economic development just not possible is consistent with current account equilibrium. There is nothing more disagreeable to conventional orthodoxy than the exchange rate topic. For years and years, development economists did not discuss the exchange rate—that was the concern of macroeconomics. A competent development macroeconomics and, in strategic terms, new developmentalism are correcting the course and showing how central the exchange rate is to not only keeping the current account balanced but also promoting savings and investment.

Conclusion

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

Can new developmentalism become hegemonic in Latin America as developmentalism was in the past? The conventional proposal's failure assures me that, yes, it can. Argentina's 2001 crisis was a turning point: the requiem of conventional orthodoxy. No country was more faithful in the adoption of its prescriptions; no president was ever more dedicated to confidence-building than Menen. The results are common knowledge. On the

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[15] Between 1999 and 2002, the primary surplus target defined by IMF was 3.5% of GDP; after that, the target was increased to 4.25%.

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

other hand, new developmentalist thinking is renewing itself. It has available a younger generation of development macroeconomists who are able to think on their own account instead of just accepting the recommendations of the international financial institutions. There is, however, an issue of ideological hegemony to resolve. Latin American countries will only resume sustained development if their economists, businessmen, and state bureaucracy recall the successful experience that old developmentalism was, and reveal themselves capable of taking a step ahead. They have already criticized the former mistakes and realized the new historical facts that affect them. They must now acknowledge that the national revolution that was under way, with the old developmentalism as the national strategy, was interrupted by the great crisis of the 1980s and by the neo-liberal ideological wave from the North. They must perform an in-depth diagnosis of the quasi-stagnation that conventional orthodoxy caused. They are supposed to consider that the key policies that need change are the macroeconomic ones, particularly the ones related to the interest and the exchange rates. They must turn an attentive eye towards the national development strategy of dynamic Asian countries. They must become involved in the great collective national work of rejecting the macroeconomics of stagnation that conventional orthodoxy implies, and of formulating a new national development strategy for their countries. I believe that this resumption of awareness is fully under way. Latin America's development has always been "national-dependent," because its elites were always in conflict and ambiguous—now affirming themselves as a nation, now yielding to foreign ideological hegemony. There is a cyclical element to this process, however, and everything seems to indicate that the time of neo-liberalism and conventional orthodoxy has passed and that new perspectives are opening up to the region.

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