VULGAR KEYNESIANISM AND THE NEW DEVELOPMENTISM

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Populist Keynesians are for chronic public deficits. Keynes only supported budget deficits in recession moments, and to finance investment, not current expenditures.

We have recently observed an undue association between the "New-developmentism" - understood as the set of ideas, institutions, and policies by which middle-income countries try to reach the per capita income level of developed countries - and something we might call "vulgar Keynesianism", that is, the idea that the occurrence of chronic and growing fiscal deficits is necessary to maintain the "full employment" of the workforce. According to the supporters of this association, the "New-developmentism" would be characterized by the adoption of deliberate policies destined to increase the fiscal deficit as a means of promoting employment, social equity, and an increase in the standard of living of the population. In this setting, the defense of "fiscal austerity" made by some economists who call themselves "New-developmentists" would actually be an admission of their submission to economic orthodoxy and to Neoliberalism. Besides, as argue the advocates of this idea, "fiscal austerity" is, per se, incompatible with Keynesian macroeconomics, which establishes that fiscal deficits are necessary to achieve full employment in a capitalist economy.

It is completely incorrect to assume that the writings of John Maynard Keynes support the defense of chronic and growing fiscal deficits as a means of enabling the full employment of the workforce. As well remarked by Bradley Bateman in a recent essay on "Keynes and Keynesianism" (2006), published by the Cambridge University Press, the association of the name of Keynes with "fiscal populism" was due to two liberal economists, Buchanan and Wagner, in a book published in 1976, called "Democracy in deficit: the political legacy of Lord Keynes". In this book, whose aim was to attack the bases of the "Welfare State" built in the post-World War II, the authors give a caricature of Keynes' ideas, by associating them with the lack of fiscal control, inflation, and high unemployment that were observed in developed countries after the collapse of the Bretton Woods system and the first oil shock.

However, as well stressed by Bradley, Keynes opposed the indiscriminate use of fiscal deficits to encourage the economy. Actually, the fiscal policy Keynes defended was based on the separation between government's current budget and capital budget. The current budget should be permanently balanced, regardless of the current state of the economy. The capital budget would therefore play the role of an anti-cycle fiscal policy, where would be registered the discretionary expenses with investment projects and the revenues provided by them. After a few periods, the

capital budget should be balanced with the revenues from the previously made investment projects, covering the new investment expenses, as in a "rotation fund". The capital budget might, however, present occasional deficits in those years where it would be necessary to foster the economy with additional investment expenses.

But more important than the occasional deficits in the capital budget, would be the role of the "socialization of investment", that is, the increased participation of the State in the gross formation of fixed capital, in the stabilization of economic cycles. Since Keynes believed that economic cycles were the outcome of investment fluctuations caused by the change in the entrepreneurs' "state of mind", the "socialization of investment" would help to reduce the range of investment fluctuations, thus contributing to stabilize the economy.

One of the theoretical foundations of the New-developmentism is Keynesian macroeconomics. Consequently, for the new-developmentism, as for Keynes, the stabilization of the economy should be made through the "socialization of investment". For the New-developmentism, fiscal deficits should be fundamentally avoided because they weaken the State's ability to autonomously conduct the macroeconomic policy, that is, they decrease its ability to conduct the monetary policy and the exchange rate policy independently of rent-seekers' interests. Actually, an indebted State is a State that becomes hostage to the interests of the financial system, since it becomes dependent on the financing of the public debt, which is intermediated by the banks. The exponents of the "vulgar Keynesianism" will fight this idea by arguing that the State can always opt for financing its deficits through money issue, so that the existence of public deficits per se is not incompatible with the autonomy of monetary and exchange rate policy. The problem is that this solution is highly inflationary, except for periods during which the economy presents an acute underutilization of productive capacity. In normal conditions of use of capacity, the currency issuance required for financing public deficits of 2% to 4% of GDP will produce a huge increase in the aggregate demand, making it impossible to adjust the aggregate supply without a significant increase in the inflation rate.

The decrease in the State's ability to autonomously conduct the macroeconomic policy is even greater when the indebtedness of the public sector is not only high as a proportion of GDP, but is also fundamentally a short-term one. This is precisely the Brazilian case. Despite the proclaimed "fiscal adjustment" that would have been made after the implementation of the present tripod of macroeconomic policy - inflation targeting, floating exchange rate, and primary surplus - the indisputable fact is that the Brazilian State not only continues to show a high operating deficit (amounting to 2.52% of GDP in the 12-month aggregate up to November, 2009), but also has an eminently Ponzi financial attitude, since the primary surplus is insufficient even to pay the interests on the gross debt of the public sector. Due to the limited term to maturity of the public debt, the interests and the repayments exceed over five times the primary surplus. This high Minskian financial fragility makes the Brazilian State extremely susceptible to mood changes of the buyers of government bonds, who may, at anytime, sabotage macroeconomic policies they disapprove of by refusing to refinance the public debt.