Defining the New-Developmental Economics

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New-Developmental Economics (NDE) or New Developmentalism is an economic theory under construction since the early 2000s. It originates from the Classical Political Economy, the Post-Keynesian Economics, and the Classical-Developmental Theory, which, in Latin America, was also called Structuralist Latin-American Theory and in the North, Development Economics.

It is a theory that

- Views economic development as a priority objective for countries – an objective rather in line than in conflict with the other major political objectives of modern societies: national autonomy, security, individual freedom, social justice and protection of the environment.
- Considers two institutions that coordinate a capitalist economy: the state, which is the constitutional-legal system and the organization that guarantees it, and the market, which is irreplaceable in coordinating competitive industries.
- Has as objective the study of capitalist societies formed as nation-states – how they allocate resources, achieve stability, grow, reduce economic inequality, and protect the environment.
- a Views two historical forms of coordinating national capitalist economies: developmentalism, which combines a moderate intervention of the state in the economy, and economic liberalism, where the state only guarantees property rights and contracts and the fiscal account.
- Claims that markets coordinates in a superior way the competitive sectors of an economy, while states coordinate the non-competitive sectors, the macroeconomic prices, the distribution of income and the protection of the environment.

NDE comprehends a political economy, a macroeconomics, a microeconomics, a distribution theory, and an environmental approach.

As a political economy, it supposes that in order to develop each nation-state must count on a class coalition, a developmental state, and on economic nationalism:

- a class coalition formed mainly of industrial entrepreneurs, the waged and salaried class, and the public bureaucracy;
- a developmental state which intervenes moderately in the economy; and
- adopts economic nationalism, thus defining a national development project, while rejecting ethnic and cultural nationalism and defending cooperation with other nation-states.

As a microeconomics, it supposes that in order to develop each nation-state must,

- invest in education, public health and the infrastructure; create a social security and a basic income system, and build an institutional system that regulates and strengths markets;
- develop a state organization formed of professional civil servants and elected politicians among who there a reasonable number that are endowed of civic virtues and are able to opt for the public interest even when it is in conflict with his private interest;

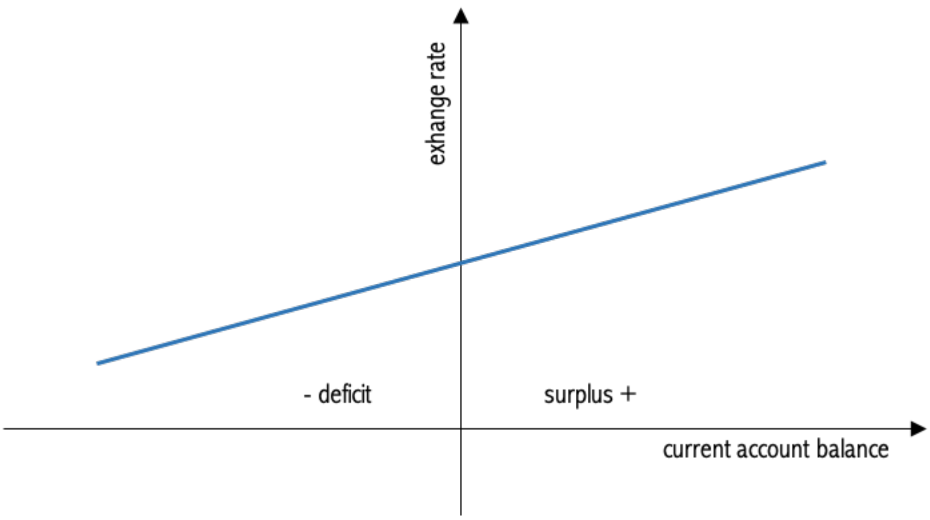
- increase the productivity via either (in the case of developing countries) the transference of labor to the most technologically sophisticated economic sectors which have a higher value added per capita and pay higher wages, or, mostly in the case of developed countries, via the expansion of the technological frontier in order to benefit from the increasing returns to scale;
- the state must intervene only in the non-competitive sectors of the economy, mainly the infrastructure, the basic inputs industry, and the major banks, while leaving the coordination of the competitive sectors to the market, which is by far more efficient in this case, strategically complemented by industrial policy;

As a macroeconomics, NDE assumes that the market is unable to guarantee the equilibrium of the current account equilibrium and keep right the macroeconomic prices (interest rate, exchange rate, wage rate, inflation rate and profit rate) and advocates that the state:

- should keep balanced the fiscal account, this seen as consistent with
    - practicing a Keynesian countercyclical fiscal policy
    - investing in the infrastructure setting a minimum public investment;
    - limiting current expenditures setting a ceiling for them proportional to GDP;
    - defining a minimum public investment in relation to GDP;
- should keep balanced the external or current account, this seen as involving
    - the rejection of the growth with foreign indebtedness policy (see below);
    - the achievement of a surplus when the country suffers from the Dutch disease;
- search to manage the five macroeconomic prices,
    - keeping the interest rate in a relatively low level around which it realizes its monetary policy,
    - assuring a competitive exchange rate
    - and a satisfying profit rate for all companies, particularly for the technologically more sophisticated;
- consider that the exchange rate is in equilibrium when it balances intertemporally the current-account; it is competitive when it makes competitive the tradable non-commodity companies utilizing the best technology available in the world;
- consider that the determination of the exchange rate depends
    - on the scarcity or profusion of capitals, which will push the interest rate up or down;
    - on the level of aggregate demand;
    - on the requirements of the monetary policy;
    - the interests and political power of rentier capitalists and financiers.
    - on the adoption (or rejection) of the growth with foreign indebtedness policy, considering that :
        - recurrent current account deficit associate to the growth with foreign indebtedness policy appreciate the currency
        - recurrent current account surpluses are an indication that the country has a policy of limit consumption and increase the competitiveness of the manufacturing industry;
        - a relatively balanced current-account shows that the country does not adopt any of the two previous policies;

- should reject a policy of growth with foreign indebtedness and current account deficits (unless exceptionally, when the country is growing rapidly and the marginal propensity to invest increases),
    - not only because they may develop into a currency crisis,
    - but because, before that happens, the additional capital inflows required to finance the deficit appreciate the exchange rate and make the country's companies producing competently tradable goods and services non-competitive although adopting the best technology available;

Figure 1: Current-account balance and the exchange rate



- consider that in developing countries the exchange rate tends to follow a cyclical pattern, which begins with currency crisis and ends with another one, as we can see in Figure 2.
- consider that when the country has Dutch disease, the state must adopt policies that neutralize it by eliminating the difference between the current equilibrium (which balances intertemporally the current-account) and the "industrial equilibrium" – the exchange rate that make competitive not only the commodities but also the tradable non-commodity goods and services; in consequence the country will realize a current account surplus whose size will depend on the severity of the disease (Figure 3).

Figure 2. Exchange rate and current equilibrium in developing country

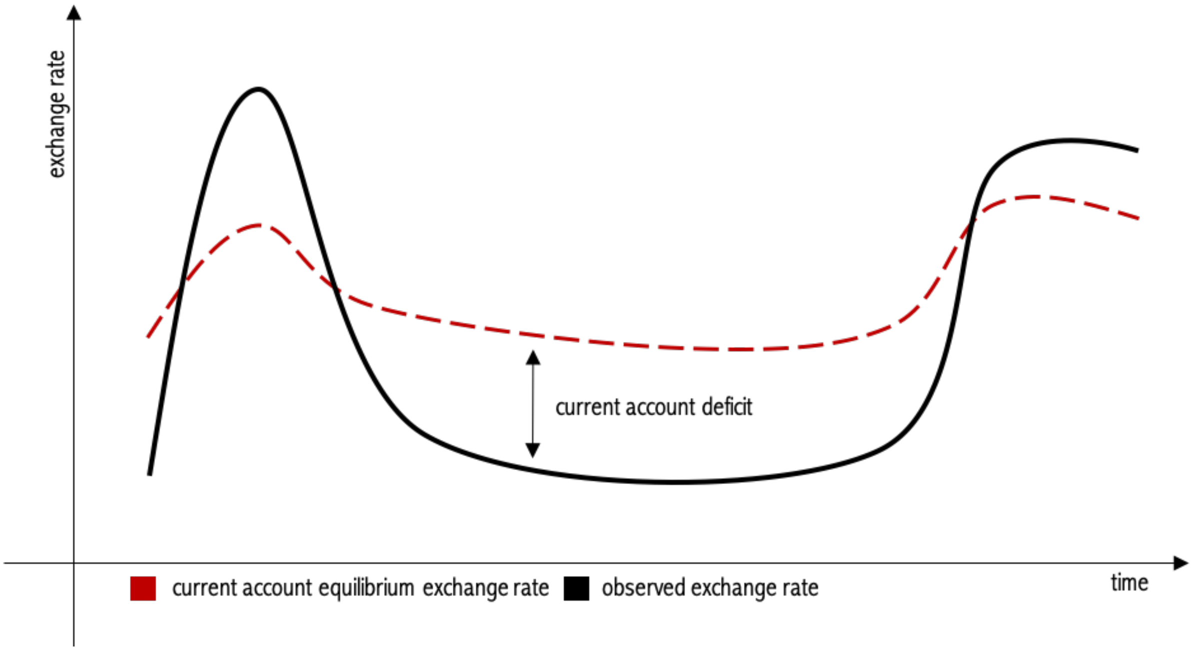
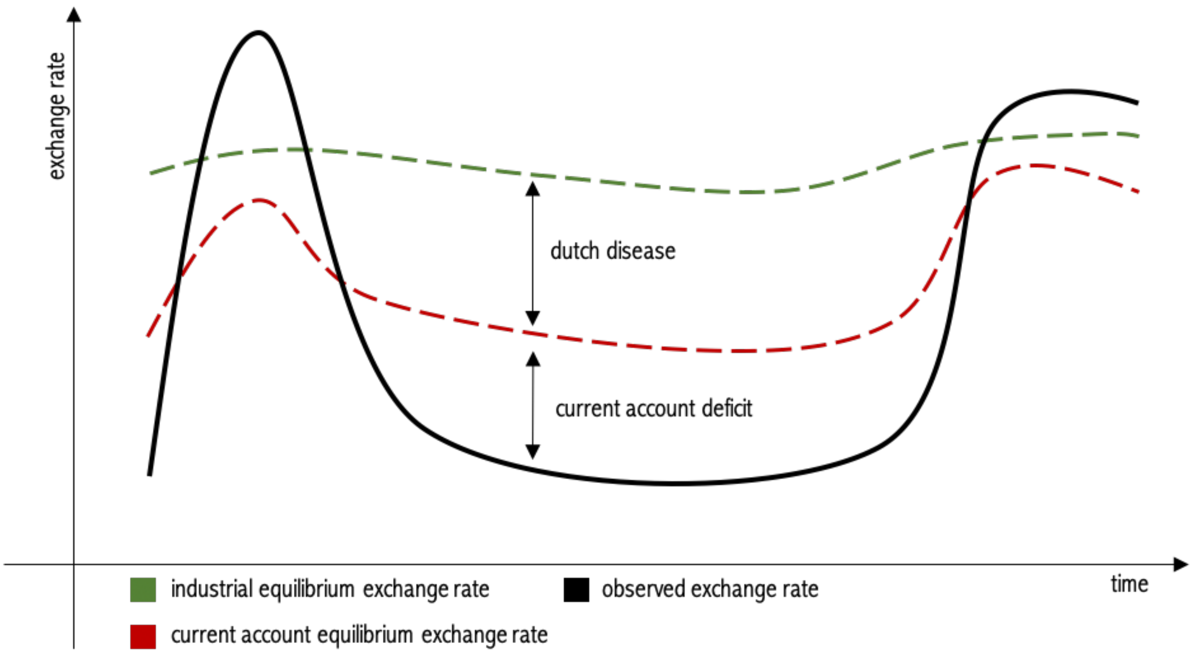


Figure 3: Exchange rate and competitive equilibrium in country with Dutch disease



As a theory and distribution policy, NDE defends the intervention of the State in the distribution of income to neutralize the tendency to increase of economic inequality that derives either from the tendency to the fall of the productivity of capital, or from the continuous process of capital and wealth accumulation on the hands of rentier capitalists. On these two assumptions, NDE defends that the state

- define a minimum wage;
- keep the interest rate in a low level around which the central bank makes its monetary policy;
- search to arbitrate the labor-business conflict assuring that wages increase with productivity;

- adopt a progressive tax structure;
- tax to build a social or welfare state, on the assumption that collective consumption is more efficient than just increasing wages.

As an environmental approach that sees climate change as a major threat to humanity, but understands that economic growth is rather a tool to limit global warming than to causing it, and defends that the State

- encourage investment into green energy and in technology carbon free,
- tax companies and individuals that emit carbon dioxide; and
- impose import tariffs on the countries that don’t tax their own emissions.