

# **NEW DEVELOPMENTALISM AND CONVENTIONAL ORTHODOXY COMPARED**

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Notes for the oral presentation in the panel “Neo-liberalism in Latin America: Successes and Failures”.  
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## **The neo-liberal and globalist ideological waves**

Neo-liberalism in Latin America was a ideological wave that followed, with around a 10 years lag, the neo-liberal wave in the US.

In the United States it was initially a reaction to the growth of the welfare state and to the organization of workers. It began,

in the academic realm, with the end of the Keynesian consensus, and the restoration of neoclassical economics, still in the seventies;

in the political arena, with the Reagan administration;

and in the policy realm, with World Bank’s ‘conversion’ to the neo-liberal credo.

At the international level, the neo-liberal wave was a reaction to the competition represented by the new industrializing countries.

The neo-liberal happened simultaneously with globalization and the rise of a parallel ideology: globalism.

Neo-liberalism preached the minimum state, the full coordination of the economy by markets.

Globalism asserted the loss of relevance of the national states, and the existence of a only way, a straightjacket, to achieve growth: the neo-liberal way.

The neo-liberal wave started to to end in the US in 1992, with Clinton's victory in 1992 presidential elections, and definitely ended in 1996-1997, with Clinton's reelection in one year and the Asian crisis in the other.

Today, neo-liberalism is just a conservative ideology fighting for recognition.

It is not dead, because it is a classical capitalist or bourgeois ideology – and capitalism is stronger than ever. It is significant, however, that the conservative Bush administration cannot be labeled neo-liberal.

Yet, globalism and corresponding the strategy of growth with foreign savings were strengthened in the Clinton administration.

In Latin America, the neo-liberal wave and globalism were checked by the Mexican 1994 crisis, and by the Brazilian 1998 crisis, but just lost dominance with the 2001 Argentinean crisis.

Globalism, however, remains strong. And in the Bush administration gained imperial character.

Globalism and neo-liberalism appear in economic policy on the form of a 'conventional orthodoxy', adopted by the Washington authorities and by the economists working for financial institutions in New York.

### **Which are the alternatives to neo-liberalism?**

Conventional orthodoxy asserts that the only alternative is economic populism – what is the same that to say that there is no alternative.

Economic populism is the corrupted form of import substitution developmentalism.

Yet, there is an alternative: **structuralist new developmentalism**.

It is the alternative that I have been proposing in association with Yoshiaki Nakano.

It the may be dominant in the 2000s if it theoretical and ideological consistency is strong enough to gain Latin America's civil society, providing the foundations for a new business-labor-middle class political pact.

### Comparing the two relevant views

|                                             | <b>Conventional orthodoxy</b>                                        | <b>Structuralist New Developmentalism</b>                                     |
|---------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------------|
| <b>General orientation</b>                  | Markets are efficient: state failures are worse than market failures | Markets are efficient but its failures may be minimized by economic policy.   |
| <b>Institutional reforms</b>                | Essential: Market oriented & State diminishing                       | Necessary: Market oriented & State capacity building                          |
| <b>Major policy objective</b>               | Price Stabilization                                                  | Economic growth & macro-stabilization                                         |
| <b>Growth strategy</b>                      | Growth with foreign savings & Open capital accounts                  | Promote domestic savings & competitive exchange rate                          |
| <b>Macroeconomic stabilization</b>          | Price stabilization and fiscal balance                               | Price stabilization, fiscal balance, current account balance, full employment |
| <b>Current account policy (macro)</b>       | Full floating or dollarization                                       | Managed floating aiming competitive exchange rate                             |
| <b>Fiscal policy(macro)</b>                 | Primary surplus                                                      | Positive public savings                                                       |
| <b>Unemployment policy (macro)</b>          | No policy required except labor deregulation                         | Low interest rates & Public investments                                       |
| <b>Monetary policy</b>                      | Increase interest rate whenever inflation rises                      | Increase interest rate only when there is excess demand                       |
| <b>Attitude toward the North</b>            | Confidence building or achieving credibility                         | Competitive autonomy (think with own head)                                    |
| <b>Price stabilization policy (macro)</b>   | Primary surpluses & High interest rates & Low exchange rate          | De-indexation, fiscal balance & trade opening                                 |
| <b>Political strategy(dev)</b>              | International and local business empowerment                         | Local business and civil society empowerment                                  |
| <b>Income distribution policy (justice)</b> | Targeting (& Overvalued currency)                                    | Social expenditures & Distribution from now on                                |