# New developmentalism and developmental macroeconomics

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# Introduction

# Three meanings of the word "developmentalism"

1. A form state and of capitalism alternative to economic liberalism really existing

- Ex: Mercantilism, Bismarckism, Golden Years Capitalism, National-developmentalism, Developmentalism social

2. An ideology

- Associated to nationalism (economic)

3. A theory

- Classical developmentalism (1940s-1960s)

New developmentalism (from 2000s…)

# Definitions

- As a form of state and of capitalism developmentalism is characterized by

1. moderate state intervention aiming at economic growth,
2. economic nationalism,
3. developmental class coalition

- As an ideology it views this form of state as superior to the alternative liberal form.
- As a theory, it complements mainly classical and post-Keynesian economics.

# New developmentalism

- Is formed of
1. New-developmental political economy
2. New-developmental macroeconomics
3. New developmental microeconomics (just a draft)
- It is oriented to developing countries, particularly to middle-income countries.
- It is focused in the current-account deficit and in the exchange rate.

# ND adopts the historical-deductive method

- ND adopts the historical-deductive method of Smith, Marx and Keynes: the derivation of theories from the observation of regularities and tendencies.
- It rejects the hypothetical-deductive method, which is valid for methodological sciences as econometrics and economic decision making theory, not for a substantive science as economics is.
- Yet, it accepts some conditional economic syllogisms – logical constructs like the Balassa-Samuelson effect – provided that the major premise is conditional.
- From economic syllogisms or theorems one does not derivate policy. To do that is to fall into Schumpeter's "Ricardian vice".
- Policy must de derivate from historical models.
- The historical models don't lead to certitudes, but to things that happen "generally", "probably".

# New developmentalism originates from two historic economic theories

- Classical Developmentalism (Nurkse, Lewis, Prebisch, Furtado), which
1. Lacks a macroeconomics
2. Defends protectionism
- Post-Keynesian Macroeconomics. in some cases, together with Classical Developmentalism
1. Aren't adapted to middle-income countries
2. Sponsor growth with foreign savings
3. Don't have a theory on the exchange rate
4. Don't have a model of Dutch disease
5. Don't have a proposal of exchange rate policy
6. Don't propose an export-led strategy
7. Don't have a theory for currency crises.

## New developmentalism is a response to inconformity & unsatisfaction

- Inconformity with the deindustrialization and low rates of growth of Brazil (and Latin America) since

1. The 1980's Foreign Debt Crisis
2. Trade and financial liberalization from 1990.

while East Asian countries continued to grow fast.

- Unsatisfaction with the explanations offered by the two schools of thought just referred.

# Unsatisfaction

- With post-Keynesian macroeconomics

1. It is not oriented to developing countries
2. It does not have a development theory

- With classical developmentalism

1. It does not have a macroeconomics
2. It defends protection, instead of equal competitive conditions.

- With both

1. Both defend growth with foreign savings or foreign indebtedness.

# 1- The Political Economy of New Developmentalism

# Two major revolutions in the history of mankind

- The Neolithic Revolution or Agricultural Revolution – around 10000 years BC – when economic surplus begins to materialize.
- The Capitalist Revolution (the formation of the nation-state and the Industrial Revolution) starting in the North of Italy and ending for the first time in England, 1750-1800 – when economic growth begins.
- After that, all countries have been trying to follow Britain's lead.

# Progress or Human Development

- Both concept were formed within capitalism, when economic development was emerging from the capitalist revolution.

1. Progress was originally a 18th century concept of the Illuminism.
2. Development (human), a 20th concept, which emerged from the Second World War.

- Despite their different origins, we may view progress and human development as synonyms.

# Concept of human development or progress

- The attainment of the political objectives that modern societies defined historically:

1. Improvement of standards of living (growth);
2. National autonomy;
3. Security or social order;
4. Individual freedom, democracy;
5. Social justice – reducing inequalities;
6. Protection of the environment.

- Considering that growth is a condition for the attainament of the other four objectives.

# Capitalism was born developmental with the industrial revolution

- Industrial revolutions were achieved in the setting of developmentalism or of the developmental state:

1. In the central original countries (England, France, Belgium) – mercantilism
2. In the central latecomer countries – Bismarckism and James Madison's infant industry argument.
3. In the peripheral independent countries (Japan, South Korea, China) – exporting oriented developmentalism.
4. In the national-dependent countries (Brazil, Mexico) – national-developmentalism.

# Historical forms of developmentalism

- 1st central original developm – Mercantilism
- 1st central latecomer develop–Bismarckism
- 2nd central developm – Golden Years
- 3rd central developm – ?

- 1st peripheral developm – Japanese model and national developmentalism

# Developmentalism is historically alternative to economic liberalism

- The alternative to capitalism is socialism
- But, considering capitalism, it is defined by two forms of economic and political organization and the respective ideologies:

1. Economic liberalism, arising from the realm of civil society and class struggle;
2. Economic nationalism or developmentalism, arising from the nation and national solidarity.

- The relation between these two elements is contradictory, and, so, dialectic, but essential for the "health" of capitalism.

# Semantic widening

- Viewing developmentalism as a form of economic and political organization of capitalism and in associating it to nationalism, I am proceeding a "semanting widening" of the word.
- Developmentalism ceases to be just a style of economic policymaking
- It is, rather, a form of organization and the ideology of the nation–state
- Developmental states tend to be more efficient than liberal countries.

# Two forms of informal political organization of capitalist societies

1. Civil society, where we have the objectives of individual freedom, social justice, and protection of the environment, in the setting of the class struggle.
2. Nation, where we have the objectives of national independence, security and economic development, in the setting of class cooperation against the foreign competitor.

- The nation and civil society use the state as its instrument of collective action.

# Territorial political societies

- The empires (and the tribes) were the form pre-capitalist politico-territorial societies.
- The nation-state or the country are the politico-territorial society proper of capitalism.
- The nation-states are formed by a nation (a form of society), a state (the major institution) and a territory.
- Nation-states compete with which other in achieving their main objective: growth.

# Social conditions for the success of capitalist societies

- A reasonably cohesive and solidary nation in competing with other countries in the achievement of the main political objectives, leading to progress or human development, particularly , autonomy, social order, and rise of standards of living.
- An active civil society in achieving – in the context of class conflict – individual freedom, social justice and protection of the environment.

# Successful nations form national class coalitions to influence the state

- National class coalitions assumes the distinction between capitalists:

1. entrepreneurial or active capitalists and
2. rentier capitalists.

They associate agents searching primarily profits and wages.

1. active capitalists
2. with workers and the technobureaucratic middle class,

- Against a liberal & dependent class coalition searching interests, dividends, and real state rents, formed of

1. Rentier capitalists, and the
2. Financiers who manage the wealth of the former.

# The role of the state in capitalist societies

- Economic role: to assure the general conditions for the accumulation of capital.

1. Institutions that assure property rights and contracts
2. Investments in the infrastructure
3. Investments in education and technology
4. A competitive exchange rate.

- General role: being the instrument of collective action of society to achieve progress, ie, its political objectives.

# Democracy and progress or human development

- The fulfillment of the economic role (the industrial revolution) happened in the context of authoritarian political regimes.
- The precondition for the achievement of the other objectives (general role), particularly social justice, was the transition to democracy.
- All industrial revolutions were achieved in the context of an autonomous nation, in the setting of an authoritarian regime.

# The first economic liberalism and the first developmentalism were authoritarian

- Liberalism and developmentalism are, originally, antidemocratic.
- The liberal philosophers rejected democracy because it would lead to "the tyranny of the majority".

- Today, after the advent of democracy, nation-states that did not make their industrial revolution will have to do them in the context of democracy. Not easy task.

# Three challenges that face pre-industrial countries

- Pre-industrial countries

1. To make their industrial revolutions in the context of democracy.

- Pre-industrial and middle-income countries

2.Do not fall in the trap of a high preference for immediate consumption or fiscal and exchange rate populism.

3.To be developmental or nationalist in economic terms, confronting ideological hegemony or soft power imperialism.

- Modern imperialism recommends current account deficits and full opening of the domestic markets.

# Modern or soft power imperialism

- The times are over:
- of mercantilist colonialism (1500-1808)
- of industrial colonialism (1808-1945).
- We live in the times of the West's soft power hegemony (modern imperialism), which has

1. as main objective occupying domestic markets, and
2. as means: persuading developing countries to engage into trade, financial, and multinational enterprises liberalization;
3. As direct consequence: high current account deficits (foreign savings),
4. As indirect consequences:

-Legitimation of the occupation of domestic markets by trade, international financial markets, and multinational enterprises.

-Exchange rate overvalued in the long-term, and

-High rate of substitution of foreign for domestic savings, and

-Low growth (underdevelopment).

# The challenge facing social-democratic new developmentalists

- It is to combine developmentalism with social-democracy and the protection of the environment.
- Is to govern capitalism more compently than capitalists,
- i.e., making consistent growth with stability, reduction of inequalities, and respect to the environment, which is a public good.

# 2. Microeconomics

(for the moment, just a draft)

# The classical microeconomic principles

- Firms operating in a national market have as objectives profits and capital accumulation.
- The national market coordinates production of the firms through the definition of prices.
- Goods and services have a value and a price.
- The value depends on the labor incorporated or, more simply, the cost of production.
- Prices fluctuate around the value according to the demand and supply.

# The Schumpeterian microeconomic principles

- Profit is a condition of investments and growth.
- The "normal profits" of full competition are not able to motivate business entrepreneurs.
- Thus they search to make innovations, which proportionate a competitive advantage.
- Among the innovations, the construction of monopolies and cartels make part of the game.

# The state, the market, two sectors, two institutions

- Two vertical sectors:
  micro and macroeconomics
- Two horizontal sectors:
- competitive and non-competitive sector.
- Two coordinative institutions:

1. The state – the main institution; the law and the organization that guarantees the law.
2. The market – the institution regulated by the state that coordinates via competition.

# What should the state and the market coordinate?

- The market
- It is much more effective in coordinating the competitive sectors
- It fails in coordinating the non-competitive sector and the five macroeconomic prices.
- The developmental state
- Leaves the competitive sector for the market.
- Plans the non-competitive sector, particularly the infrastructure.
- Adopts a very active macroeconomic policy – particularly an exchange rate policy.

# The state's main mission in middle-income countries

- Is not to protect infant industries (middle-income countries overcome this phase). .
- Is to guarantee the general conditions making competitive the competent firms
- by guaranteeing property rights and contracts
- by assuring a good infrastructure
- by keeping the macroeconomic prices right,
- principally by keeping the exchange rate competitive.

# Protection

- Emulation – is the main action aiming catching up.
- Protection or industrial policy
- -It was the main action proposed by Classical Developmentalism.

-It supposed pre-industrial countries.

- Equal conditions in competition – according to ND, this is the main action.
- Essentially, import tariffs may be zero or near zero, provided that the tendency to the cyclical and long-term appreciation of the national money is neutralized.

# What about industrial policy?

- Yes, industrial policy is important, but mainly in the case of infant industry.
- But it is not so important as it was for classical developmentalism, because it obeys the logic of protection from competition.
- The logic o new developmentalism is not the logic of protection, but the logic of equal conditions in competition.
- New developmentalism defends the insertion in international markets.
- Yet, not the the subordinate insertion defended by liberals, but a competitive insertion.

# 3. Macroeconomics

# Main theses of new developmental macroeconomics

1. There are five macroeconomic that the market is unable to keep right.
2. The investment function and the rate of growth depends on the (long-term) overvaluation of the exchange rate.
3. The determination of the exchange rate has as main cause the tendency to the cyclical and chronic (long-term) overvaluation of the exchange rate, which is caused:

   . In flow terms: by the three habitual policies: high interest rates, growth with foreign savings policy, exchange rate anchor against inflation.

   . in structural terms, by the Dutch disease;

   . In stock terms: by the long-term current account deficit, because there is a inverse relation between the exchange rate and the current account.. .
4. Thus, capital inflows financing current account deficits replace domestic savings, rather than get added to them.
5. Recurrent financial (balance of payment or currency) crises.

# The five "right" macroeconomic prices

Quite different from neoclassical "right prices".

| PRICES | THE "RIGHT" PRICES |
|---|---|
| Profit rate | Should be satisfying, sufficient to make business firms to invest. |
| Exchange rate | Should make competitive competent existing and potential firms. |
| Interest rate | Should be set at a low level, around which to conduct monetary policy |
| Wages | Should be consistent with a satisfying profit rate (growing with productivity). |
| Inflation | Should be below two digits. |

"Satisfying"– Herbert Simonb

# The investment function

## (on what depends the investment rate)

- Classical school: it depends on the expected profit rate and the interest rate;

- Keynes: OK, but the expected profit rate depend on demand, which is not assured by the market.

- New developmentalism: OK, but the expected rate of profit depends also on the access to demand, which is not assured when the tendency to the overvaluation of the exchange rate is not neutralized.

# 3. Determinants of the exchange rate or of the tendency to its overvaluation

- The exchange rate price depends

1. on the value of the foreign money, around which its price floats,
2. on the supply and demand of foreign money,
3. on the Dutch disease, which is a structural determinant.
4. on the long-term current account balance (in stock terms)

- Separately,

1. The value of the exchange rate or current equilibrium depends
   . on the comparative unit labor cost index CULCI
   . and the terms of trade.
2. The supply and demand of foreign money depend
   . on the three habitual policies.
   . On speculative capital flows, particularly carry trade
3. The Dutch disease is a structural determinant.
4. The is an inverse relation between the current account balance and the exchange rate price.

# 1. A value of the exchange rate

- The price of the foreign money floats around the value according to the demand and supply of foreign money.
- The value of the exchange rate is the current equilibrium – is the value that cover the cost plus reasonable profit of the tradable firms that participate from the international trade and assure the equilibrium of the current account.
- In the case of Dutch disease, the exchange rate continues to be determined by the current equilibrium, which depends on the commodities
- And we have a second value, the industrial equilibrium, relative to the non–commodity tradable goods.

# The value of the exchange rate depends on

- On changes in the comparative unit labor cost index (CULCI), which affects directly the cost of production and indirectly the current account.

1. ULC – wages / productivity
2. CULCI – compares the local ULC with a basket of ULCs of competing countries.

- Changes in the terms of trade, which affect directly the current account.

# Determinants of the two equilibriums

- There are two equilibriums of the exchange rate in value terms:

1. Current account equilibrium – the ER that balances intertemporally the current account.
2. Industrial equilibrium – the ER that makes competitive the existing or potential firms utilizing technology in the world state of the art.

# When the value or the current eq goes up, the ER depreciates

1. When CULCI goes up, and/or
2. When the terms of trade goes down

- the value increases and the exchange rate price depreciates

1. because the ER must depreciate to keep competitive the the firms and balanced the current account.

- This was what happened in Brazil recently (2014-15): the huge depreciation was caused by wages increasing more than productivity and, mainly, because the prices of the commodities fell sharply

# 2-The supply and demand of foreign money depends

- On the three habitual (equivocated) policies
1. Growth with foreign savings policy
2. Exchange rate anchor against inflation
3. High level of the interest rate.
- On the terms of trade
- On speculative capital inflows (particularly carry trade), which depends on
- Existence or not of capital controls,
- Confidence or creditworthy or the country, which depends
1. Debt ratios
2. Level of the current account deficit.

# Equilibriums and main determinants

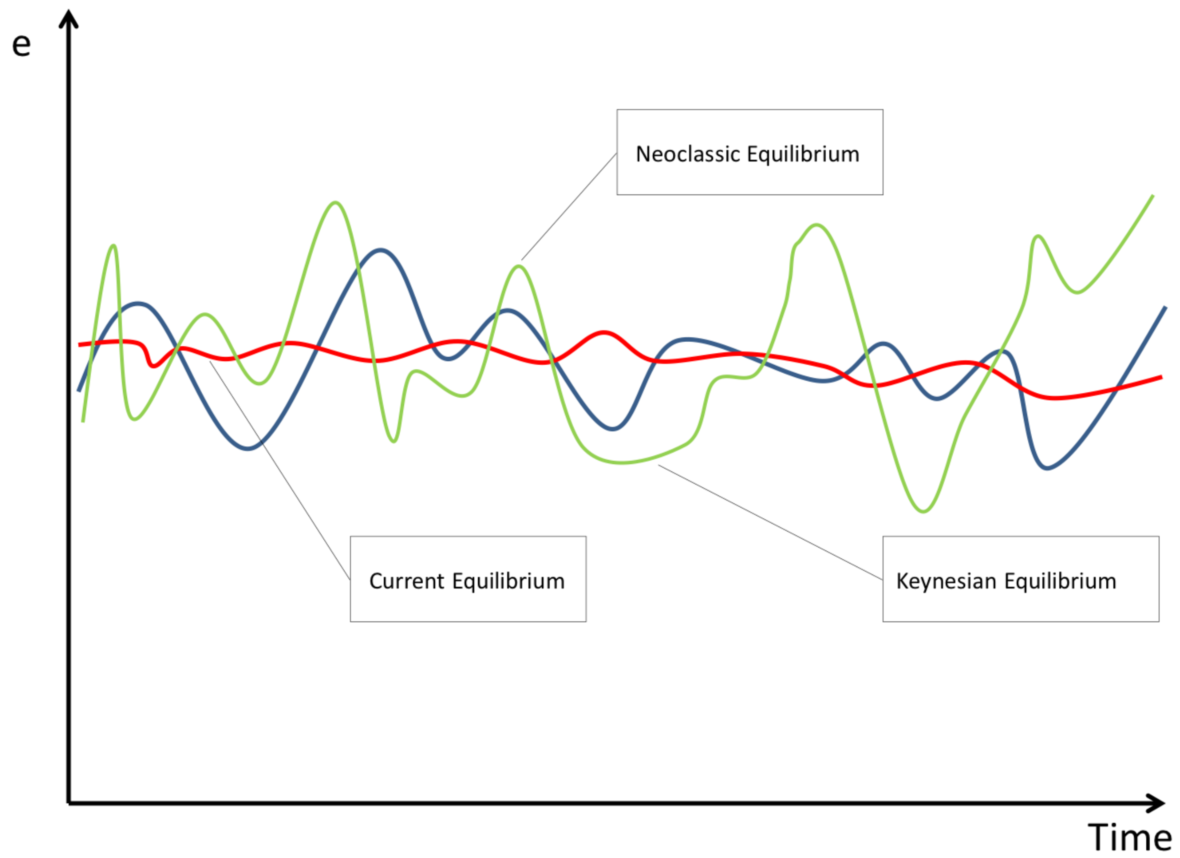
- Current account equilibrium

  . Depends mainly on the terms of trade or the prices of the commodities the country exports, which are subject to booms and boosts.

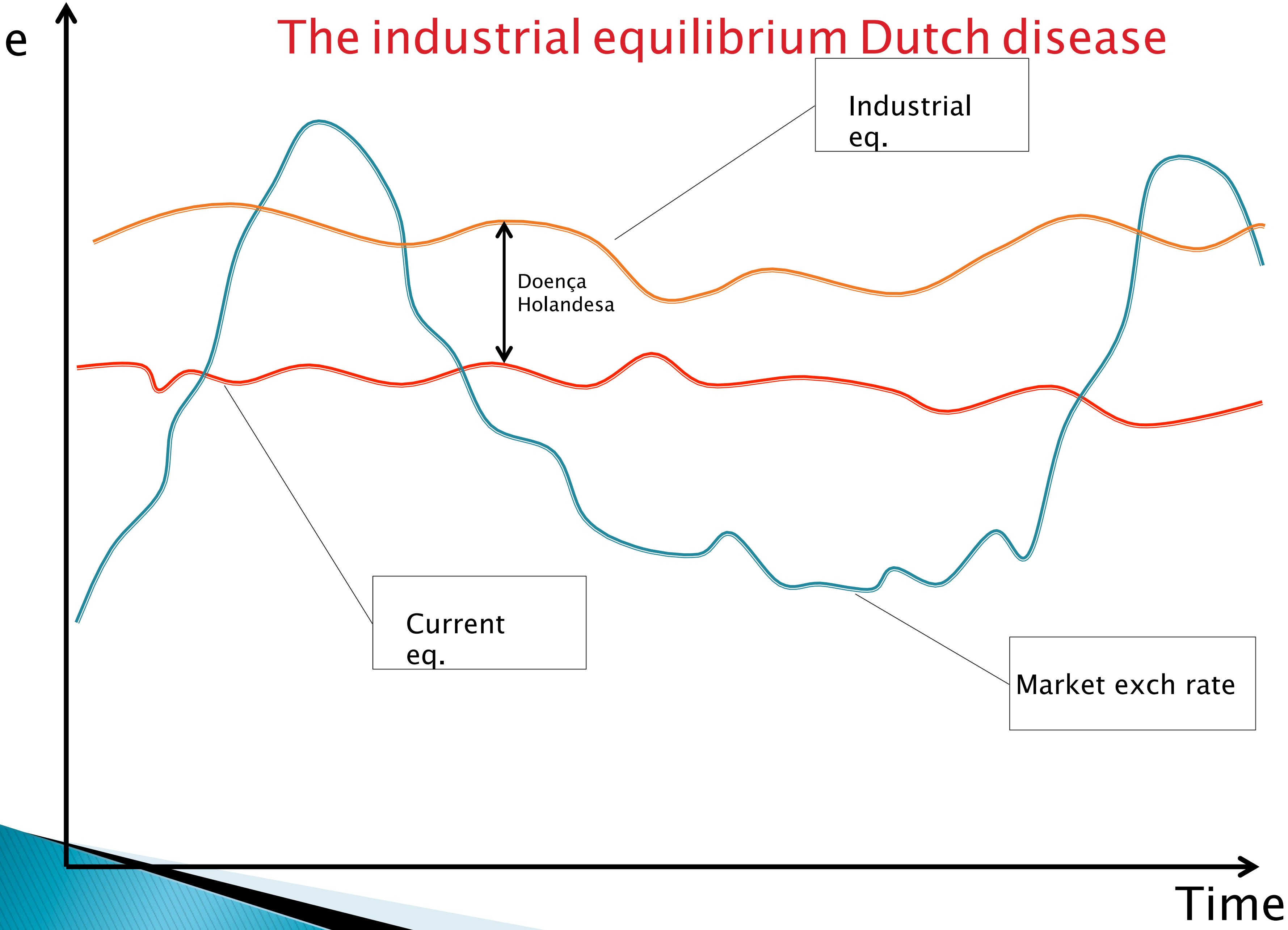
- Industrial equilibrium

  . Depends mainly on the comparative unit labor costs index in the non-commodity goods and services, whose variations are probably greater than the variations on prices their prices not caused by variations in the unit labor cost, but from eventual shortages or excesses of supply and demand of such goods and services.

# Current equilibrium and neoclassical and Keynesian volatilities



# The industrial equilibrium Dutch disease



# 3. Dutch disease

- It is a long–term overvaluation of the exchange rate or a competitive disadvantage that stems from exports of commodities that, benefiting from Ricardian rents, can be exported with a profit at an exchange rate substantially more appreciated than the one required for the other tradeable firms that utilize technology in the world state of the art.
- Two equilibriums
- The commodities originating the Dutch disease define the current equilibrium, while the other competent tradable firms, the industrial equilibrium.

# When there is Dutch disease

- The current equilibrium is mainly determined by the commodity prices (terms of trade), and secondarily by the CULCI of the commodities.

- The industrial equilibrium is mainly determined by the terms of trade of the non-commodity tradable goods and services.

# Two exchange rate equilibriums

- Current equilibrium – value that balances intertemporally the current-account. Is expresses the value of the foreign money.
- Industrial or competitive equilibrium – value that makes competitive the firms that utilize technology in the world state of the art. (Belongs to the Dutch disease model).

# Severity and neutralization of the Dutch disease

- The severity of the DD, g, is

$$g = (e_i - e_{c)} / e_c)$$

- The weight of the DD in relation to the to the ER price, b

$$b = (e_i - e_{c)} / e)$$

- Total devaluation required: $d = (e_i - e_{c)} / e)$
- From which the habitual policies respond for

$$h = (d - b) / e$$

# Example of Brazil

| | | 2006–14 | Today |
|---|---|---|---|
| Real exchange rate price | $e$ | 2.50 | 3.30 |
| Current equilibrium | $e_c$ | 3.00 | 3.60 |
| Industrial equilibrium | $e_i$ | 3.60 | 3.80 |
| Severity of the DD | $(e_i - e_c) / e_c$ | 20% | 5.5% |
| Required devaluation | $(e_i - e) / e$ | 44% | 15.1% |
| From which habitual policies | * | 20% | 9.1%3 |

* From which habitual policies $= ((e_i - e) - (e_i - e_c)) / e$

Since 2010, the CULCI increases substantially, increasing the industrial equilibrium from R$ 3.60 to R$ 3.80.
In the second semester 2014, sharp fall in the price of commodities exported, increasing the current equilibrium from R$ 2.90 to R$ 3.40.
All equilibriums and exchange rates are in real terms.

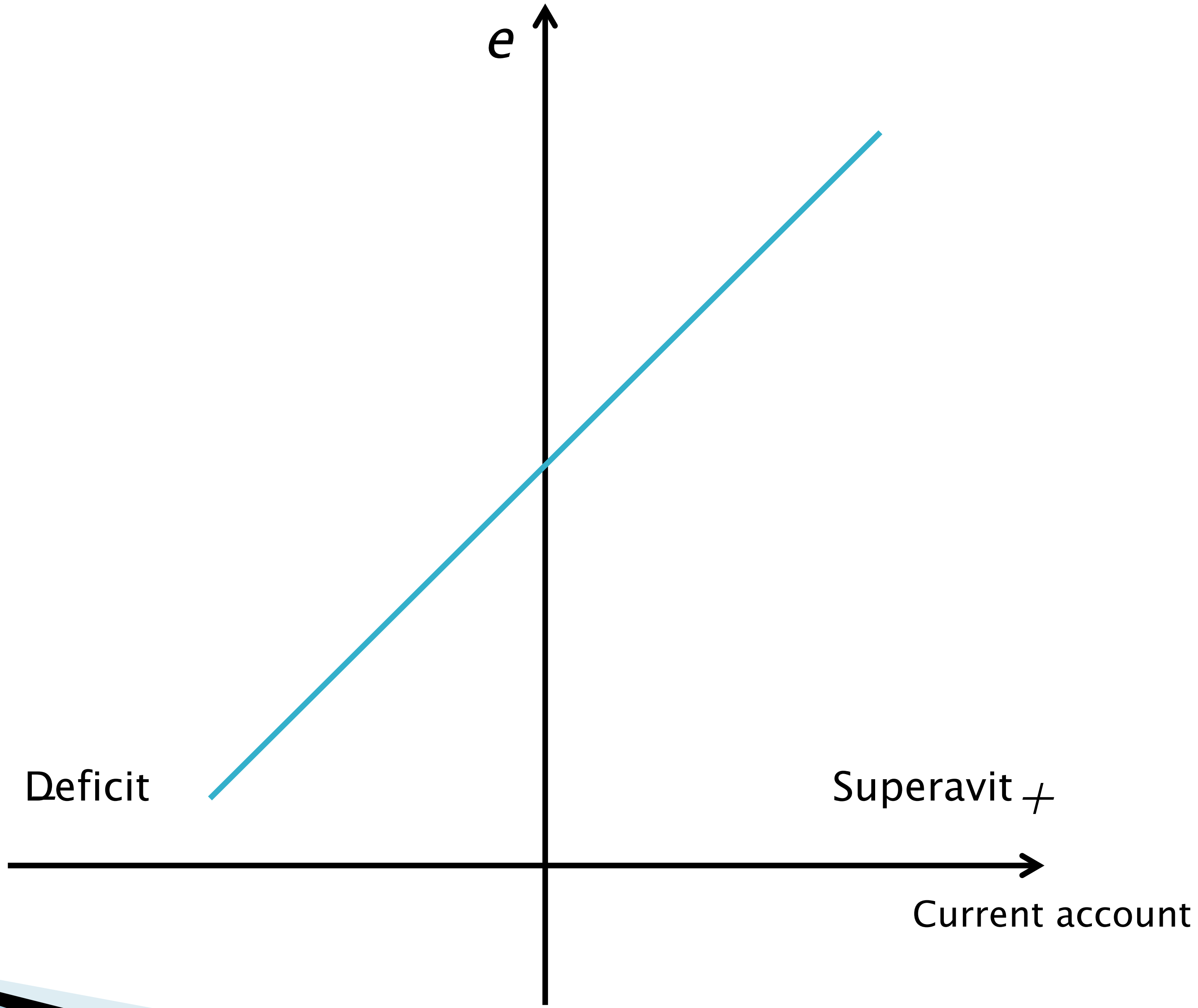
# 4. There is an inverted relation between the current account and the ER.

- The larger the CAD, the more valorized ER
- When the country decides "to grow with foreign savings", it incurs in CAD, the ER appreciates, and, either

1. investiments and savings are desencouraged,
2. and/or the appreciation increases revenues, and, giving high propensity to consume, consumption increases while domestic savings fall.

- In other words, there is a high rate of substitution of foreign for domestic savings.
- Thus, foreign savings don't add to domestic savings.

# Current account and the exchange rate




The greater the current account deficit, the more overvalued the currency

# Historical tendencies in historic theories

- Classical school: tendency to the falling rate of profit.
- Keynes: tendency to the insufficiency of demand.
- Classical developmentalism: tendency to the deterioration of term of change.
- New-developmentalism: tendency to o the cyclical and chronic (long-term) appreciation of the exchange rate.
- (Neoclassical economics does not have a tendency because it is not historical.)

# Caveat: don't mix the tendency with volatility

- Neoclassical school – smal misalignments

- Keynesian school – large misalignments

- New-developmentalism – tendency to the long-term overvaluation followed by cyclical currency crises, i.e., this “volatility” has a sense and is a long-term phenomenon.
- This is the core empirical thesis of new developmentalism.

# Causes of the tendency to the overvaluation

(Causes that have a direction: they appreciate the national currency)

- Structural cause the Dutch disease, but it just pulls the exchange rate to the current equilibrium
- Three habitual policies, which affect the demand and supply and explain the deficits.

1. Growth with foreign borrowing (“foreign savings”)
2. High level interest rate around which conduce monetary policy.
3. Exchange rate anchor policy to control inflation.

# Reccurrent currency crises

- They are, directly, the consequence of high current-account deficits and an overvalued currency.
- They could, additionally, be the indirect consequence of budget deficits. But:

1. Large budget deficits don't start up a fiscal crises (because countries that get indebted in their own money don't break down).
2. The twin deficits hypothesis does not hold when the exchange rate is overvalued,

# Financialization is in the core of ND

(assuming a floating regime)

- High current account deficits, increasing foreign debts and currency crises are only possible if a financial bubble is in place. Only a financial bubble explains why foreign creditors keep financing the country notwithstanding the current account deficits were bigger than the foreign debt equilibrium (which I discuss later).
- Speculation in capital flows, particularly carry trade, is part of the financialization game.
- .

# III- MACROECONOMIC POLICIES

- The state is supposed to provide the general conditions for capable business firms are competitive.
- This implies, on the supply side, to provide education, technical progress, investment in infrastructure, good institutions. These are well known long-term policies from which countries are aware and do their best;
- On the demand side, to keep the five macroeconomic prices, particularly the exchange rate are right. This is something that middle-income countries are not aware, and assures short-term gains.
- For this, the government is supposed to neutralize:

1. the tendency to the overvaluation,
2. the Dutch disease

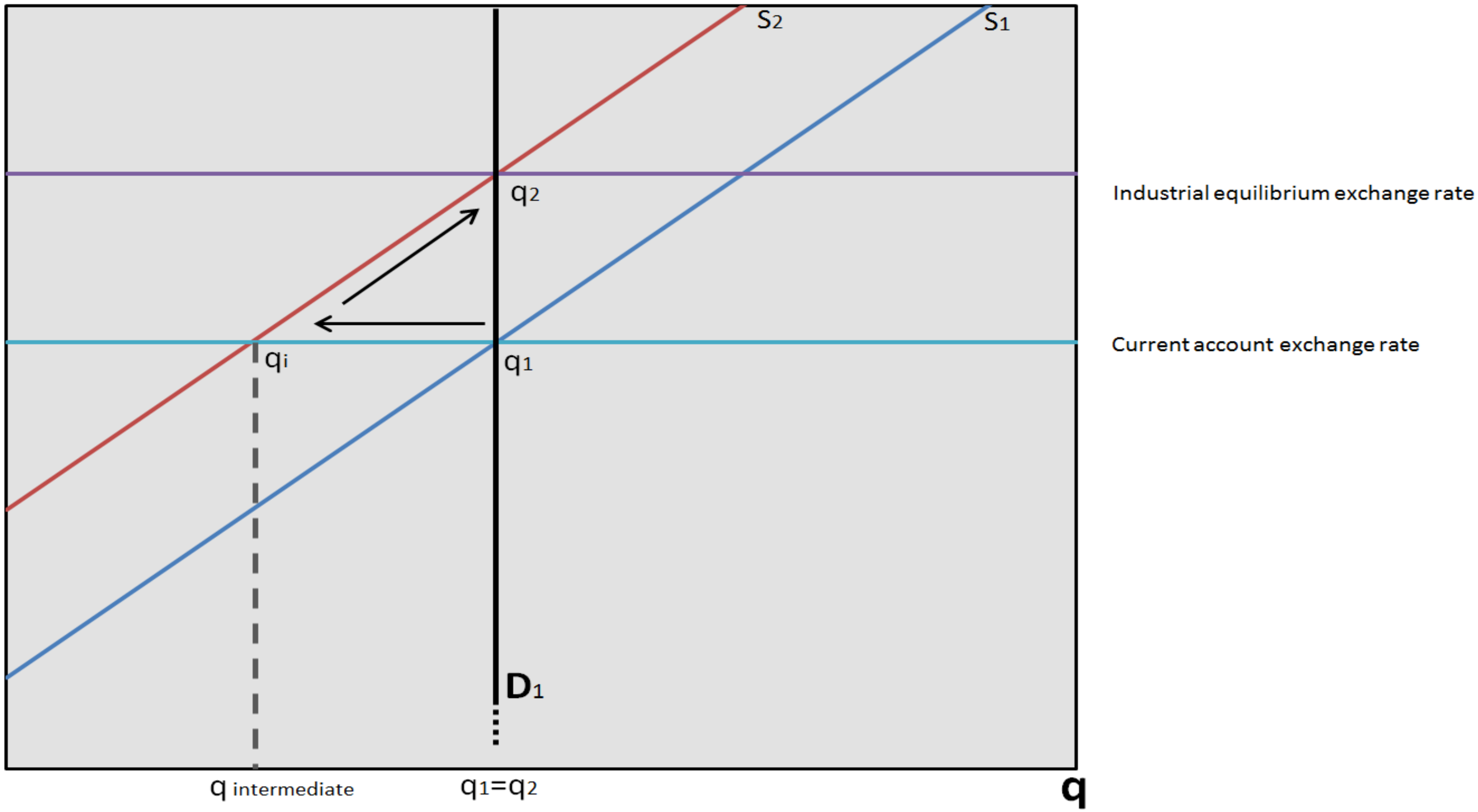
# Neutralization of the Dutch disease

- A variable export-tax equal to the severity of the Dutch disease will neutralize it, making the current and the industrial equilibriums equal.
- Because:

1. Increase the value, i.e., the cost + profit.
2. Shifts the supply curve to the left.

- In the example, today the tax would be zero, between 2006-2014, would be in average, in today's prices, R$ 0.70 per US$.

# Neutralization of the Dutch disease by shifting the supply curve



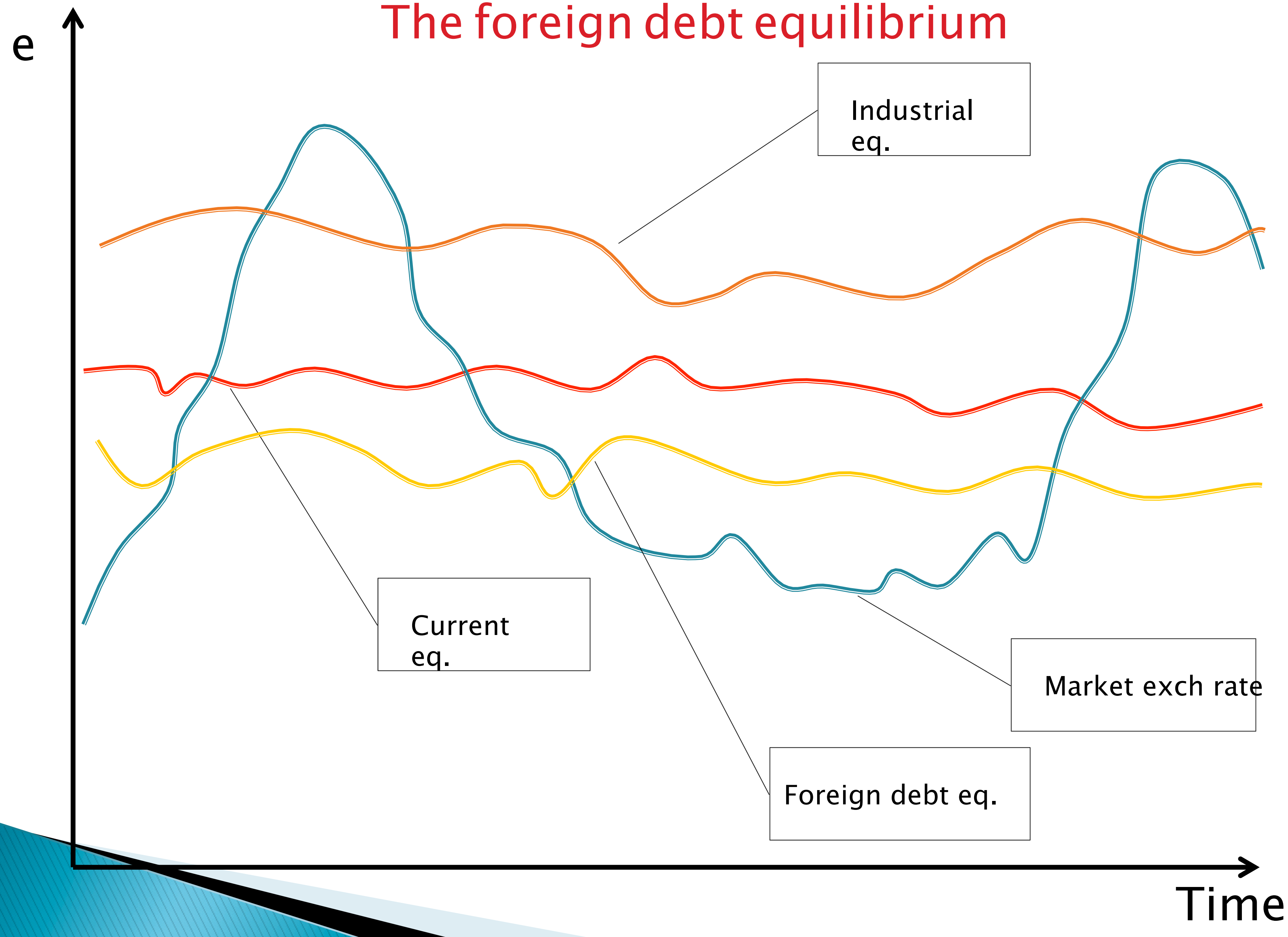
# A third equilibrium: the foreign debt equilibrium

- Def: the foreign debt equilibrium is the exchange rate that corresponds to CAD in relation to GDP equal to the rate of growth of GDP.
- The foreign debt equilibrium corresponds loosely to what Williamson calls "fundamental exchange rate".
- The difference is that he (and economists in general) recommeds it, while I reject it.

# The huge differences in recommending exchange rates

1. For new developmentalists: a competitive equilibrium consistent with current account surplus and a competitive exchange rate.
2. For the orthodoxy : the foreign debt equilibrium consistent with current account deficit and a non-competitive exchange rate.
3. For the exchange rate populists: below the foreign debt equilibrium, consistent with huge current account deficit, a highly non-competitive exchange rate, and explosive foreign debt.

# The foreign debt equilibrium



# Why to reject growth with foreign borrowing

- Because foreign savings don't add to domestic savings.

1. There is a high rate of substitution of foreign for domestic rates, except when the country is growing very fast and the marginal propensity to consume falls.
2. Cause: when the country decides "to grow with foreign savings", it incurs in current–account deficit, the exchange rate appreciate, investiments and desencouraged, and domestic savings fall.
3. Also a cause on the supply side: the appreciation increases revenues, increases consumption, domestic savings fall.

- Because, when the country neutralizes the Dutch disese, it will present a trade surplus (unless it, inconsistently, insists in growth with foreign savings)

# Fiscal and monetary policy

- Keeping the public budget balanced, except when a clear countercyclical
- Keeping the level of the interest rate, around which the central banks realizes its monetary policy, low – just a little above rich countries.

# Exchange rate policy to be set by an Exchange Rate Committee

To neutralize the tendency to the overvaluation of the exchange rate, by

- Neutralizing the Dutch disease;
- Rejecting the three habitual policies (which overvalue the exchange rate beyond the DD)

1. Growth with foreign borrowing ("savings")
2. High level interest rate
3. Exchange rate anchor policy to control inflation

- controling capital flows, when needed.

# (1) Export-led x wage-led strategy and import substitution

- Wage-led strategy supposes protection of the manufacturing industry.
- Import substitution makes sense only in a short initial phase of industrialization.
- After it, the competitive advantage of developing countries (low wages) indicates export-led.
- All countries which caught up adopted export-led.
- While Latin America adopted import substitution, inequality increased.

# (2.1) Export-led x wage-led strategy and the foreign constraint

- Prebisch observed that in developing countries the income-elasticity of its imports was bigger than one, and that the income-elasticity of exports was smaller than one, formulated the foreign constraint or two elasticities model.
- He deduced from it the industrialization or structural change.
- Chenery, with the two-gap model, deduced from the foreign constraint growth with foreign savings policy.
- Thirlwall (1979) formalized the foreign constraint, assuming that current account is balanced and the real exchange rate stays relatively constant.

# (2.2) Export-led x wage-led strategy and the foreign constraint

- From these two assumptions and from the two elasticities, Thirlwall demonstrated that growth, y, was limited by export growth, x (which is equal to growth of income of the rest of world, z, multiplied by the income-elasticity of exports of the country, ϵ: thus ($r = z\epsilon$), divided by the income-elasticity of imports of this country from the rest of the world (rich countries), π:

$$y = x/\pi$$

- Thirlwall deduced from this equation the policy of growth with foreign savings (Hussain 1982), but not so heartedly as Chenery.
- Since the law made clear that the growth rate is always smaller than the export rate, I deduce from it the export-led strategy focused on the exports of manufactured or sophisticated goods, thus promoting structural change.

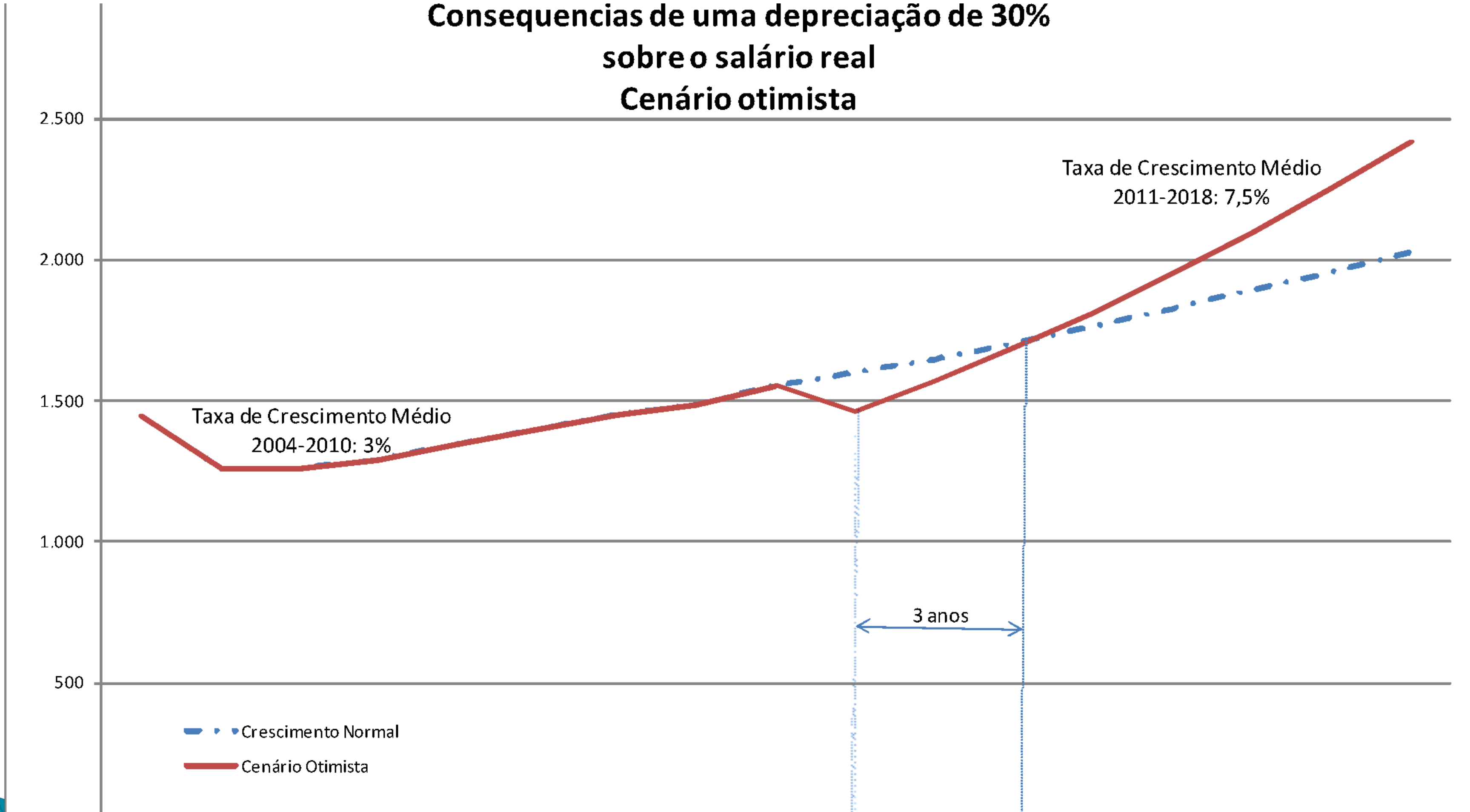
# Which policies to reduce inequality?

- Not fiscal policy. It is not a distribution tool. Its objective is full employment and growth.
- Not appreciation of the exchange rate. Appreciation reduces profits (that will only valid if the profit rate is too high) and, yes, increases real wages, but also real interests, rents and dividends.
- It is a huge mistake to want high wages at the cost of an appreciated currency.

The real distributive policies:

- Minimum wage
- Expansion of the social state
- Financed by progressive taxation.
- Making low the long-term level of the interest rate.

# Consequence of depreciation on wages



# Gini coefficient before and after taxes

(mid 2000s)

| | Before taxes & transfers | After taxes & transfers | Variation % |
|---|---|---|---|
| Sweden | 0.49 | 0.23 | 38.8 |
| Germany | 0.44 | 0.28 | 27.3 |
| USA | 0.46 | 0.34 | 26.1 |

# Fim

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