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Contributions of Classical and New Developmentalism

Contribuições do desenvolvimentismo clássico e do novo desenvolvimentismo

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RESUMO: Neste artigo apresento as principais contribuição do desenvolvimentismo clássico e do novo desenvolvimentismo para a teoria econômica e a economia política. Esses dois sistemas teóricos são complementares, não competitivos, portanto, não os comparo, apenas expresso algumas críticas de uma à outra teoria. No caso da teoria do novo desenvolvimento, as contribuições para a economia são apresentadas passo a passo. O artigo rejeita a crítica usual de que é conservador por ser export-led; pelo contrário, é progressivo, usando vários instrumentos bem conhecidos para alcançar a redução da desigualdade.
PALAVRAS-CHAVE: Novo desenvolvimentismo; desenvolvimentismo clássico; contribuição.

ABSTRACT: In this paper I present the main contribution of classical developmentalism and new developmentalism to economics and political economy. These theoretical frameworks are complementary, not competitive, thus I don't compare them, I only express a few critiques of one to the other theory. In the case of new-developmental theory, the contributions to economics are presented step by step. The paper rejects the usual critique that it is conservative; on the contrary, it is progressive adopting the well-known tools to achieve the reduction of inequality.
KEYWORDS: New developmentalism; classical developmentalism; contribution.
JEL Classification: O01; O04.

Classical structuralist developmentalism was, from the 1940s onwards, the first school of thought focused on the economic development of underdeveloped countries. At the same time that it sought to explain why they had not industrialized, it offered policies to bring them to the income levels of the rich countries. New developmentalism emerged in the 2000s to explain why many developing countries stopped growing from the 1980s onwards and also to offer policies for the resumption of growth; it brought development macroeconomics as its main innovation. In

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this essay I will summarize the two theories, first presenting the main contributions of classical developmental theory (CDT) and then presenting,[1] in the approximate order in which they were made, the contributions of new-developmental theory (NDT). It is not, therefore, a real comparison, because the two theories are complementary, although the latter makes some criticisms of the first.

In the 1930s, during the Great Depression, Keynesian economics emerged, and in the following decade, CDT emerged. Both reflected the crisis of economic liberalism and neoclassical economics that had been demoralized by the size of the crisis. By NDT, I mean the economics developed both in the center and in the periphery of capitalism by economists such as Rosenstein-Rodan, Raúl Prebisch, Ragnar Nurkse, Arthur Lewis and Celso Furtado. In addition to John M. Keynes and Michal Kalecki, the main creators of post-Keynesian economics were, in its English form, Nickolas Kaldor, and in the American, Paul Davidson. In the 2000s, NDT emerged under the influence of these two theories and added to both a structuralist macroeconomy of development[2].

When it emerged, CDT was called 'development economics' and in Latin America, "structuralist theory". I prefer to call it 'classical structuralist developmental theory' because it is not as vague a denomination as 'development economics'. It is developmental because it involves moderate state intervention in the economy and a development strategy associated with economic nationalism (not ethnic nationalism); it is 'structuralist' because it distinguishes structures from institutions and implies a 'structural change' – from a primary-exporting (mercantilist) society to a capitalist society based on competition and increased productivity; It is 'classical' because it is the oldest theory exclusively of development and underdevelopment and because it has already been widely used by many countries.

CDT and NDT, like post-Keynesian economics, are theories that adopt the historical-structural or historical-deductive method to understand a historical phenomenon such as that of real economic systems and their dynamics. The first to explain underdevelopment and show that development requires industrialization; the second to understand why economic growth has been halted in many countries around 1990, except in East, Southeast and South Asia, and to think about which economic policies can overcome the current quasi-stagnation – a very different explanation from the middle-income trap thesis. Given its historical-structural character, both think of the problem not only in terms of economics but also in terms of political economy.

We see, therefore, that the two theories were born with different motivations, but they are complementary, the second relying on the first and on the post-Keynesian economics. We could consider them a single theory, but I believe it is better to distinguish them because the second has made additional contributions that I consider significant, while I was critical of some aspects of the first. For this author, the

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[1] I refer to them as 'theory' not as 'economics' because both have an economics and a political economy.

[2] The fundamental texts of NDT are Prebisch (1949); Furtado (1961); Aníbal Pinto (1970); and the quasi-didactic book by Sunkel and Paz (1970).

ideal is that both theories merge, thus adding the valid contributions of each other. In this essay, I will first present the main contributions of classical developmentalism and then the contributions of new developmentalism.

CONTRIBUTIONS OF CLASSICAL DEVELOPMENTAL THEORY

CDT started from the criticism of neoclassical economics – a mistaken theory that supposes that the market alone is capable of leading countries to development and, therefore, deems state intervention and industrialization unnecessary. For her, there is no economic growth without industrialization or, as I prefer to call it today, 'productive sophistication'. The arguments are both empirical and theoretical in nature. I will now enumerate the main contributions of this theory to economics.

1. For CDT, economic development is equivalent to industrialization or 'structural change'. In terms of history, industrialization has been the necessary condition for countries to develop. No country has developed without having industrialized or becoming productively sophisticated. Neoclassical economists, and therefore liberals, always speak of Australia or the Netherlands, but these countries initially industrialized to become rich countries.

2. Rosenstein-Rodan (1943), who can be considered the founder of classical developmentalism, developed the 'balanced development model', according to which, individually, investments in industrial companies in underdeveloped countries would not be as profitable as companies using the same technology are in rich countries because they would not be benefited from positive externalities or agglomeration economies that characterize the economies of the already industrialized countries. Therefore, to start industrialization, the state should promote a big push, supported by external resources to realize a set of industrial investments. So, the balanced growth model was critical of neoclassical economics and the liberal orthodoxy.

3. Raúl Prebisch (1949) and Hans Singer (1950) have shown theoretically and empirically that the increase in productivity in the North is not entirely transformed into a decrease in prices that also favors the population of underdeveloped countries, as neoclassical economics supposes. A considerable part of this increase in productivity is directly transformed into an increase in the real wages of workers in rich countries. This is the theory of the deterioration of the terms of exchange. The main reason offered by these two economists for this retention of productivity gains was that workers in rich countries were sufficiently organized to secure for themselves in the form of higher wages, the benefits of productivity increases, so that price reductions would be limited.

4. Ragnar Nurkse was the first of the classical developmentalists to present a systematic theory of underdevelopment in six lectures he gave in Brazil, at the Getulio Vargas Foundation, in July and August 1951, later published in a book with some revisions – *Capital Formation in Underdeveloped Countries* (1951). Nurkse

defines the lack of savings as a fundamental problem of the least developed countries. In his 1951 lectures, he departs from

> the vicious circle of poverty that (a) goes from low income level to (b) low capacity to save and, hence, (c) lack of capital, leading to (d) low productivity and, therefore, back to low per capita income level. (Nurkse, 1951: 65)

This paragraph contains the main problems of underdeveloped countries, among which the lack of capacity to save is key. There is no investment without savings to finance it. This does not mean that the problem is only on the supply side; the demand side is also key. For investment to happen, it is not enough to have savings; there must be a demand so that the expected rate of profit is satisfactory. Nurkse was based on the principle formulated by James D. Duesenberry (1949) about the 'demonstration effect'. The populations of underdeveloped countries tend to copy, without having the ability to do so, the consumption levels of the rich countries, resulting in overconsumption and a low savings rate. At this issue, we see how Nurkse influenced Celso Furtado. As Pinkusfeld Bastos and Rodas Oliveira (2020: 17) observed, "Furtado subscribes to the thesis that the adoption of more sophisticated consumption patterns by the larger population can reduce the economy's savings". In fact, the tendency of the Brazilian population to copy the consumption patterns of the rich North is present in all of Furtado's work. Until the 1980s, when many countries were developmental, the state adopted the policy of discouraging conspicuous consumption through taxes on imports of luxury consumer goods and the consumption of the same goods produced in Brazil.

For Nurkse, the need for a balanced development in the terms put forward by Roseinstein-Rodan is also fundamental. By elaborating this argument in his book and in a 1958 article published in the classic book edited by Agarwala and Singh (which brings together all the pioneers of development theory), he thinks about how to make it possible for a set of synchronized investments to make investments in the manufacturing industry profitable. Although his vision of development is a vision of supply and focuses on the problem of the lack of savings, Nurkse understands that the main problem faced is the lack of a domestic market that stimulates 'intensive investment', that is, the increase of capital per capita. Nurkse, therefore, like the other developmental economists, rejects Say's law, but this does not mean that he accepts Keynesian theory in its vulgar form, according to which it is effective demand that creates supply. Nurkse is not clear on this point, but it is evident that, in the short term, to face a recession, the country must stimulate demand as Keynesian theory teaches, but in the long term it is necessary to stimulate savings so that there are resources for investment[3].

5. In 1954, Arthur Lewis returned to the classical political economists of the

[3] Bresser-Pereira (2024a).

19th century to develop a growth model for underdeveloped countries in which, unlike in already industrialized countries, wages remain low during the industrialization process. This is possible because there is in these countries an unlimited labor market that prevents wages from rising. He is thus also adopting a model based on savings or supply. He goes back to Marx (the greatest of the classical political economists) and his concept of the industrial reserve army which, in the case of underdeveloped countries, is expressed in the unlimited supply of labor existing in the traditional sector of the economy. Given this fact, the main constraint that developing countries face is in supply, in the lack of savings or capital, as Nurkse already claimed, not in the lack of demand, as populist Keynesians claim.

6. Raúl Prebisch also developed the concept of 'external restraint' – a factor that makes the economic development of countries that produce primary goods more difficult or more costly. The external constraint derives from the fact that these countries have an income elasticity in the import of manufactured goods greater than one, while the income elasticity in the developed countries in the import of primary goods or commodities is less than one. The two elasticities are therefore perverse for commodity-exporting countries.

Given the external constraint, economists such as Chenery and Bruno (1962) proposed the model of the two gaps (the savings gap and the external resources gap) in which the lack of savings should be made up for by adopting the 'policy of growth with foreign savings', that is, with external indebtedness – a policy that CDT did not adopt and NDT harshly criticizes, as we will see below. Prebisch defined and gave importance to external constraint not to justify external indebtedness, but because it is an additional argument in favor of industrialization. Only industrialization can solve the problem of the two perverse elasticities but in the long run[4]. In the short term, there is no alternative but to endure this greater hardship facing developing countries. More recently I have argued that the consequence not discussed in the literature on external constraint is to force the exchange rate to be depreciated more than it would be if the restriction did not exist. This represents a cost for these countries as their workers have to work harder to be able to earn the same amount of hard currency for their exports. Second, the external constraint is a source of vulnerability because the countries subject to it face the problem of the so-called 'shortage of dollars', which was felt in the developing countries that did not open their external financial account. This shortage is not 'structural' in the sense that it 'necessarily needs to occur' but derives from the fact that countries that adopted CDT generally maintained the fixed exchange rate for long periods, while incurring current-account deficits.

7. CDT rejected the commercial liberalization, preached by liberal orthodoxy. Besides affirming that economic growth required industrialization, it adopted the infant industry argument and understood that at the beginning of industrialization, it was necessary to protect the manufacturing industry with import tariffs. In this

[4] Bresser-Pereira and Rugitsky (2018).

respect, CDT was not original. All the countries that industrialized protected their manufacturing industry with tariffs, including England until 1846. And the first person to formulate the infant industry argument was Alexander Hamilton, in 1792.

And also rejected financial liberalization because aimed at a relative control over the exchange rate. The state had to control the inflow and outflow of capital to exercise reasonable control over the exchange rate. Which should only be adjusted according to the difference between internal and external inflation. By adopting the fixed exchange rate regime, including a crawling peg, instead of a floating exchange rate, the developmental state knew that it would risk a currency crisis, but he understood that it was preferable such risk than to leave the exchange rate overvalued and stop industrialization. However, there was no theory about this, which would only emerge with NDT.[5] It was clear to CDT that the country could not let the exchange rate be determined by the market, because its policymakers perceived or intuited that, when the prices of the commodities exported by the country increased, the exchange rate would appreciate and the manufacturing companies using the best technology would become non-competitive. In other words, policymaker didn't know the Dutch disease but intuited it.

It was clear to Prebisch that if the government, in the face of exchange rate appreciation, decided to depreciate the currency, this depreciation would not be sustained and soon the national currency would appreciate again. Because of that, he opted for the use of import tariffs and import licenses. Thus, a 'double' exchange rate was established – one for commodities, the other for industry – in fact, 'multiple' because each tariff level corresponded to an exchange rate. This model was very successful and allowed several countries, including Brazil, to carry out their industrial and capitalist revolution.

8. The model of industrialization by import substitution can only be successful for a limited period. It is economically healthy as long as the country has not yet reached its limit – the limit of the internal market and the possibilities of economies of scale. When the domestic market for a given industrial sector does not allow the country to take advantage of economies of scale, the import substitution model is no longer functional for that sector.

The celebrated model of Bhaduri and Marglin (1990), which distinguished a profit-led (or export-led) industrialization from another, wage-led (or inner-led), showed a preference for the second model that would be more compatible with the reduction of inequality. This is because, in the case of wage-led industrialization, the real increase in wages would imply an increase in the domestic market, while in the case of export-led industrialization, investments would be directed to foreign markets and wages could not increase. This would be great if the import substitution model (not mentioned in the article) had not reached its limit defined in the previous paragraph. The fact is that an economy must be internationally competi-

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[5] Bresser-Pereira (2024a).

tive to grow. Taking care of reducing inequality is highly desirable, but there are other policy instruments for this.

9. There was also Juan F. Noyola's structuralist theory of inflation (1956), which stated that structural bottlenecks in the supply (the fact that it did not respond fast enough to price changes) caused inflation. The bottlenecks resulted from the dual (traditional vs. modern) character of underdeveloped economies. This explanation had some validity while the markets of these economies were poorly structured, but it has long since ceased to be meaningful.

10. In fact, this school did not have a macroeconomics. Its economists used Keynesian theory, adding little or nothing to it. Only Ignácio Rangel, a notable economist who was, however, marginal relative to the CDT, offered a significant macroeconomic contribution in his 1963 book, *A Inflação Brasileira*, in which he showed that in the long run inflation was a defense system for fragile economies such as Brazil's, paradoxally rising in times of crisis and falling in times of economic expansion.

11. Developmental economists only considered the alternative of exporting manufactured products in the 1970s, based on the successful experience of Brazil beginning in 1969. To encourage its exports of manufactured goods, this country adopted export subsidies, in the same way that they stimulated production for the domestic market with import tariffs. But most industries were already mature, and the infant industry argument had ceased to apply. But they remained with the tariffs and created export subsidies to the exports of manufactured goods. These economists did not know what the Dutch disease was, but they continued to maintain the policy, now without a good argument; they intuitively and pragmatically neutralized the disease. This made the policy of industrialization by import substitution vulnerable to the attack of liberal economists, who judged it to be 'protectionist' and gave this expression a pejorative meaning.

12. CDT was anti-imperialist, even though imperialism did not appear in the texts of ECLAC's economists. In the United Nations, there is no imperialism. Prebisch, however, found a solution to the problem with the opposition between 'center and periphery'. The center is the empire that seeks to prevent the industrialization of the countries on the periphery of capitalism, to maintain unequal exchange, guarantee the possibility of exporting capital, and avoid future competition. Since developing countries were no longer formal colonies, their strategy was (and remains) to convince their economic elites made up of politicians, businessmen, and economists that economic liberalism is the most rational way to organize capitalism.

All these contributions formed 'national-developmentalism' – the development strategy that peripheral countries adopted between the 1950s and the mid-1980s, based on the model of industrialization by import substitution – a model that runs out in time as each single country does not have a domestic market sufficient to allow industrial production with economies of scale. Not only for this reason, but also because, in the early 1970s, ECLAC adopted the 'theory of associated dependence', national-developmentalism and CDT entered into crisis. By 'naturally' making this choice, the main international organization that supported national-developmentalism also submitted to the Empire. The final crisis occurred in the 1980s, with the great foreign debt crisis, which weakened the South, and the Neoliberal Turn, which gave more strength and coherence to the Empire[6].

From the 1980s onwards, CDT stopped receiving relevant contributions from its main economists. It was a sign of the crisis. ECLAC left economic development in the background and began to discuss the problems related to inequality or equity and, later, the issue of global warming. The developmentalist and structuralist ECLAC of the 1950s and 1960s was dead. Today, I identify only Carlos de Aguiar Medeiros as a relevant classical developmental economist, alongside neo-Schumpeterian economists who cannot be considered properly developmentalists[7].

INTERMEZZO AND NDT EMERGES

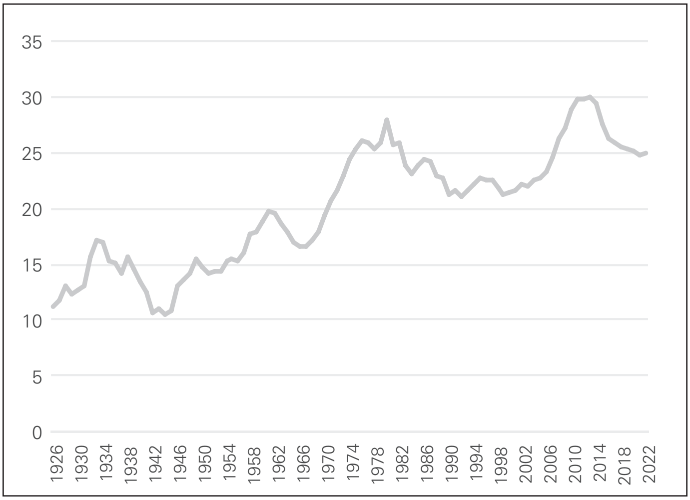
In the 1980s, the foreign debt crisis had a dramatic effect on economies that had become heavily indebted in the previous decade. Latin American countries, which immediately entered a currency crisis, were forced to make a major fiscal adjustment, while their national currencies were dramatically devalued. The default on payments and the pressure of creditor banks supported by their respective governments left them no alternative but fiscal adjustment and stagnation. The currency devaluation helped the industry to become competitive, but uselessly because the internal demand of all countries was not sustained due to the adjustment.

The Empire, taking advantage of its soft power, went on the offensive and used economic liberalism as an instrument of domination. It dismissed all CDT arguments, stated that countries were being victims of 'protectionism', and assured that economic liberalism was more consistent with the development of the region than developmentalism. In the case of Brazil, the final blow to national-developmentalism happened in 1990, when the Brazilian government, after 50 years of relative independence, submitted to the Empire and opened its economy, liberalizing trade and finance. In other countries, the same happened around that date, Mexico led the return to the semi-colonial condition vis-a-vis the rich world. The result was that from 1990 onwards (after the foreign debt crisis was overcome) the Latin American countries faced quasi-stagnation (the inability to catch up) and the difference in their per capita income in relation to that of the United States again increased. Figure 1, relative to Brazil, shows that today its GDP per capita is lower than it was in 1980.

[6] Bresser-Pereira (2005).

[7] Medeiros and Trebat (2016); Medeiros and Majerowicz (2022).

Figure 1: Relative distance of Brazil's GDP per capita in relation to the United States (%) – 2011 prices



Source: Maddison Project Database (MPD) 2023.

We can also see in this figure how, between 1926 and 1980, Brazil's catching up relative to the United States was remarkable. While the per capita income of Brazilians was about 11% of that of Americans in 1926, it reached 28% in 1980. After that, there was a big setback that goes back to 2000, when this percentage reached 21%. From 2004 onwards we have a new recovery – the one associated with the commodity boom –, but from 2015 a new fallback starts.

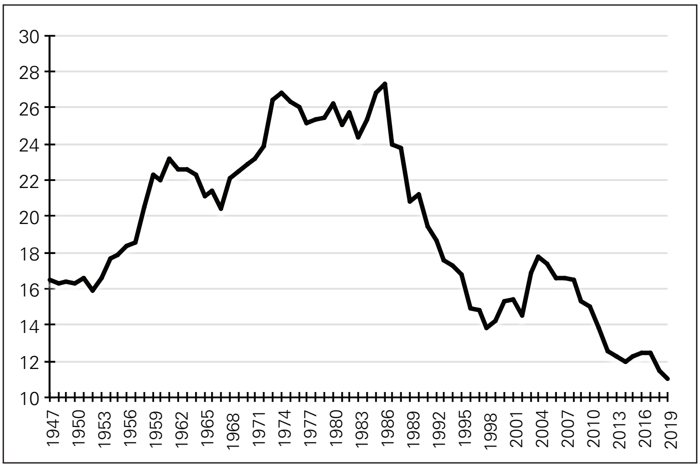
What do new historical facts explain the quasi-stagnation of Latin American economies from 1990 onwards, after having experienced accelerated growth from the war until 1980? As I have argued, in the case of Brazil there were two new causes or historical facts: the fall in public savings that occurred around 1980 and the commercial and financial liberalization between 1990 and 1992.

If we compare the 1970s (the last decade in which the growth of the Brazilian economy was satisfactory) with the 35 years from 1990 until today, the radical drop in public savings was 6 percentage points. While in the 1970s, it was around 4% of GDP, from 1980 until now it has been negative, around -2% of GDP. As a result, public investment, which in that decade was around 8%, fell to 2% of GDP. This happened because the mistaken foreign debt incurred by the military in the 1970s led Brazil to a balance of payments crisis and a moratorium on foreign debt in 1980, while the state-owned companies that were responsible for a large part of public savings were perversely used in two ways: to get the country into debt in dollars, and to control inflation by lowering their prices. In this way, his profit and therefore his savings disappeared.

The second cause was the commercial and financial liberalization that all Latin American countries made around 1990. In the case of Brazil, trade liberalization (the reduction of the average tariff on imports of manufactured goods from 45%

to 12% and the elimination of export subsidies) was deadly for the manufacturing industry. The deindustrialization that followed was brutal, as we can see from Figure 2. This occurred not because the Brazilian industry was inefficient. At that time, the Brazilian manufacturing industry was reasonably capable, and its exports corresponded to more than 60% of its total exports.

Figure 2: Share of the manufacturing industry in GDP (1947-2019)



Source: Morceiro, P. C. (2021), "Influência metodológica na desindustrialização brasileira [Methodological influence on Brazilian deindustrialization], Brazilian Journal of Political Economy, 41 (03) October: 700-720. Note: Series adjusted to the 2010 IBGE National Accounts System.

About ten years later, in 1999, I realized the quasi-stagnation of the Brazilian economy, which, at that time, had lasted for 20 years, and I wrote a paper pointing out this fact.[8] And then I began to wonder why this was happening. Neither classical structuralist developmentalism nor post-Keynesian economics explained this quasi-stagnation. I already knew that there was the problem of the drastic fall in public savings – something I already pointed out in late 1980s when I defined the 'fiscal crisis of the state'[9] – but I only defined the second cause of quasi-stagnation (the trap of the high interest rate and the appreciated exchange rate) in the early 2000s, when I started to build the NDT, including the Dutch disease model. The interest rate had become very high with the 1992 financial liberalization and the 1994 Real Plan, while the exchange rate had appreciated in the long run due to high interest rates and the non-neutralized Dutch disease from the 1990 trade liberalization.

The new-developmental theory emerged in the early 2000s. Then, I wrote two

[8] See my paper, "Incompetence and confidence building behind 20 years of quasi-stagnation in Latin America." 2002)

[9] See my paper, "Incompetence and confidence building behind 20 years of quasi-stagnation in Latin America." 2002)

papers with Yoshiaki Nakano, which I consider having been the founding articles on NDT. As the papers I wrote in the early 1980s, also with Nakano, on the theory of inertial inflation had been the 'pre-founders'. NDT is *not* an alternative to CDT, but a complement. NDT was based on CDT and incorporated all of its contributions, which I listed above. I called the new theory 'new developmentalism' or 'new-developmental theory', but I could have called it 'extended classical developmental theory'. In 2006 I gave the theory its historical character by seeing it as a response to the quasi-stagnation that was then occurring in Latin America. It was NDT's political economy that emerged alongside its economics. Finally, I believe that the 2008 paper, in which I developed my model of Dutch disease, should still be considered a founder. NDT thus gained body, and continues to do so today, even though its moment of greatest development occurred between 2008 and 2014, while the golden period of classical developmental theory was the 1950s and 1960s.

CONTRIBUTIONS OF NEW DEVELOPMENTALISM

I will now examine NDT's contributions, listing the main new elements it introduced – elements that did not exist in CDT – and make a few criticisms of some points on which CDT was wrong. The two theories are complementary, but this does not prevent a disagreement. For each contribution I will associate only one reference; all of them are discussed in my latest book *New Developmentalism – Introducing a New Economics and Political Economy* (2024a).

1st contribution. The most general contribution of NDT is that it has endowed developmentalist thinking with a development macroeconomics.[10] CDT did not have its own macroeconomics. It limited itself to using post-Keynesian economics, which is essentially short-term macroeconomics. With its focus on the rate of profit, the interest rate, the exchange rate, and the savings and investment rate, NDT becomes a macroeconomics of development. In 2007 I published a book, *The Macroeconomics of Quasi-Stagnation* – a book that discusses the development of Brazil but is already a first attempt to give the new theory a general character. In subsequent years, the economic side of NDT continued to be developed step by step.

2nd contribution. An idea that was soon affirmed is that macroeconomics, in addition to working with economic aggregates according to the Keynesian tradition, can and should also work with the five prices (the interest rate, the exchange rate, the wage rate, the rate of profit and the inflation rate) which must be kept right, something that the market definitely guarantees. A poorly informed American economist, Tom Palley, understood the 'right' in the neoclassical sense, and concluded that NDT is 'neoliberal'! Bullshit. Macroeconomic prices are certain not because they are 'freely determined by the market', but because they are compatible

[10] In his book *Macroeconomics and* Stagnation, André Nassif (2023) perceived this fact very accurately.

with the economic development of the country. For example, a low interest rate and a competitive exchange rate were essential for the development and catching up of East Asian countries.

3rd contribution. Before that, in the early 1980s, Yoshiaki Nakano and I were the first to formulate a complete model of the theory of inertial inflation, with the paper that has in its title the model itself – "Accelerating, maintaining and sanctioning factors of inflation" (1983), respectively the demand or supply shocks, the formal or informal indexation, and the increase in the nominal quantity of money to keep the real quantity.[11]

4th contribution. NDT began with the criticism of the current account deficit policy or, in other words, the thesis that capital inflows rather hinder than contribute to the country's growth when they serve as financing for these deficits. In fact, it is the deficits in the current account (the 'foreign savings') that are to be criticized, because they necessarily imply an appreciation of the exchange rate, insofar as they imply net capital inflows, that is, a balance of capital inflows greater than the outflows – net capital inflows, therefore. The deficits are justified by the Empire and its liberal orthodoxy with the thesis that capital-poor countries should obtain capital from capital-rich countries. A thesis that would be correct if there was a balance in the current account – exactly what the Global North does not want. Besides, we also have the naïve classical structuralist economists who use the thesis of external constraint to consider current account deficits 'structural'. In any case, the net inflows of capital are real – they are external savings – but they don't add to domestic savings, but replace them to the extent that the appreciation of the currency causes an artificial increase in domestic consumption.[12]

5th contribution. NDT started from a basic hypothesis: that the exchange rate is a determinant of investments. This hypothesis was soon proven with the doctoral thesis of my student, Paulo Gala (2006), later transformed into a paper published in the *Cambridge Journal of Economists* (2008).

6th contributionl A Dutch disease model dealing with a major market failure occurs in commodity-exporting countries and usually manifests itself when there is a commodity boom. As I demonstrated in a 2008 paper, we then have two exchange rate equilibria: the current or general equilibrium, which balances the country's current account, and the 'industrial equilibrium', which balances the specific exchange rate for manufacturing industry, or, more precisely, for the production of sophisticated tradable goods endowed with high value added per capita. When commodity prices increase above 'normal', the exchange rate appreciates, compensating the exporters for the increase in prices, while manufacturing industry ceases to be competitive because its prices remain constant, and industrializa-

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[11] Bresser-Pereira and Nakano (1983).

[12] See Bresser-Pereira and Gala (2007).

tion cannot advance, or, if the country is already industrialized, deindustrialization becomes inavoidable.

The only solution is to neutralize the Dutch disease, creating a second exchange rate at the level of the industrial equilibrium.[13] There are two ways to neutralize Dutch disease: a variable export tax on the commodities, or a tariff reform that establishes a "single Dutch disease neutralization tariff" that also varies according to the variation in the prices of exported commodities.[14]

7th contribution. The definition of the 'high interest rates and appreciated exchange rate trap', which was already present in my 2007 book already cited. The very high interest rate was one of the causes of the appreciated exchange rate (low dollar price). In 2019, Eliane C. Araújo, Samuel C. Peres and I demonstrated that this trap could also be called the 'liberalization trap', because it was the 1990 trade liberalization that ended the neutralization of the Dutch disease, which customs tariffs achieved. Each tariff implied a depreciation of the national currency for the beneficiaries of the import tariffs. When countries opened their economies, falling into the liberalization trap, deindustrialization was unleashed.[15]

8th contribution. The thesis that countries that present recurrent current-account deficits (or superávits) result from a policy and *not* only due to irresponsible public deficits that increase demand and cause a balance of payments crisis, as the conventional theory suggests. The policy has either the explicit objective of 'growing with foreign savings' that hide the interest of the politicians in getting reelected by benefiting from the exchange rate populism implicit in deficits[16] or of a deliberate policy, which easily leads countries into currency or balance of payment crises. These deficits result from a policy because if there is no policy, recurring current account deficits would not be possible; the market would pull the exchange rate to equilibrium.[17] In Brazil, for example, this policy is practiced, but it is never affirmed. Almost all Brazilians are satisfied with overappreciation as long as the deficit is limited and is financed preferably by direct investments.[18] China and, for long, Germany presented a deliberate current account surplus.

9th contribution. NDT's ninth contribution to economics was the thesis that the greater the deficit in a country's current account, the more appreciated its exchange rate will be. Thus, countries should have a zero current account deficit policy, because in the event of a deficit, net capital inflows will be positive and this will necessarily appreciate the exchange rate.

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[13] See Bresser-Pereira (2008).

[14] See Bresser-Pereira (2024).

[15] Bresser-Pereira, Araújo and Peres (2019).

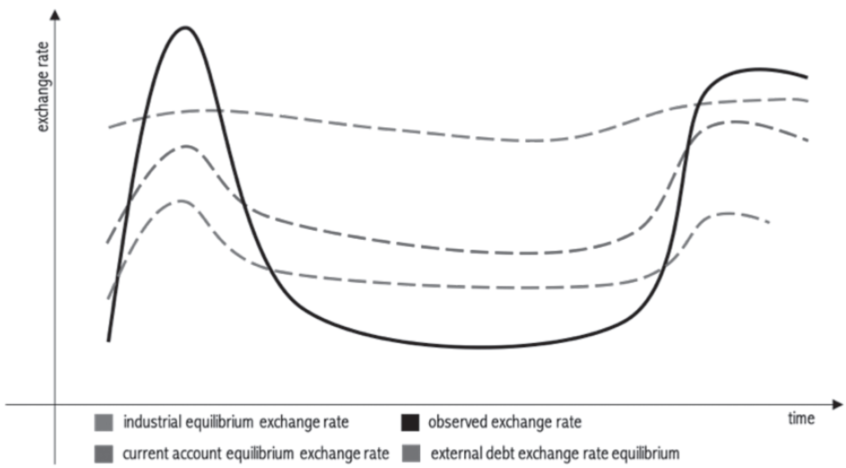
[16] Bresser-Pereira, González and Lucinda (2008).

[17] Bresser-Pereira (2019a).

[18] Bresser-Pereira (2012a; 2016 note 33; 2019).

10th contribution. This thesis would be completed in 2014 with the addition of a third exchange rate equilibrium – the *foreign debt equilibrium*, which corresponds to John Williamson's 'fundamental equilibrium'. It corresponds to the exchange rate that is consistent with a current account deficit that grows at most at the same rate as GDP growth, so that there is no increase in the external debt/GDP ratio, and, therefore, the risk of a currency crisis is much lower.[19] The difference between one and the other equilibrium is not in the concept but in the way of seeing it. While the fundamental equilibrium is *desirable*, because the rich countries have an interest in justifying the exports of capital, new-developmental economics sees the foreign debt equilibrium as *perverse* for the reasons expressed above.

Figure 3: Exchange rate cycle and the three equilibriums



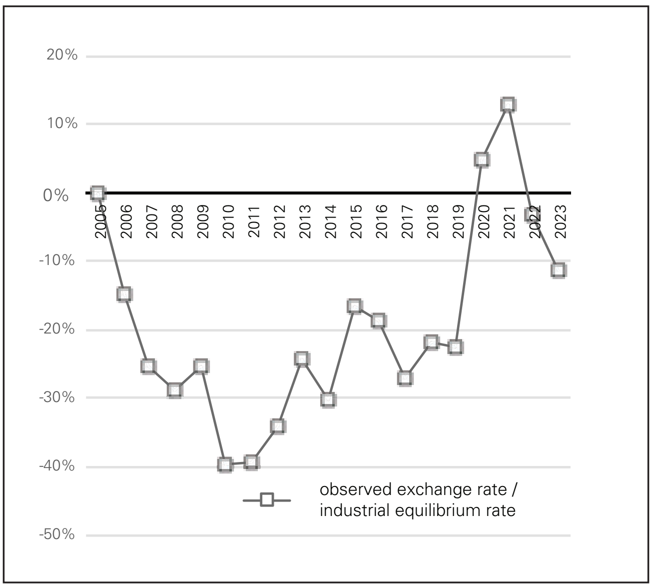
Source: Author's elaboration.

11th contribution. New-developmental economics proposes the existence of an exchange rate cycle mainly in commodity exports developing countries. This cycle is described in the well-known Figure 3, which also shows the three equilibriums. The cycle begins with a financial crisis in which the exchange rate depreciates drastically; then, the exchange rate begins to appreciate, crosses the industrial equilibrium (which is not cyclical), crosses the current equilibrium (which is cyclical because it includes commodities) and the country starts to have a deficit in the current account, and finally crosses the foreign debt equilibrium, and the deficit in the current account becomes unsustainable. It remains at this point for a few years while the foreign debt grows dangerously, and finally foreign creditors lose confidence in the country and we have another currency crisis. In Brazil there was a serious crisis in

[19] Bresser-Pereira, Gonzales and Lucinda (2008).

2002, and a milder crisis in 2014 because the country had ample reserves. It was not the growth in the foreign debt-GDP ratio, but the fast growth of current account deficit that led creditors to lose confidence and suspend the rollover of the debt, this closing the cycle.[20] According to a study carried out by the Center for New Developmentalism/EAESP/FGV, it was possible to show empirically (Figure 4) the exchange rate cycle observed in Brazil between 2005 and 2023. In it, the calculated industrial equilibrium acted as a reference equal to zero, and the observed exchange rate fluctuates in a cyclical manner.

Figure 4: Industrial equilibrium and observed nominal exchange rate 2005-2023 (R$/US$)



Source: Center for the Study of New Developmentalism/EAESP/FGV.

12th contribution. The 'access to demand' thesis, the understanding that the exchange rate is like a *switch* that connects or disconnects *capable* companies from their demand.[21] Thus, if the manufacturing companies use the best technology available, but are not exporting, this means that the exchange rate is overvalued and they have no access to external demand.

13th contribution. The tesis that the exchange rate is or can be *a determinant of economic development*. Research defining this causal relationship was piling up, but there was no explanatory theory for it. In 2012, I came to this explanation because it is the only economics that claims that the exchange rate tends to be over-

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[20] See Bresser-Pereira (2010; 2024a).

[21] Bresser-Pereira (2011; 2015).

valued in the long-term. Given that, the exchange rate will discourage investment in the non-commodity sophisticated tradable goods to the extent that the companies predict that the exchange rate is overvalued and will remain overvalued for long. Thus, if the exchange rate ceases to be appreciated because the Dutch disease was neutralized, companies will believe that the industrial equilibrium will be maintained in the future, and will invest and export. China always, Germany not anymore, presented recurrent current account surplus. Something that would only be possible if the state could be able to convince-pressure the working class not to increase its standard of living for the country to export more.

14th contribution. The method for calculating the industrial equilibrium. Using the unit comparative labor cost and using as basis that at a given year the Dutch disease was zero, that is, the industrial equilibrium corresponded to the current equilibrium. Nelson Marconi signed the original version. André Nassif, Feijó and Araújo, and Francisco Eduardo Pires de Souza developed different methods.[22]

15th contribution. The concept of the value of the exchange rate or foreign currency. In the same way that commodities have a value around which their price fluctuates according to supply and demand, the price of foreign currency fluctuates around its value according to the supply of imports and the demand for exports – a value defined by the unit labour cost of the country, which can be compared with the unitary currencies of the other countries gathered in a basket of currencies.[23]

16th contribution. The model for determining the exchange rate. In the Brazilian edition of *Macroeconomia Desenvolvimentista* (2016), Marconi, Oreiro and I were able to reasonably define such determination; in 2014, Feijó, Araujo and I completed the model. The structural component of this determination is the value of the foreign currency, which replaces the exchange rate defined by the purchasing power parity; a second and a third variables are the different interest rate in relation to other countries and the foreign exchange ratios, which are in all models; and the fourth variable is specific to NDT – the current account deficit or surplus policy that some countries adopt. This theory would be completed in 2024a, when it was published "The determination of the exchange rate. A new-developmental approach."[24]

17th contribution. The concept of 'extended Dutch disease'. Instead of measuring the Dutch disease as the difference between the industrial equilibrium and the current equilibrium, I proposed that it should be the difference between the industrial equilibrium and the equilibrium of the external debt, since the developing

22 Marconi (2012); Nassif, Feijó and Araujo (2012); Souza (2024).

23 Bresser-Pereira (2013; 2024a).

24 Bresser-Pereira, Marconi and Oreiro (2016); Bresser-Pereira, Feijó and Araujo (2024).

countries that export commodities understand the equilibrium of external debt as correct – Williamson's 'fundamental equilibrium'. [25]

To date, I have always treated net capital inflows as the result of current account deficits, but they may be larger than that given that capital inflows into developing countries are pro-cyclical, making developing countries that insist on foreign currency debt suffer disproportionately from currency crises. In these terms, as Griffith-Jones and Pratt already stated in 2001, "greater use of banks' internal risk management systems seems likely to be inherently pro-cyclical and therefore likely to amplify the economic cycle, thus increasing frequency and scale of crises."

THE INEQUALITY QUESTION

Besides economics, NDT is a political economy. It is, therefore, a theory in which economics and politics are integrated. In this section, I will discuss briefly the problem of inequality, in the framework of capitalism – a form of social organization that, left to the market, tends to be increasingly unequal. NDT didn't discuss sufficiently this issue and how to countervail it. But NDT has been, from the start, a progressive theoretical framework. We can see that in its concept of economic growth: it is the historical process of capital accumulation with the incorporation of technical progress that increases consistently the standard of living of people.

There are some main tools that the state can use to reduce inequality: public and universal education, the welfare state, well-designed cash-transfer systems, the gradual increase of minimum wage, and, mainly, progressive taxation, fends all of them.

Critics say the export-led strategy it advocates is income-concentrating. Indeed, it is, but if we reject all policies that favor the rich in any way, we will not be able to grow and improve the living standards of the population. These same critics add that NDT defends exchange rate depreciation, and this causes increased inequality. It is false that the new developmentalism defends devaluation; it only defends this policy when the current balance is appreciated (which occurs when the country repeatedly runs current account deficits). On the other hand, when the Dutch disease manifests itself, the country starts to have two exchange rate equilibriums: the current equilibrium exchange rate, that balances the current account, and the industrial equilibrium exchange rate, that makes competitive the tradable non-commodity goods and services. Then, NDT defends not the devaluation of the national currency, but the neutralization of the Dutch disease, which implies that the exchange rate specific for this sector of the economy 'devaluates' so to become competitive (provided, naturally, that it uses the best technology available).

[25] Bresser-Pereira (2023).

CONTRIBUTIONS OF THE NEW DEVELOPMENTALIST POLITICAL ECONOMY

Purely economic relations do not take place in a vacuum, but in a society, in a civil society and a nation and the respective social classes that sociology studies, and in a political system in which the national and industrial revolution (the capitalist revolution) gives rise to the formation of the sovereign nation-state constituted of a nation, a state, and a territory. in which class coalitions play a central role. This all happens in the framework of a Capitalist Revolution that, in general terms, takes place in Europe, between the seventeenth and nineteenth centuries, giving rise to the rich countries of the early twentieth century and, in terms of each country, this industrial and capitalist revolution (in this case written in lowercase letters) is the fundamental change that begins the development of that country.

I wrote my last book, *The Rise and Fall of Neoliberal Capitalism* (2025), to both understand the evolution of capitalism from the late nineteenth century and develop the political economy of NDT. In this paper, I shall briefly discuss only two or three points of this political economy.

First, the question of the nation, imperialism, and anti-imperialism. Imperialism – the thesis that the Global North (led since the beginning of the twentieth century by the United States) seeks to prevent peripheral countries from industrializing and developing – is already present in CDT: in the opposition between center and periphery. There are three reasons for this. The classic objectives of imperialism were, in terms of trade relations, to maintain permanent unequal exchange (the exchange of goods with high value added for goods with low added value per capita) and, in terms of capital flows, to lead the peripheral countries to accept the export of capital to them. From the 1970s onwards, a third objective was added: to prevent these countries from becoming competitors. Once formal colonies became unviable, the Empire's instruments for achieving its goals have become the combination of pressures of all kinds while persuading the countries in the periphery of capitalism that economic liberalism was the solution to all their problems, using for that its ideological hegemony or 'soft power'.

Will the underdeveloped countries be able to carry out their capitalist revolution under these circumstances? The industrial elites on the periphery of capitalism, subjected to the ideological hegemony of the Global North, are ambiguous and contradictory. At times they are nationalists – and then manage to establish a developmental class coalition with the public bureaucracy and the workers – at others they are surrenderers or dependents. The second alternative gave rise to the 'dependency theory', which had two versions having in common the postulate of the definitive dependence of the elites. The first version of a Marxist character had Andre Gunder Frank and Ruy Mauro Marini as its main representatives; the other was liberal and had Fernando Henrique Cardoso as its main name. The first affirmed that the capitalist revolution is impossible and unrealistically concluded that the solution would be the socialist revolution; the second, more 'realistic', assured that this revolution was possible as long as countries 'associate' themselves with the Global North, that is, submit to the Empire.[26]

Second, the concept of the developmental state – the state that is supported by a developmental class coalition formed, in principle, by industrial entrepreneurs, the public bureaucracy, and organized labor that rejects economic liberalism and adopts a developmentalist strategy. This form of state was already implied in CDT, but the expression 'developmental state' was not used. In 1982, however, Chalmers Johnson, studying Japan's development policy, used this expression, which thus gained international jurisdiction. NDT uses this concept habitually. I developed it especially in a work on developmental state models and another on state theories.[27]

Third, NDT uses the concept of economic populism – a different concept from political populism. While the latter is characterized by the existence of a charismatic leader who establishes a direct relationship with the people and has a nationalist character, economic populism occurs when either the state spends more than it collects irresponsibly, incurs budget deficits and we have 'fiscal populism', or the nation-state incurs into current account deficits, and we have 'exchange rate populism'. Both are interrelated, but the second is more dangerous because it always implies an artificial appreciation of the national currency and can lead the country to a currency crisis. While liberal orthodoxy speaks only of fiscal populism, the emphasis of the new developmentalist policymaking is placed on exchange rate populism. Both fiscal and exchange rate populism also have a political character because they increase the purchasing power of wage earners and rentiers and help the politician in office to be re-elected. I initially dealt with this topic in 1991, in a book I organized on economic populism. In NDT, it is discussed in several works.[28]

Fourth, in the political economy of NDT, the concept of two alternative forms of coordination of capitalist economies – the developmental and the liberal forms. In mid 2010s, I asked myself which was the alternative form of coordination of capitalism to economic liberalism, and I found that there was no word for it. The closest thing was 'mixed economy', but this is a strange, clumsy expression – mixed with what? I then decided to use 'developmentalism' as the alternative. Which, by the way, is the 'default' form of economic coordination, because all countries were first developmental and then became, to varying degrees and with comings and goings, liberal. The initial industrial revolutions in Britain, Belgium, France, and the Netherlands, happened in the framework of mercantilism. At certain periods, countries can be either developmental or liberal, and the same applies to the phases of capitalism. For example, in all countries the industrial revolutions took place

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[26] Gunder Frank (1966; 1969); Cardoso and Faletto (1969); Bresser-Pereira (2005; 2025).

[27] Johnson (1982); Bresser-Pereira (2019b; 2022).

[28] Bresser-Pereira (1991; 2014: 142-161; 2024a: chap.12).

within the framework of the developmental form. Another example: in 1980, there was the Neoliberal Turn in the rich world; since 2017, a Developmental Turn has been taking shape, mainly in the United States.[29]

Finally, in 2024 I wrote a brief essay, "The political economy of the vicious circle of quasi-stagnation", in which I sought to show how the main actors of Brazilian quasi-stagnation (the financial-rentier coalition, agribusiness, industrial companies, consumer people, executive governments and Congress), trapped in economic populism, are not willing to make any sacrifices to increase public savings and, thus, public investments, nor to ensure a competitive exchange rate that assures the private manufacturing industry a satisfying rate of profit that motivates it to invest.[30]

PRACTICAL APPLICATIONS

Both CDT and NDT have practical applications. The CDT ones were very large to the extent that it justified all the developmentalist policies that were crucial for the realization of the industrial and capitalist revolution in many countries. But we should not overstate its influence because the developmentalist practice dates from mercantilism and was present in all the industrial revolutions before the emergence of CDT, and inspired national-developmentalism. In the case of developing countries that were successful from the 1940s onwards, the importance of this theory is undeniable.

Instead, NDT didn't have originally such a favorable international condition, since neoliberalism was at its peak when it emerged. Regarding the practical applications of NDT, I will briefly mention three. The first is the explanation of the quasi-stagnation of many developing countries. It was in search of this explanation that the theory emerged. From the beginning of the construction of NDT, it was clear that the problem was that of the interest rate and exchange rate trap, which was later also defined as the liberalization trap. Unfortunately, the countries victimized by this trap have not escaped it to date.[31]

The second practical application referred to a crisis in developed countries, the Euro Crisis of 2010 and 2020. In a series of articles written at the last minute for the newspaper *Folha de S.Paulo* and then collected in a single file available on my website and, later, in a paper with Pedro Rossi, we argued that this was an external debt crisis, an external exchange crisis, not relative to the nominal or real

[29] Bresser-Pereira (2017).

[30] Bresser-Pereira (2024b).

[31] Bresser-Pereira (2024a: Chapter 16); an even more rigorous explanation should be present in Bresser-Pereira (2024c).

exchange rate, but relative to the 'internal exchange rate' – the one that can be deducted from the difference in productivity increase and wage prices in a group of countries – in this case, in the Eurozone countries.[32]

The third relevant practical application was the explanation of the divergence between East Asian and Latin American countries from the 1980s onwards. Until the beginning of this decade, the development of the two regions was similar; from then on, however, the difference became stark. Two main causes explain this fact. First, East Asian countries are not commodity exporters and therefore do not have the Dutch disease problem; therefore, when they opened their economies, they didn't have to neutralize this greater competitive disadvantage. Second, because they opened their economies more slowly, always retaining their control over capital inflows and outflows and, thus, over the exchange rate. [33]

In short, the classical structuralist developmentalist theory and the new developmentalist theory are complementary theories. They deal with the same theme, the economic development of the countries on the periphery of capitalism and they use the same historical-structural method. They do not compete, also because they have succeeded each other in time. CDT is the theory of countries that were beginning their industrialization in the 1950s, NDT is the macroeconomics of development aimed at middle-income countries.

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[32] Bresser-Pereira (2012); Bresser-Pereira and Rossi (2016).

[33] Bresser-Pereira (2018).

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