Chapter 2 The developmental schools and anti-imperialism

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There are two developmental schools: Classical Structuralism and New Developmentalism (ND). ND can also be called New-developmental Theory to make clear its theoretical character. They have in common the historical method, a critical stance towards conventional economics, the defence of a moderate intervention of the state in the economy, and a national perspective that does not exclude international cooperation. Their economics is associated with Keynes and Post-Keynesian Economics, and their political economy is freely associated with Marx.

In this chapter, I will discuss Classical Structuralism and New Developmentalism – the two main schools that focus on developing countries.[i] I will compare these two schools with Post-Keynesian Economics – the most complete heterodox school of thought – and will refer to the French Regulation School, Modern Monetary Theory (MMT) as well as to some key sociological contributions to the theory of economic development.

Classical Structuralism

In the 1940s, when some economists turned to studying underdeveloped countries, a new school called Development Economics was born. But this is an excessively general expression. I call it Classical. It relies on a political economy that discusses the capitalist revolution, the developmental state, the class coalitions, and relies on an economics in which we find the "big-push model": the identification of economic development with industrialisation or with structural change; the transfer of labour to manufacturing; the critique of neoclassical economics based on the tendency of terms of trade to deteriorate; the foreign exchange constraint argument (which may only be overcome by industrialisation), and the increasing returns existing in manufacturing.

Classical Structuralism is associated with the capitalist revolution, economic development, and the rise of modern empires with the reduction of the populations of Asia and Africa to a colonial and underdeveloped condition. Classical Structuralism defined economic development as the historical process of capital accumulation with the incorporation of technical progress and the increase in a population's standard of living. It is a relatively self-sustained process because investments in machinery and technology – the modernisation of the companies competing in the market – become an essential trait of each national economy.

Classical Structuralism originally viewed the world as divided into industrialised countries and underdeveloped countries. Soon, however, the expression "developing countries" replaced "underdeveloped countries", probably because the international agencies that focused on the development problem felt uncomfortable with the term underdeveloped – it would be too pessimistic an expression. Thus, developing became the dominant expression, and I have used it for a long time, but as time passed it became clear that underdeveloped was a more realistic term. All countries that had contact with the Global North experienced some growth, but only a few grew fast enough to catch up and improve the standard of living of their population.

The 1943 big-push model of Rosenstein-Rodan (1902–1985) was the founding paper of the new school. It showed that developing countries didn't count on the positive externalities that lowered production costs in the rich countries. The 1949 model of the tendency towards the deterioration of the terms of trade was proposed by Raúl Prebisch (1901–1986). The model rejected the conventional assumption that the increase in productivity in rich countries would reduce prices; instead, it caused a rise in wages in these countries, and the benefits of productivity were not transferred worldwide, as conventional economics maintained. Prebisch also formulated the original foreign exchange constraint model, which showed that while the income elasticity of the consumption of primary goods in the Global North was less than 1, the income elasticity of the consumption of manufactured goods in developing countries was greater than 1. In 1968, Nicholas Kaldor (1908–1986), following a long tradition that goes back to the 1613 book of Antonio Serra,[ii] argued that manufacturing involved increasing returns, not falling returns, as neoliberal orthodoxy assumed. These four models justified the intervention of the state in developing economies.

Classical Structuralism supposed that a developmental class coalition that associated the national bourgeoisie, the workers, and the state technobureaucracy would control industrialisation. We can see this socio-political vision in the works of the Economic Commission for Latin America and the Caribbean (ECLAC) economists – mainly in the contribution of the Brazilian nationalist intellectuals of the *Instituto Superior de Estudos Brasileiros* (ISEB), particularly Hélio Jaguaribe (1923–2018)[iii] – and in Peter Evans's doctoral dissertation on the "triple alliance".[iv]

The essential contribution of Classical Structuralism was the claim that economic development is industrialisation or "structural change". Its associated policy was national developmentalism: to industrialise, countries should plan their economies and adopt the import-substitution industrialisation model. The developmentalists didn't go far with planning – in capitalist economies, however, planning is possible for the infrastructure and the primary inputs of industry – but their import-substitution strategy worked. Import tariffs on manufactured goods were the basic industrial policy they adopted. The larger countries like Brazil and Mexico were the most successful because economies of scale were less constraining. The governments set tariffs for the different industries, beginning with consumer goods, expanding gradually to the primary inputs and the capital goods industries.

By using import tariffs, they were not inventing a strategy. All industrialised countries, such as the developed late-comers like the US and Germany, but also the UK, protected their manufacturing industry with import taxes. Alexander Hamilton (1757–1804), the Secretary of the Treasury to George Washington, originally developed the infant-industry argument that legitimised this policy. While living in the US, the German economist Friedrich List (1789–1846) wrote the book *The National System of Political Economy* (1841), in which he forcefully elaborated on this argument. List was critical of the law of comparative advantages, which led liberal economists to define him deprecatingly as "the theorist of protectionism". But import tariffs only become "protectionist" when they are maintained after the respective industry ceases to be reasonably defined as a recently installed industry.

The import-substitution industrialisation model was successful in Latin America, and extraordinarily successful in Brazil. Still, in 1963, a distinguished developmental economist, Maria Conceição Tavares, when considering the intrinsic provisional character of the import-substitution industrialisation model, revealed her concern for its decline in an influential paper.[v] This was an internal critique of Classical Structuralism that she revised later. When, in the 1980s, Latin America fell into a tremendous economic crisis, liberal economists immediately attributed the low growth, which would define this decade, to the import-substitution model, although this didn't make sense. The real crisis was the great 1980s' foreign-debt crisis, which resulted from the policy of growth-with-external-indebtedness that countries in Latin America and Africa adopted in the 1970s. In the 1930s, they had had to abandon this policy because their international credit was suspended after the 1929 crisis due to the moratoriums they had been forced then to abide by. The opportunity to access foreign credit got the support of neoliberal orthodoxy and international financial agencies.

Crisis and a second generation

In the 1980s, all countries in Latin America, and many in Africa and Asia, faced a major economic crisis: the 1980s' foreign-debt crisis. At that time, rich nations, led by the US, made the Neoliberal Turn, moving from the developmental and progressive Golden Age of Capitalism to the Neoliberal Years of capitalism. In the post-war years, the Global North viewed the import-substitution strategy with some discomfort, but it accepted its developmental ideas and policies. This changed in 1980. Neoliberals immediately attributed the foreign-debt crisis to the import-substitution industrialisation model and its "protectionism". The import tariffs in this model were high, but they were due not to mere protectionism but to the need to neutralise the Dutch disease. The causes behind the stagnation that the highly indebted developing countries faced in this decade originated rather from the loans taken by developing countries in hard currency to "grow with foreign savings" and from the brutal increase of the US interest rate than from domestic inefficiencies.

In the framework of the great foreign-debt crisis of the 1980s, Classical Structuralism faced its own crisis, which Albert Hirschman (1915–2012), one of the pioneers of Classical Structuralism, immediately acknowledged.[vi] But this crisis had already begun in the late 1960s with the rise of "associated dependency" – the dominant version of dependency theory that paradoxically rejected import-substitution and defended the association of the Latin American countries with the Global North. All versions of dependency theory were critical of the nationalistic or developmental class coalition that involved the working class and the national bourgeoisie. But while the original Marxist version proposed by the founder of the theory, André Gunder Frank, was also critical of imperialism, the associated dependency version preached a strategic subordination to the empire. This argument will be further elaborated at the end of this chapter.

While Latin America stopped growing in 1980, and has been quasi-stagnant since the 1990s, the East Asian countries continued to adopt a developmental approach to growth and have now become rich countries. There are three main books that originally analysed this extraordinary growth: Chalmers Johnson's 1982 book on Japan, Alice Amsden's 1989 book on South Korea, and Robert Wade's 1990 book on Taiwan. They speak of the importance of investment in education and infrastructure, and they also discuss macroeconomic policy, but they emphasise industrial policy. Erik Reinert and Ha-Joon Chang followed in the same line. Their main writings, at the turn of the century, studied the history of economic development in the central countries and demonstrated that the same policies and institutions that the neoliberal consensus sought to prohibit developing countries from adopting were the very policies and institutions that they themselves had used when they were at the same stage of economic development. This historical institutional inconsistency plagued the Washington Consensus. In 2013, Mariana Mazzucato published in her book *The Entrepreneurial State* definitive research into the key role of the state in economic growth, not in obvious countries such as South Korea or China, but in the US. Using a wealth of data, she showed how rich countries, despite their neoliberal rhetoric, continued to intervene in their economies. The American state was entrepreneurial, i.e., innovative, risk-taking, and directly involved in technological development. We can only explain the huge development of the Internet, and the rise of corporations like Google and Apple if we consider the role the state played in developing the basic technologies behind their growth. Yet if we compare this time with the Golden Age, we will see that neoliberalism inhibited the economic creativity of the state in the Neoliberal Years. This was one of the causes of the poor economic performance of rich countries after the 1980 Neoliberal Turn.

New Developmentalism

In the 1980s, the developmental governments in Latin America failed to overcome the foreign-debt crisis, their developmentalism turned fragile, and in the 1990s, they bowed to the *new truth* coming from the Global North. They engaged, not only with the required structural adjustment policies led by the IMF – which were inevitable due to the moratoriums – but also with the neoliberal reforms, now coordinated by the World Bank, and they made a full turnaround, at the cost of an identity crisis.[vii] Not surprisingly, trade and financial liberalisation failed to lead these countries towards a resumption of growth. Instead, we saw increased financial instability, low growth rates, and deepening inequality.

In the 2000s, some developmental governments were back in power in Latin America, but the economic outcomes were no better, essentially because they didn't re-establish the imported tariffs that neutralised the Dutch disease, and they also tried to grow with foreign indebtedness. Fiscal populism also happened, but this was not the leading cause of the countries' lack of success in overcoming the quasi-stagnation that characterised the Neoliberal Years in this region. Classical Structuralism and Post-Keynesian Economics didn't identify these two problems, nor had they the policies to overcome them. ND was the response. ND is a theoretical framework that explains why Latin American countries have been quasi-stagnating since the 1980s, while the East Asian countries have continued to grow fast. Instead of just criticising the neoliberal reforms generically, as Classical Structuralism often do, ND showed that these reforms were instrumental in causing quasi-stagnation. In opening up their economies without considering that import tariffs on manufactured goods were a form of neutralising the Dutch disease, Latin American countries fell into a trap: not the "middle-income trap" but the "liberalisation trap".[viii] We will discuss this in Chapter 13.

In this context, a growing group of economists started building a development macroeconomics and a political economy, which eventually came to be called New Developmentalism. The first contributions were made in 2002, but the first paper that attracted attention was a comparison between ND, neoliberal orthodoxy, and the populist forms of developmentalism (Bresser-Pereira, 2006). During this and the following three years, with the publication of the 2008 paper on the Dutch disease as well as two books, we can say that the new economics was defined. In the 2007 book, *Developing Brazil*, I studied the quasi-stagnation of the Brazilian economy while building the basic models for ND. *Globalisation and Competition* was the first book to present an integrated vision of the new economics and political economy.[ix] In the paper on the Dutch disease, we have two equilibrium exchange rates: the "current", which balances intertemporally the country's current account, and the "industrial", which makes competitive the tradable non-commodity goods and services – a equilibrium the market does not assure when the country has the Dutch disease. Thus, ND uses the concept of equilibrium but not in the neoclassical sense, as the price freely set by the market, but the prices that are consistent with the proper functioning of the economy. A price is in equilibrium when, for example, it balances this, or makes competitive that, or is consistent with price stability.

In the early 1980s, 20 years before the development of ND, Yoshiaki Nakano and I developed the theory of inertial inflation which I believe should be considered part of ND. This theory distinguishes the accelerating, maintaining, and sanctioning factors of inflation; affirms that the causing or accelerating factor of inflation is either excess demand or supply shocks, the formal or informal indexation of the economy is the maintaining or inertial factor of inflation, and the quantity of money, which is eventually endogenous, is the factor that sanctions inflation by keeping the real liquidity relatively stable, enabling the economy to work normally.[x]

In 2010, a group of 81 academics discussed and signed the Ten Theses on New Developmentalism.[xi] In 2014, José Luis Oreiro, Nelson Marconi and I published the book *Developmental Macroeconomics*, which was the first systematisation of ND's development macroeconomics and discussion of

Brazil's quasi-stagnation.[xii] In 2020, I published a paper in the *Cambridge Journal of Economics* summarising the whole theory.[xiii] The present book is the more complete presentation of ND's economics and political economy.

ND's political economy originates from Marx's political economy, while its economics and policy recommendations originate from Post-Keynesian Economics and Classical Structuralism. It views economic development as a priority objective for countries – a goal that is in line with, not in conflict with, the other political objectives of modern societies: national autonomy; security; individual freedom; social justice, and the protection of the environment. It holds that two complementary institutions coordinate the economy: the state and the market. It claims that developmentalism and economic liberalism are capitalism's two forms of economic organisation. While the market coordinates the competitive sector of the economy superiorly, the state coordinates the non-competitive sector (infrastructure and the primary inputs of industry), as well as co-ordinating some strategic industries such as the aeronautic industry, the health industrial complex, and the innovative industries in which the socialisation of risks for radical innovation requires the direct participation of the state.

As a political economy, ND asserts that to develop, each nation-state must count on a developmental class coalition, a developmental state, and economic nationalism. In its microeconomics, ND holds that supply factors are crucial for development, although they can only promote growth if they are combined with macroeconomic policies that assure that the interest rate level is low, and the exchange rate is competitive. In macroeconomics, ND assumes that markets are unable to guarantee the "right" macroeconomic prices (interest rate, exchange rate, wage rate, inflation rate, and profit rate), assure price and financial stabilisation, and encourage investment – the term "right" here having no relation to the neoclassical term "right prices".[xiv]

In its development macroeconomics, ND accepts fiscal deficits in certain cases and rejects current-account deficits. In contrast, the neoliberal orthodoxy rejects fiscal deficits and is complacent about, if not ignores, current-account deficits. ND advocates a Keynesian approach to fiscal policy while it gives high relevance to the current account, which should be balanced, except in the rare moments when the economy is growing so fast as to cause the fall of the marginal propensity to consume. ND sees the exchange rate as a strategic macroeconomic price and argues that there is a tendency towards cyclical overvaluation of the exchange rate in developing countries, which is caused by the growth due to foreign-indebtedness policy – a misguided policy usually adopted by developing country that leads not to the increase of the investment rate but to an increase of consumption. When a country has the Dutch disease, we have a second cause for the long-term overvaluation of the exchange rate – not the general exchange rate but the exchange rate relevant to the manufacturing industry, which then becomes non-competitive.

ND sees climate change as a significant threat to humanity and understands that economic growth is a tool, rather than a burden, that allows countries to finance the substantial investments required to replace carbon dioxide emitters with renewable energy sources. The state must control this effort by taxing the carbon emitters, while encouraging green, carbon-free technologies.

Comparing the three schools

ND, Classical Structuralism, and Post-Keynesian Economics are closely associated – especially the first two. We could see ND, not as a new school, but as part of Classical Structuralism. But I prefer to think of it in terms of a new school, because ND is critical of its parent school on some points and adds many new ideas.

• ND is an addition to Classical Structuralism. It is essentially development macroeconomics focused on aggregate demand, while Classical Structuralism is a development microeconomics focused on the supply factors determining investment and growth.

• Classical Structuralism's main objects of study are the pre-industrial countries, while ND focuses on the middle-income countries that have already realised their own capitalist revolution.

• Classical Structuralism was pessimistic regarding developing countries exporting manufactured goods, adopting the import-substitution industrialisation model, and legitimising the corresponding import tariffs with the infant-industry argument. ND is more optimistic and defends an export-led strategy.

• If a country has the Dutch disease, it must neutralise it. Classical Structuralism ignores the disease, while for ND, it has a great relevance in growth economics.

• To neutralise the Dutch disease – which impedes industrialisation – ND defends either a variable export tax on the commodities that originate it, or a tariff reform that distinguishes conventional import tariffs – which should be small – from a single import tariff on all manufacturing goods. In one case, the tax, in the other, the tariff, will vary according to the price of the commodities the country exports. In the case of the tariffs, they only neutralise the Dutch disease domestically. For manufacturing also to be competitive abroad, a variable subsidy must be added.

• Classical Structuralism, following the neoliberal orthodoxy, defended the policy for growth with external indebtedness – in this case, no different from neoliberal orthodoxy – while ND rejects this policy for middle-income countries on the grounds that it overvalues the national currency in the long-term. Alternatively, ND defends a balanced current account or, when the country faces the Dutch disease, a *surplus* (not ignoring the fact that such a policy depends on the existence of countries that exhibit current-account deficits).[xv]

As to Post-Keynesian Economics, ND, which adopts its macroeconomics, is nevertheless different because:

• It focuses on the analysis of the five macroeconomic prices.

• It gives a new perspective on the exchange rate and current-account balance policy.

• It has a theory of the determination of the exchange rate in which the current account associated with capital flows, and the value of the foreign money related to the comparative unit labour cost, are two new main variables.

• It is critical of the policy of growth with external indebtedness, which, instead of causing an increase in the rate of investment, causes the long-term appreciation of the exchange rate which then discourages investment, while causing an artificial (non-sustainable) rise in the wages and higher revenues of rentier capitalists, thus stimulating consumption.

• It claims that in developing countries, there is a tendency towards a cyclical and chronic overvaluation of the exchange rate, and it attributes this to a non-neutralised Dutch disease and to the habitual policy of adopting a high long-term interest-rate policy aimed at attracting foreign capital.

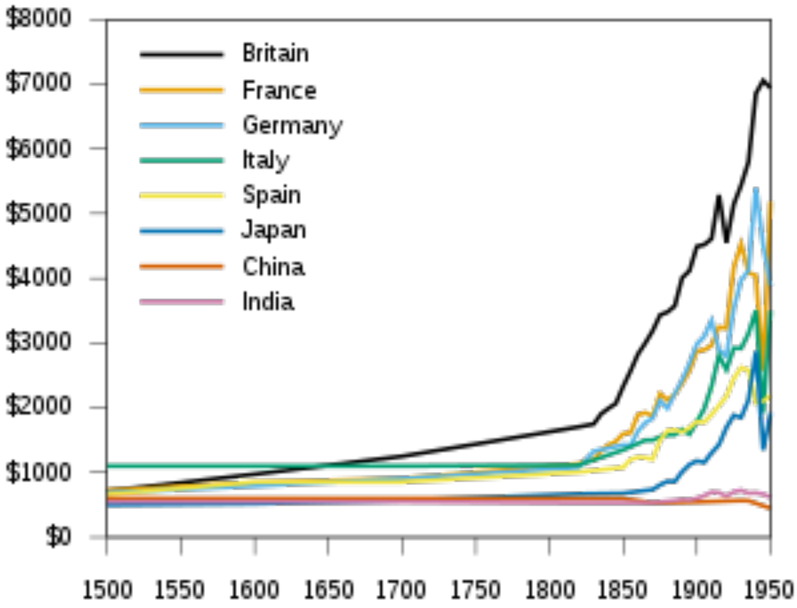
• It has a political economy, which is practically non-existent in Post-Keynesian Economics.

The great divergence and imperialism

In the mid-nineteenth century, the capitalist revolution caused the economic development of the first countries that realised it, the emergence of great divergence in the development levels, and the rise of modern imperialism. The north-western European countries became rich and powerful enough to reduce the pre-capitalist populations of Asia and Africa to colonies. Moreover, it reduced the Latin American countries, which were formally independent, to semi-colonies.

During this period, the economic divergence became enormous. Before the capitalist revolution, there were no rich or poor countries. There were no nation-states, just the surviving ancient empires (the Chinese, the Austro-Hungarian, the Russian, and the Ottoman empires), and the recent absolute monarchies in Europe and Japan (the Tokugawa Shogunate in the Edo regime) supported by tribes and clans. In the ancient empires and monarchies, there were the aristocratic rich and the poor, but excluding the aristocracies, the inhabitants of all pre-capitalist politico-territorial societies were poor.

Since the industrial and capitalist revolutions in England, France, Belgium and the Netherlands, these countries experienced economic development and we can make a clear distinction between the developed and the developing countries. According to the research of the notable economic historian Paul Bairoch, the income per capita of the countries that were considered in 1990 to be developed and the Third World countries were 188 and 182 US dollars; in 1950, income per capita was 1,180 and 214 US dollars, respectively.[xvi] In Figure 3.1, we can see this divergence with Angus Maddison's numbers. Until 1500, the income per capita and, thus, the productivity of the selected countries was practically stagnant. From the sixteenth century on, the income per capita of north-western Europe, mainly UK, began to grow modestly, while China and India remained stagnant. From 1820 onwards, the north-western European countries, primarily UK, experienced fast growth until 1950, while the income per capita of China and India, which was stagnant until the mid-nineteenth century, retroceded in the following hundred years when the two countries were subjected to modern imperialism.



Source: Maddison (2007: 382).

Figure 2.1: Income per capita in selected countries

In the framework of modern imperialism, the metropoles extracted the economic surplus of the colonies by imposing taxes and assuring the monopoly of international trade and capital investments in the colonies. Some colonies, such as India or quasi-colonies such as China, experienced significant economic decay in this century, which was a direct sequel of their colonial domination. Kenneth Pomeranz, who wrote *The Great Divergence* (2000), acknowledged that China's standard of living and productivity were comparable with Europe's as late as 1800. Still, the word imperialism does not appear in any of the 382 pages of the book.[xvii] The Chinese, however, know what imperialism represented to them. They call the period between the Opium Wars in the mid-nineteenth century and their 1949 independence "the century of humiliation".

In Latin America, the countries colonised by Spain and Portugal in the sixteenth century became formally independent at the beginning of the nineteenth century, but they were not autonomous nations. UK, France, and the US replaced Spain and Portugal in the metropolis condition, but the Latin American countries remained agricultural or mining economies until 1950.

The Global North – the rich countries which have in common a sophisticated productive system of industrialisation, wages well above the subsistence level, and a standard of living that is high when compared with developing countries – is the modern empire. The countries that form the Global North oppose the industrialisation of the countries on the periphery of capitalism. They aim to keep the peripheral countries as exporters of primary goods and as recipients of their capital. Through trade, they benefit from this "unequal exchange": they export sophisticated goods with high value-added per capita that pay relatively high salaries while importing primary goods from the peripheral countries. To export capitals is an objective for them because they lack investment opportunities in their own countries. As Joan Robinson remarked in 1956, an increase in the domestic activity of a country usually causes a fall in its foreign investments.[xviii]

In the nineteenth century, the UK did whatever it could to avoid the industrialisation of the US and Germany, and the central countries firmly opposed the industrialisation of Latin America. In the 1970s, when the newly industrialising countries (NICs) emerged on the global scene exporting manufactured goods, the central countries reacted to their competitive advantage: low wages. The classic form that the Global North adopted to avoid the industrialisation of the Global South is the practice of *ideological hegemony*, and the main ideological instrument is economic liberalism – using the old law of comparative advantages to prevent the peripheral countries from industrialising and competing internationally. In this way, they legitimise trade liberalisation, “forgetting” that during the time when they industrialised they themselves used import tariffs on manufactured goods. Since 1990, the Latin American countries have undergone a severe de-industrialisation, the main cause of which was trade liberalisation. The argument countries used to justify the import tariffs was the infant-industry argument. As we will see later, ND added a second argument: neutralisation of the Dutch disease.

Anti-imperialism

Among ideologies, one of the lesser studied is nationalism. For a long time, one of the few essays on this theme was Ernest Renan’s famous 1882 essay *What is a Nation?* He says that a nation is a history of efforts, sacrifices, and commitments, whose existence is assured by an everyday plebiscite. Yet in the last 50 years, there has appeared academic literature on the subject, to which Ernest Gellner (1983) has made a classic contribution.[xix] He argued that nationalism was the fight for congruency between the nation and the nation-state. For that reason, I say that nationalism is the ideology of constructing the nation-state. Yet in this literature no author speaks of developing countries and anti-imperialism.

Economic nationalism and developmentalism are associated: for a nation to defend its interests, it must use its state as an instrument of economic development. We can distinguish between them by saying that nationalism is an ideology, while developmentalism is a policy regime, a form of economic coordination of capitalism, although it isn't easy to distinguish economic theories from ideologies – they are usually intertwined.

These two developmental schools are both anti-imperialistic. They view the Global North as being opposed to the industrialisation of, and so also to the development of, the Global South. The main representatives of Classical Structuralism didn’t speak of imperialism but of “centre-periphery”. Prebisch defined the relationship between the rich and the underdeveloped countries as centre-periphery and held that their economic relations involved an “unequal exchange” – developed countries exchanged sophisticated goods with high value-added per capita for primary goods in which value-added per capita was small, and wages were low. He was aware of imperialism, but centre-periphery was enough for him to elaborate his main argument. As Joseph Love (1980: 65) remarked, Prebisch “has won himself a place of eminence in the history of the theory of imperialism even if 'imperialism' is not part of the ECLAC vocabulary."

In his 1961 book *Development and Underdevelopment*, Celso Furtado (1920–2004), who worked with Prebisch, argued that underdevelopment was not a phase that preceded industrialisation and economic development; it was an outcome of the strategies the centre adopted in order to grow. Like Prebisch, Furtado didn't attribute underdevelopment to imperialism – a word that was not appropriate in an agency of the United Nations – nor did he explain the wealth of the rich countries in terms of the exploitation of the developing countries, but he was critical of the centre-periphery relation to the extent that it hindered the growth of developing countries. He knew that economic liberalism was the "soft power" that imperialism used to check the industrialisation of developing countries and to persuade them to adopt liberal economic policies.

The reaction to the rise of modern imperialism was economic nationalism. Classical Structuralism and ND defend economic nationalism, which the Global North criticises for obvious reasons, "forgetting" again that they were, and continue to be, nationalistic countries which defend the interests of national capital and national labour. Developed countries were nationalist when they formed their nation-state; they were nationalist when they carried out their industrial revolution, and they remain nationalist today when they defend the interests of their companies that compete at world level within the framework of globalisation.

Globalisation has weakened the developed countries' own economic nationalism because it has given rise to a dominant class of rentiers and financiers whose dividends, interest, and real estate rents are realised in many countries – more so than in their home country. They lost the idea of the nation and its commitment to growth. Yet the working class in these countries, as well as the industrial business entrepreneurs, remain nationalists, and their politicians defend the national interests so that they can be re-elected.

ND defends the argument that at the periphery of capitalism, countries must also be nationalist to grow and to catch up because they must conserve or achieve their economic independence, which the imperial potencies deny. Only in this way will they be able to reject the liberal policies that the Global North, which, by using its ideological hegemony, presses them to adopt: the neoliberal orthodoxy – a mix of market-oriented reforms and fiscal austerity – which neoclassical economics uses as "scientific" justification.

Although nationalist, the governments of the central countries and their neoliberal economists made the word "nationalism" pejorative, associating it with fascism and populism. As to fascism, they are right: nationalism must be moderate and only economic, never ethnic or radical. Ethnic nationalism quickly changes into xenophobia and is the origin of wars and genocides: socialists but for a different reason. They were initially internationalists, and their bet was on a world socialist revolution.[xx]

Dependency's two streams

Dependency is an expression and a theory that emerged in the 1960s in the realm of Marxist economists. Instead of speaking of imperialism and focusing on the imperial interests of the rich countries, Marxist economists focused on the alienated elites, the dependent elites, at the periphery of capitalism. The defining characteristic of dependency theory, independent of its version, is the radical rejection of the existence of a national bourgeoisie in Latin America. This is a mistaken view. The Latin American industrialists are nationalist at certain moments, and they are dependent at other moments, especially when they feel threatened by the left.

There are two main streams within dependency theory: the original, radical stream of André Gunder Frank (1929–2005) and the associated dependency theory of Fernando Henrique Cardoso and Enzo Faletto (1935–2003). Frank founded the theory with the paper “The development of underdevelopment”.[xxi] He was in Brazil just after the 1964 military coup, saw that it had counted on the support of industrial business entrepreneurs, and he had then authored his essay. In the context of the Cold War, similar coups, with the help of the US, took place in Argentina (1967) and in Uruguay (1978). Latin American intellectuals interpreted these coups as confirmation of the dependency theory, of the “impossibility” of the constitution of a national bourgeoisie in developing countries.

The stream that remained Marxist was led by Gunder Frank and Ruy Mauro Marini (1932–1997); it was dependentist, but anti-imperialist. The other stream – founded by Cardoso and Faletto in the book *Dependence and Development in Latin America* (1969) – defended the association of the Latin American countries with the US. This version soon became dominant in the region, including on the left, because it was critical of the authoritarian regimes; of the increasing inequality that the military regimes were causing; of the military officers who were relatively nationalist, and because it was socially progressive. This interpretation of the theory saw the multinational corporations investing in the manufacturing industry of Latin American countries as “the proof” that the centre-periphery opposition was false. Naturally, the government of developed countries and North American academics received the associated dependency theory with joy, as Cardoso acknowledged.[xxii]

The associated dependency version of dependency theory weakened the economic nationalism of the Latin American countries. In the late 1980s, after ten years of the foreign-debt crisis, it was one of the causes of the rejection of the nationalist developmental policies that were behind the region's economic growth from the Second World War to the 1980s. From then onwards, these countries adopted the neoliberal reforms – liberalising trade and finance – which have been one of the causes of the region’s quasi-stagnation ever since. Instead of falling into the middle-income trap, they fell into what ND calls “the liberalisation trap”. By abruptly reducing import tariffs on manufactured goods, they ceased to neutralise the Dutch disease, and the manufacturing industry in the region faced a significant competitive disadvantage regarding competitors abroad.[xxiii]

The Regulation School and Modern Monetary Theory

Among the heterodox schools of thought that has emerged in the last 50 years, one of the more relevant schools for ND is the French Regulation School. This school originated in Marxism and offered major contributions both to the analysis of the post-war Fordist-class coalition that commanded the Golden Age of Capitalism and to financial economics. Its more important representatives are Michel Aglietta and Robert Boyer.

Another important, and more recent, school is the Modern Monetary Theory (MMT) school derived from Post-Keynesian Economics' endogenous theory of money. It resumed the ideas of the German economist George Friedrich Knapp (1842–1826), who, in his 1905 book *The State Theory of Money*, created Chartalism. For him, money is not a commodity, but a means of change created by the economy and guaranteed by the state. Money is what the state accepts for the payment of taxes. In the 1940s, Abba Lerner, with his macroeconomic functionalism, gave a Keynesian interpretation of the theory. Another contribution, now post-Keynesian, was the theory of endogenous money, which I will discuss on Chapter 7. MMT was behind other distinguished economists like Hyman Minsky (1919–1996) and Wynne Godley (1926–2010), who developed the "sectorial balances" macroeconomic theory which has become influential in recent years. MMT's main economists are Warren Mosler, L. Randall Wray, and Stephanie Kelton.

MMT received a lot of attention after the 2008 global financial crisis, when the central banks of the main central countries engaged in quantitative easing. This involved a huge injection of money into their economies to increase liquidity, reduce the interest rate still more than the market had reduced it, and to stimulate those economies that were quasi-stagnant. This policy was possible because the central economies had fallen into the Keynesian liquidity trap, and monetary policy was ineffective. Quantitative easing was relatively successful in invigorating the economies, and it didn't cause inflation. This attention was redoubled when, facing the Covid-19 pandemic, the same countries financed large parts of the expenses involved through the purchase of new public bonds. Thus, the objective of the central banks' quantitative easing was not just to increase the money liquidity by purchasing old treasury bonds and private bonds but, by purchasing new treasury bonds, to finance exceptional state expenditures, or to reduce in practical terms (not in accounting terms) the public debt. Quantitative easing represented a new rebuttal of the monetarist theory of inflation (which I will discuss in Chapter 10).

Development sociology

I conclude this analysis of the developmental schools by mentioning the contributions to the theory of economic development from some social scientists who have used the historical method. I am thinking of the progressive sociologist C. Wright Mills (1916–1962) and the conservative economic historian Walter Whitman Rostow (1916–2003) in the post-war period. In 1982, political scientist Chalmers Johnson (1931–2010) originally developed the concept of the developmental state, and since the 1980s, sociologist Peter Evans, who is part of the "bring the state back in" group, has been working on this theme – which is central to ND – emphasising how the top bureaucracy in fast-rising developing countries has embedded with business in advancing the mutual development project. The sociologists of this group, who published the 1984 book *Bringing the State Back In*, were reacting to the liberal, rational-choice school, which had taken over political science at that time. The Neoliberal Years of capitalism were the years of neoclassical economics, rational expectations within neoclassical economics, and new institutionalism. Today, after the 2008 global financial crisis and the 2020 Covid-19 pandemic, these schools of thought have been deeply challenged.

[i] I know the expression “developing”, which I usually use, is a euphemism, but the alternative words also have problems. The term supposes that developing countries are developing and catching up with the central countries, which is not true. All countries that had contact with the industrial West, and that learned to use some of its institutions and its technologies, experienced some growth, but only a few grew fast enough to catch up and improve the standard of living of their population.

[ii] Serra (1613) *A Short Treatise on the Wealth of Nations*.

[iii] A group of nationalist intellectuals who formed the ISEB (*Instituto Superior de Estudos Brasileiros*) in 1955. This group studied the industrialisation of Brazil and the developmental class coalition that supported it under the leadership of president Getulio Vargas. Hélio Jaguaribe was its leading political scientist, Alberto Guerreiro Ramos, the leading sociologist, and Ignacio Rangel its most important economist.

[iv] Evans (1979) *Dependent Development: The Alliance of Multinational, Local and State Capital in Brazil*.

[v] Tavares (1963) “The growth and decline of import substitution in Latin America”.

[vi] Hirschman (1981) "The rise and decline of development economics”.

[vii] Bresser-Pereira (1995) “Development economics and World Bank’s identity crisis”

[viii] This argument and the empirical justification are in Bresser-Pereira, Araújo and Perez (2020) “An alternative to the middle-income trap”.

[ix] Bresser-Pereira (2007) *Macroeconomia da Estagnação* [Stagnation Macroeconomics] was translated to English with the title: *Developing Brazil: Overcoming the Failure of the Washington Consensus.* The book *Globalisation and Competition* (2010) was a first systematisation, but some key problems, such as the theory explaining why the exchange rate is a determinant variable of economic growth, would only be developed in the next three or four years.

[x] Bresser-Pereira and Nakano (1984) “Accelerating, maintaining, and sanctioning factors of inflation”. For a history of the theory, see Bresser-Pereira (2023) “The theory of inertial inflation: a brief history”.

[xi] “Ten Theses on New Developmentalism”. See http://www.scielo.br/pdf/rep/v31n5/a11v31n5.pdf

[xii] Two years later, we published the Portuguese version of this book, which is substantially superior to the English original edition.

[xiii] Bresser-Pereira (2020) “New Developmentalism: development macroeconomics for middle-income countries”.

[xiv] Whereas for neoclassical economics the “right prices” are the prices defined in a competitive market, for ND the macroeconomic “right prices” are the prices that are consistent with economic growth.

[xv] For instance, China's systematic current-account surpluses since it opened up its economy were only possible because the US has incurred large current-account deficits since the 1960s.

[xvi] Bairoch (1993: 95) *Economics & World History*.

[xvii] Pomeranz (2000: 36-43) *The Great Divergence*.

[xviii] Robinson (1956) *Introduction to the Theory of Employment.*

[xix] I refer to Eric Hobsbawm, Ernest Gellner, Miroslav Hroch, Benedict Anderson, Anthony D. Smith, and Michael Mann. Selected texts of these and a few other authors are in the excellent book edited by Gopal Balakrishnan, *Mapping the Nation* (1996).

[xx] Otto Bauer (1881–1838) was an exception.

[xxi] Frank (1966). “The development of underdevelopment”. This influential paper circulated in Latin America in 1965.

[xxii] Cardoso (1977), with a certain irony, titled this short essay, “The consumption of dependency theory in the US”.

[xxiii] Bresser-Pereira, Araújo, and Peres (2020), “An alternative to the middle-income trap”.