Steps in the construction of New Developmentalism
-a personal report

Luiz Carlos Bresser-Pereira

São Paulo, April 2020. Revised in June 2021.

New Developmentalism is a school of thought being built since the early 2000s. It is originated from Classical Developmentalism, Post-Keynesian Economics, and Marxism. It has as object of study the capitalist economic systems that resulted from the formation of the nation-states and the realization of industrial and capitalist revolutions in each nation-state since the second half of the eighteenth century. New developmentalism, like classical developmentalism and post-Keynesian economics, adopts primarily the historical-deductive method and proposes micro and macroeconomic developmental policies; the alternative is neoclassical economics, which adopts the hypothetic-deductive method and originates a policy system that I call liberal orthodoxy. While the historical schools start from the analysis of real economic systems, and have as scientific criterion the consistency with reality, neoclassical economics starts from axioms like the homo economicus and rational expectations, and its scientific criterion is rather logical consistency than adequacy to reality. When the theory does not explain the reality – basically when markets don't conform with the theory, liberal orthodoxy blames the reality rather than the theory

Two main institutions coordinate economic actions in the capitalist monetary systems: the state and the market. The state is the law system and the sovereign organization that guarantees it, is the overarching coordinative institution in modern societies, while the market is the institution that through competition coordinates optimally the competitive sector of the national economies and the international economic system.

New developmentalism claims that there are two forms of economic organization of capitalism and two corresponding ideologies: developmentalism and economic liberalism. Thus, besides a theoretical framework, the word "developmentalism" designates an ideology and a form of capitalism in which the state intervenes moderately in the economy. The alternative is neoclassical economics, which defends the state should only

Luiz Carlos Bresser-Pereira is emeritus professor of Fundação Getúlio Vargas and editor do Brazilian Journal of Political Economy. Note: If someone studying New Developmentalism findings a mistake in the association of the steps with the respective works, please, inform the author. E-mail: bresserpereira@gmail.com.

guarantee property rights and contracts, the market taking care of the rest. Considering these two forms and the phases of capitalist development, developmentalism characterized all industrial and capitalist revolutions; from mid-nineteenth century to 1929, liberalism turned dominant in the countries that first industrialized (Britain, France and Belgium); with the 1929 crash and the Great Depression, socio-developmental capitalism emerged, Keynesian macroeconomics turned mainstream, and we had the Golden Years of capitalism; in late 1970s, after a crisis in the United States and Britain, we had the Neoliberal Turn, which, only 28 years later, has fallen in deep crisis.

An economics and a political economy

New developmentalism counts with an economics and a political economy. The *political economy* of new developmentalism involves (1) the rise of three social classes – the capitalist, the managerial and the working class – combined with the construction of a nation and the formation of the capitalist state; (2) the historical definition of the main political objectives that these societies set for themselves, the respective ideologies, and the class coalitions or political compromises involved; (3) the appropriation of the economic surplus in the market and not through the direct control of the state; (4) the construction of an international system in which the *centre* submits the *periphery* to a colonial condition which may be either formal or informal; (5) the appropriation of the economic surplus of the periphery through unequal exchange of goods and services, and by exporting capitals that are not transformed into capital accumulation in the periphery but into consumption of its elites.

The *economics* of new developmentalism comprehends a microeconomics and a macroeconomics. The microeconomics of new developmentalism borrows from classical developmentalism the understanding of economic development as a process of structural change or increasing productive sophistication. It divides the economic system into a competitive and a non-competitive sector, and acknowledges/proposes a simple subsidiarity criterion to know which institution will coordinate what: the market is supposed to coordinate the competitive sector of the economy, while the state is supposed to coordinate

- the non-competitive sectors, mainly the infrastructure, the basic inputs industry, and the oil industry,
- the two macroeconomic accounts (the external and the fiscal account),
- the five macroeconomic prices (interest rate, exchange rate, wage rate, inflation rate, and profit rate),
- the distribution of income, and
- the protection of the environment.

The macroeconomics of new developmentalism is from the start an open and dynamic (development) macroeconomics. Instead of adopting the conventional procedure of, first, assuming a closed and static economic system in which a general equilibrium would hold, and gradually abandon the "simplifying assumptions" to get nearer the reality, new developmentalism starts from real capitalist societies, the nation-states, and their economic relations with other nation-states. It starts from this great and complex form of society, the nation-state, which is specific to capitalism, as the ancient empires where the corresponding form in policy regime-capitalist societies. National societies which follow two main logics (national autonomy and economic development), counts with three main social classes (the capitalist, the managerial, and the working class), and the appropriation of the economic surplus is achieved in the market through the realization of profits, high salaries, and bonuses.

Economic development is the main political objective of nation-states and the central dimension of human progress. The other dimensions are security, individual liberty, social justice, protection of the nature, and two institutions-means: national autonomy and democracy.

The capitalist revolution was a major historical change which gained historical momentum in England, in the second half of the eighteenth century. Since then, other nation-states realized their own capitalist revolutions, thus giving rise to an international economic system. First, the classical political economy, second, neoclassical economics, third, Keynesian macroeconomics have developed the political economy and the economics of the capitalist systems. Keynesian macroeconomics identified the existence of the tendency to the insufficiency of demand and turned macroeconomic policy an operational form of state intervention; classical developmentalism showed that with markets left alone the underdeveloped economies were unable to make their industrial and capitalist revolution and defended industrial policy as a means to economic development; new developmentalism agreed on the importance of industrial policy to overcome underdevelopment, and proposed a development macroeconomics based on keeping balanced the two macroeconomic accounts and right the five macroeconomic prices.

New developmentalism also made a critique of neoclassical economics.

Instead of following the usual and good argument that this economics is not realist, I developed a methodological critique by classifying sciences as substantive (natural and social sciences) and methodological sciences, and by criticizing neoclassical economics by adopting the hypothetic-deductive method of mathematics, instead of adopting, primarily, the historical-deductive method.

Bresser-Pereira, Luiz Carlos (2009) "The two methods and the hard core of economics", *Journal of Post Keynesian Economics* 31(3) Spring: 493-522.

Bresser-Pereira, Luiz Carlos (2012) "Why economics should be a modest and reasonable science", *Journal of Economic Issues,* XLVI (2) : 291-301.

Bresser-Pereira, Luiz Carlos (2017) "Historical models and economic syllogisms", *Journal of Economic Methodology,* 25, 2018: 68-82.

In this personal report, I will, first, explain why a new school of thought proved to be necessary in 2001; second, discuss its main hypotheses; third, look in the prior 20 years and look for tracks that led to these ideas; fourth and fifth, identify the steps of this theoretical construction relative to political economy and relative to the economics of new developmentalism.

The vision

In the 1960s and 1970s, while I studied economic development with the classical developmentalists, mainly Celso Furtado and Arthur Lewis, I believed that once a country realized its industrial revolution, growth turned self-sustained because to survive in a competitive economic system entrepreneurs had no alternative but to invest and innovate. Yet, in 1979, this assumption proved wrong. Despite having completed its capitalist revolution in the late 1970s, a strong increase in the interest rate in the United States combined with a mistaken policy of growth with foreign indebtedness triggered a great foreign debt crisis and a high inertial inflation that interrupted this growth process. Since then, the Brazilian economy faces quasi-stagnation.

Given the gravity of the crisis, in 1980 I stopped researching the Brazilian economy and economic development and focused my attention to the study of inflation and financial crises. I participated from the construction of the theory of inertial inflation and, while finance minister (1987), I proposed a form of overcoming the foreign debt crisis that in 1989 became the Brady Plan. In 1994, Fernando Henrique was elected president and I was back to Brasilia, now as the minister of Federal Administration and Reform of the State (1995-1998). In office, Fernando Henrique defined his growth strategy: Brazil would grow with foreign savings. At that time, I didn't have a theory to criticize it, but I was an insistent critic of the macroeconomic policy post the Real Plan. The economic team understood the message and adopted policies, mainly a high interest rate, to attract foreign capitals and control inflation. Soon, a current-account deficit materialized. Not invited to participate of the economic team, I was not conformed with the passivity of the government in relation to the current-account deficit and the overvalued real, and every month I expressed my concern to the President; I even wrote a letter to him on that matter. The President showed interest on my comments but didn't change such policy. Not surprisingly, in late 1998, a currency crisis broke up and the Brazilian economy experienced quasi-stagnation.

In a 1949 essay, Joseph Schumpeter said that the scientific method begins with a *vision.*[1] , I had the vision of new developmentalism in a 2001 meeting of the Forum Nacional organized by João Paulo dos Reis Veloso. After Eustáquio Reis presented a paper in which he referred to the exchange rate, I recalled the first ministerial meeting, in January 1995, when Fernando Henrique exposed his growth with foreign savings strategy (that Brazil would grow with foreign savings) and had the vision that current-account deficits made the exchange rate overvalued in the long-term, and such overvaluation turned investment projects in manufacturing non-competitive despite using the best technology available. My vision was that *an overvalued exchange rate, associated to current-account deficits, is determinant of the investment.* I started then to build new developmentalism. At that time, I was unhappy not only with liberal orthodoxy, but also with the two heterodox schools of thought to which I was associated. Conventional developmentalism expected too much of industrial policy, vulgar Keynesianism offered fiscal deficits aiming to sustain demand as the solution of all problems – something parallel to liberal orthodoxy's universal solution: fiscal adjustment. These three schools of thought didn't offer a theory and a strategy that explained the quasi-stagnation since the 1980s, nor offered policies capable of leading economies like the Brazilian economy to resume the process of economic growth. At that time, classical developmentalism as well as post-Keynesian economics pointed out in the right direction; both rightly criticised the neoliberal imperialism, which pressed developing countries to make neoliberal and posed obstacles to the adoption of developmental policies. At that moment, was becoming clear to me that the critique of post-Keynesian economics and classical developmentalism was not enough. To resume growth, middle income countries like Brazil required a development macroeconomics and a political economy that was not available. The East Asian countries were a good reference; until 1980 they were growing at rates like the Latin American ones; they also faced the foreign debt crisis in this decade, but they were less indebted in foreign money and suffered less the impact of the foreign debt crisis. Besides, as they didn't have commodities to export, they didn't suffer the Dutch disease, and, so, their growth was not dependent on the import taxes that the Latin American countries had adopted intuitively to neutralize this disease. Thus, when in the 1980s they were pressed to open their economies, their trade opening could be milder: they didn't cause the competitive disadvantage that is in the origin of the Latin American deindustrialization and quasi-stagnation.

The 2001 vision gave fruits. Today new developmentalism is based on:

- The claim that investment depends on the exchange rate; when the exchange rate remains overvalued in the long-term, entrepreneurs, in evaluating investment projects, consider this overvalued (depreciated) currency, and will be discouraged (encouraged) to invest.
- The adoption of a concept of *competitive* exchange rate – the exchange rate that makes competitive the investment projects in the manufacturing industry that utilize technology in the world state-of-the-art. Note, new developmentalism is the only theory that holds investment depend on the exchange rate because it is the only that holds the exchange rate is not just volatile in the short-term but may remain overvalued (or devalued) in the long-term.
- The claim that long-term overvaluation (depreciation) of the national currency may only happen if current-account deficit (surplus) results from a policy decision, from a usually inconscient policy of incurring

in current-account deficits (surpluses). Note that the long-term overvaluation (devaluation) of the national currency may only happen if the state adopts policies (mainly the interest rate), that have as objective a current-account deficit (or surplus). It will be overvalued (devaluated) in the long-term because (a) the country adopts (rejects) the growth with foreign indebtedness policy and views positively the deficit; (b) the country consider the "foreign constraint", and so, sees the external deficits "inevitable" or "structural" instead of viewing it just as problem that only industrialization can resolve; (c) the population in the country has a high marginal propensity to consume and elects populist governments (or a low marginal propensity to consume and elects "mercantilist" governments). In these three cases, the current-account deficit and the overvalued are not endogenous but exogenous – policies cause it.

- A fourth (d) condition for an overvalued currency in the long-term is the Dutch disease. But in this case the overvaluation refers only to the manufactured goods and will not be associated to current-account deficit. When, besides the fourth condition, the country engages in current-account deficits, we have the suicidal countries.
- The fact that such current-account deficits and long-term appreciation of the exchange rate will make not viable the capable investment projects in manufacturing and the economy will not develop but fall behind.

The precedent 1980s and 1990s

After the war, the world lived the Golden Years of capitalism. Yet, in the 1970s, an economic crisis in the rich countries, that the Keynesian macroeconomic policies failed to tackle, triggered in 1980 the Neoliberal Turn – the change in rich countries from a socio-developmental regime to a neoliberal policy regime. This change led the Global North on the leadership of the US to mount an attack on the industrial policies, particularly the import taxes on manufactured goods, that Latin American countries were adopting. Weakened by the 1980s foreign debt crisis, classical developmentalism in Latin America counted only with the infant industry argument, which had lost part of its credibility over time. Thus, in the late 1980s, the Latin American countries bowed to the new truth – to trade liberalization, financial liberalization, privatization, and deregulation.

In the early 1980s I was fully focused on the formulation of the theory of inertial inflation and in the overcoming of a major foreign debt crisis. In 1983 I entered in public life, and in 1987, in the context of a huge inflation and debt crisis, I assumed for seven months the Finance Ministry of Brazil. In that year became clear to me that Brazil was facing a major fiscal crisis of the state, as we can see in the paper "The changing patterns of financing investment in Brazil".

Bresser-Pereira, Luiz Carlos (1987) "Changing patterns of financing investment in Brazil", *Bulletin of Latin American Research* (University of Glascow) 7(2) 1987. Also published in *Revista de Economia Política* (7)4, October 1987: 5-21.

My short experience in the Ministry of Finance confirmed the existence of "fiscal crisis of the state" – which was essentially defined by the fact that the state had lost capacity of financing its investments as the public savings which were positive in the 1970s turned negative in the 1980s. A crisis which, at that time, I understood as being part of a cyclical pattern of state intervention. Besides a paper on the cycles of state intervention, I also published a paper, with Fernando Dall'Aqua, in the Journal of Post Keynesian Economics, criticizing what would later on call "vulgar Keynesianism".

Bresser-Pereira, Luiz Carlos (1989 [1993) "Economic reforms and cycles of state intervention", *World Development* 21(8): 1337-1353. Original Portuguese edition of this paper, 1989.

Bresser-Pereira, Luiz Carlos e Fernando Dall'Acqua (1991) "Economic populism versus Keynes: reinterpreting budget deficit in Latin America" (1991) Journal of Post Keynesian Economics 14(1) (1991): 29-38.

I collected my papers on the fiscal crisis of the state in the book *A Crise do Estado*. Among them was the magna class in the annual meeting of ANPEC, 1990.

Bresser-Pereira, Luiz Carlos (1992) *A Crise do Estado* [The Crisis of the State], São Paulo: Editora Nobel.

Bresser-Pereira, Luiz Carlos (1990 [1991]) "A crise da América Latina: Consenso de Washington ou crise fiscal?", *Pesquisa e Planejamento Econômico* 21(1) abril 1991: 3-23. Aula Magna no XVIII Congresso da ANPEC (Associação Nacional de Pós-Graduação em Economia), Brasília, 4 de dezembro 1990.

At the same time, I participated in a large research project led by Adam Przeworski which resulted into a book and a paper:

Bresser-Pereira, Luiz Carlos, José María Maravall e Adam Przeworski (1993) *Economic Reforms in New Democracies*. Cambridge: Cambridge University Press.

Bresser-Pereira, Luiz Carlos (1993) "Economic reforms and economic growth: efficiency and politics in Latin America", *in* Bresser-Pereira, Maravall e Przeworski (1993) *Economic Reforms in New Democracies* (Cambridge: Cambridge University Press): 15-76.

I also participated from the project of the Brookings Institution on the 50th anniversary of the World Bank. I was invited as a kind of representative of the Latin American countries, but my critiques on the neoliberal turn of the World Bank proved unacceptable to the project the two papers:

Bresser-Pereira, Luiz Carlos (1995) "Development economics and World Bank's identity crisis", *Review of International Political Economy* 2(2) Spring 1995: 211-247.

Bresser-Pereira, Luiz Carlos (1999) "A turning point in the debt crisis", *Brazilian Journal of Political Economy* 19(2) Abril: 103-130.

In October 1993, visiting Fernando Henrique Cardoso in his country house in Ibiúna, I said that the heterodox stabilization plan that his team of economists in the Finance Ministry were building would be successful and he would be elected president of Brazil in the following year. My prediction proved right. Meanwhile, in 1994, having left finally my work in the Pão de Açúcar Company, and having decided to dedicate myself exclusively to academic problems, I was invited by my friend Fernando Henrique Cardoso to participate in his presidential campaign. I accepted, and, in the following five years, acting as minister of Federal Administration and Reform of the State and Minister of Science and Technology, I dedicated my efforts to the managerial reform of the state. It was a fascinating and fruitful experience.

As to the problem of the stabilization and growth of the Brazilian economy, I was initially very optimist, but soon realized that heterodox economists in office had turned orthodox and now bowed to Washington and New York. I was not part of the economic team, but in the following years I manifested to the president my concern with the high interest rates and the long-term overvaluation of the exchange rate. Not surprisingly, in the end of 1998 the government experienced a first financial crisis.

Leaving the government, I was a visiting fellow in Oxford University, and wrote a paper acknowledging the crisis, "Latin America's quasi-stagnation", whose original tittle was "Incompetence and confidence building behind 20 years old quasi-stagnation in Latin America". From my experience in the Ministry of Finance, in the 1980s, I had developed the argument on the fiscal crisis of the state; from my experience in the FHC administration, I concluded that the crisis was not just fiscal, it was also an exchange rate crisis – a crisis associated to the growth with foreign savings strategy adopted formally by this administration. The country was in a macroeconomic trap: a trap defined by high interest rates, current-account deficits, and an overvalued currency that made the Brazilian manufacturing industry not competitive.

> Bresser-Pereira, Luiz Carlos (1999 [2002]) "Latin America's quasi-stagnation", *in* Paul Davidson, ed. (2002) *A Post Keynesian Perspective on 21st Century Economic Problems.* Cheltenham: Edward Elgar Press: 01-28. Paper presented at the Centre for Brazilian Studies, Oxford University, December 1999 with the original title, "Incompetence and confidence building behind 20 years old quasi-stagnation in Latin America".

In the former paragraphs I made an evaluation of my views on the Brazilian economy. And the evolution of my theoretical views concerning the roles of the state and the market. I was a classical-developmentalist that had as one of my masters Celso Furtado but was unhappy with the belief that industrial policy was the solution to all problems. I was a post-Keynesian who had viewed Keynes as the more important economist of the twentieth century but was unhappy with the vulgar Keynesianism of solving all problems with fiscal deficits. I was in opposition to the liberal orthodoxy that became dominant in Brazil in 1990, with trade liberalization and financial liberalization. I was, even, able to develop in 2009 a methodological critique of neoclassical economics.

Economics of new developmentalism

As we already saw, the construction of new developmentalism began by the critique of two views that not only the liberal orthodoxy but also post-Keynesian economists share: the critique of the growth with foreign indebtedness policy and the critique of the belief that given the balance of payment constraint (the two perverse income-elasticities of demand) current-account deficits (and the appreciation of the national currency) were inevitable. New developmentalism began in 2001 when I had the vision that current-account deficits were associated to a long-term overvaluation of the exchange rate that turn manufacturing investment projects non-competitive.

Also in 2001, while I was working with Yoshiaki Nakano on our critique of the policy of foreign indebtedness, we began to criticize the extremely high interest rates adopted by the Central Bank supposedly to control inflation, but, in fact, to attract foreign capitals and serve the interests of rentier capitalists and financiers. This high interest rate was much higher than international interest rate plus the country risk. We made this critique of the high interest rates in the paper "Uma estratégia de desenvolvimento com estabilidade", which broke-down our theoretical association with the economists of the Catholic University of Rio de Janeiro, who had worked with us in the formulation of the theory of inertial inflation. After the success of the Real Plan (1994) they were back to the liberal orthodoxy.

New developmentalism is born

New developmentalism was born from the critique of the growth with the policy of foreign indebtedness and current-account, and the critique of the high interest rates is Brazil after the Real Plan.

2001 – The critique of the growth with foreign indebtedness policy and the critique of high interest rate to attract foreign capitals.

> Bresser-Pereira, Luiz Carlos (2001) "A fragilidade que nasce da dependência da poupança externa", *Valor 1000*, setembro: 34-38. This is just a small article, a column.
>
> Bresser-Pereira, Luiz Carlos (2002) "Brazil's quasi-stagnation and the growth *cum* foreign savings strategy" (2002) *International Journal of Political Economy* (Ottawa University) 32(4): 76-102.
>
> Bresser-Pereira, Luiz Carlos; Yoshiaki Nakano (2003) "Economic Growth with Foreign Savings?" *Brazilian Journal of Political Economy* vol.22 n.2: 3-27. In English, only in the website edition.
>
> Bresser-Pereira, Luiz Carlos; Yoshiaki Nakano (2002a) "Uma estratégia de desenvolvimento com estabilidade." [A strategy of development with stability] *Revista de Economia Política* 21(3): 146–177.

While I was working with Nakano in our critique of the growth with foreign indebtedness, we turned critical of the "monetary policy" of foreign indebtedness, and also critical of the high interest rates that the Brazilian Treasury was paying on its domestic public debt. We realized that this rate was not simply "defined by the market"; that they were much higher than international interest rate plus the country risk. In writing "A strategy of development with stability", we broke up our association with Rio de Janeiro economists with whom we developed the theory of inertial inflation.[2] After the success of the Real Plan (1994), they were back to the liberal orthodoxy they had learned in PhD programs they had made in the United States. This paper caused a national debate whose main pieces are in my website.

2003 - First use of the expression "New Developmentalism"

> Last chapter of Bresser-Pereira, Luiz Carlos (2003) *Desenvolvimento e Crise no Brasil* [Development and Crisis in Brazil], 5th edition, São Paulo: Editora 34.

I realized that I was beginning to build a new theory, asked for a name, and Nakano suggested New Developmentalism. Well-aware that liberals had given a negative connotation to the word, I accepted immediately the idea.

2006 - Empirical proof that the exchange rate is determinant of growth

> Gala, Paulo (2006 [2008]) "Real exchange rate levels and economic development: theoretical analysis and econometric evidence", *Cambridge Journal of Economics* 2008 n.32: 273–288. From the PhD dissertation, *Política Cambial e Macroeconomia do Desenvolvimento* [Exchange Rate Policy and Development Macroeconomics], Getúlio Vargas Foundation, São Paulo School of Economics, May 2006.

This is the only paper in this account that I have not written. I include it because it tested (and confirmed) the basic hypothesis of new developmentalism. Paulo Gala was my PhD student, I proposed the theme of his dissertation, and accompanied closely his research and writing.

2006 - New Developmentalism and the liberal orthodoxy compared

> Bresser-Pereira, Luiz Carlos (2006) "New developmentalism and conventional orthodoxy", *Economie Appliquée* 59(3): 61-94. Portuguese version available.

This was a successful paper that called attention of many people. It combines the development macroeconomics with the political economy of New Developmentalism. It begins with a narrative where we have the Neoliberal Turn, in 1980, and the definition of "conventional orthodoxy", which I call today "liberal orthodoxy", the crisis of Classical Developmentalism, that I improperly call in this paper "old developmentalism", and, from the early 2000s, the rise of New Developmentalism. After that, I defined the main policies proposed by these three currents of thoughts, showing that there is a sensible alternative to the liberal orthodoxy.

2007 – Publication of Macroeconomia da Estagnação (Developing Brazil) – a macroeconomics historically applied to Brazil where the "interest-exchange rate trap" is defined

> Bresser-Pereira, Luiz Carlos (2007) *Macroeconomia da Estagnação*, São Paulo: Editora 34.
>
> Bresser-Pereira, Luiz Carlos (2007 [2009]) *Developing Brazil: Overcoming the Failure of the Washington Consensus*, Boulder: Lynne Rienner Publishers, 2009. Original Portuguese edition, with the title *Macroeconomia da Estagnação*, 2007.

Given my conviction that economics and particularly macroeconomics only make sense if it is historically situated (as were *The Wealth of Nations, The Capital, and The General Theory*), I wrote this book where I simultaneously elaborated the development macroeconomics (which at that time was budding) and discussed the Brazilian economy. The Dutch disease model is here partially developed, and for the first time I defined as the main major macroeconomic evil, the "interest-exchange rate trap" - the adoption of high level interest rate to attract capitals and the consequent long-term overvaluation of the national currency, which makes uncompetitive the country's capable companies.

2007 - Substitution of foreign savings for domestic savings.

> Bresser-Pereira, Luiz Carlos e Paulo Gala (2007) "Por que a poupança externa não promove o crescimento", *Revista de Economia Política* 27 (1): janeiro: 3-19.
>
> Bresser-Pereira, Luiz Carlos and Paulo Gala (2008) "Foreign Savings, Insufficiency of Demand, and Low Growth", *Journal of Post Keynesian Economics*, vol.30 n.3, Spring 2008: 315-334.

This article deepens my critique of the growth with foreign indebtedness policy argument which I began in my 2003 paper with Nakano. We show that when the country incurs in current account deficit (the so called "foreign savings") the national currency gets appreciated in the long-term, the capable companies turn uncompetitive and don't invest while consumption is encouraged. Thus, we have a substitution of foreign for domestic savings. This is just not true in exceptional periods of high growth or "miracles", when the expected profit rates become high and the propensity to invest increases while the marginal propensity to consume falls. I counted with the collaboration of Paulo Gala to write this paper and make the econometric test that confirmed the theoretical argument.

2008 - Dutch disease and the legitimation of import tariffs

> Bresser-Pereira, Luiz Carlos (2008) "The Dutch disease and its neutralization: a Ricardian approach" (2008) *Brazilian Journal of Political Economy* 28 (1): 47-71.Bresser-Pereira, Luiz Carlos (2018) "Neutralizing the Dutch disease", *Discussion Paper* EEESP/FGV, 476, janeiro de 2018. *Journal of Post Keynesian Economics* 43 (2), 2020: 298-316.

This was another paper that had a lot of repercussion. Before that, there was the 1982 paper by W. Max Corden and J. Peter Neary, "Booming sector and de-industrialization in a small open economy". This was a neoclassical paper which emphasized the division of the economy in three sectors. My 2008 paper emphasized the existence of two equilibriums: the current and the industrial equilibrium. From it we could immediately derive the policy to neutralize the disease: a variable tax on the exports of the commodity so as to make the industrial and the current equilibrium equal. I list also the 2018 paper because in this paper I show that it is also possible and perhaps politically more feasible to neutralize the Dutch disease with import taxes and export subsidies on manufactured goods, the former neutralizing the disease in relation to the domestic market; the later, in relation to the foreign markets. Many countries adopted, intuitively, import taxes to neutralize the Dutch disease. What most economists call protectionism, was just assuring to the local companies equal conditions of competition with the companies located abroad.

2008 - Financial crises

Bresser-Pereira, Luiz Carlos, Lauro Gonzalez e Cláudio Lucinda (2008) "Crises financeiras nos anos 1990 e poupança externa" [Financial crises in the 1990s and foreign savings], *Nova Economia* 18 (3) setembro: 327-357.

Bresser-Pereira, Luiz Carlos, Lauro Gonzalez and Claudio Lucinda (2008 [2010]) "Financial crisis in the 1990s and foreign savings". Chapter 7 of Bresser-Pereira (2010) *Globalization and Competition*. Cambridge University Press. Original Portuguese publication, 2008.

Lauro Gonzalez was my PhD student. This paper rejects the conventional contention that currency crises are essentially consequence of irresponsible public deficit or fiscal profligacy (fiscal populism). Instead, it asserted that they are basically consequence of the adoption of the growth with foreign indebtedness or "foreign savings" policy (exchange rate populism). Given the twin deficits, they are often consequence of both deficits, but often, when the national currency is overvalued, the fiscal account is under control while the current account shows a deficit, which may be high.

2010 – A development macroeconomics. Fiscal and exchange rate populism

Bresser-Pereira, Luiz Carlos; Paulo Gala (2010) "Macroeconomia estruturalista do desenvolvimento" [Structuralist development macroeconomics], *Revista de Economia Política*, 30(4) outubro: 663-686.

In 2009, I realized that what I was building was a new macroeconomics and I called Paulo Gala to sign this paper with me. In this paper we made the distinction between fiscal and exchange rate populism, which is central to the political economy of New Developmentalism. When the state spends irresponsibly more than it gets, we have budget deficits and fiscal populism; when the nation-state spends irresponsibly more than it gets, we have current-account deficits and exchange rate populism.

2010 - Ten theses on New Developmentalism

Heterodox economists (2010[2012)) “Ten theses on New Developmentalism”, *Brazilian Journal of Political Economy*, 32(2): 336-339, 2012.

The writing of this founding document counted with the participation of Amit Bhaduri, C. P. Chandrasekhar, Fernando Cardim de Carvalho, Fernando Ferrari Filho, Jan Kregel, Jayati Ghosh, José Antonio Ocampo, José Luis Oreiro, Luiz Fernando de Paula, Leonardo Burlamaqui, Nelson Marconi, Paulo Gala, Pierre Salama, Ricardo Carneiro, Robert Boyer, and Roberto Frenkel.

The investment function

Contrarily to what macroeconomic textbooks say, since the 1970s I believed that the investment-rate depends more on the shifts of the curve of marginal efficiency of capital, because they become optimistic in relation to effective demand and the profit rate, than on the variations of interest rate along that curve. In the 1970s, I initiated a research project on the investment function aiming to demonstrate that the rate of investment in a national economy increases (or decreases) depending on individual and collective entrepreneurs being more optimistic (or pessimistic) in relation to their profit expectations. This project was left incomplete.[3] In the late 1970s, looking at the growth of Italy and Germany, I believed that the fast catching up of these two countries benefited from a “relatively depreciated” exchange rate, but I didn’t have a way of identifying or measuring a loose concept as is a relative depreciation.

In the 2000s, unhappy with quasi-stagnation of Brazil and the theories that searched to explain it and starting from the vision that associated current-account deficits, long-term overvaluation of the national currency, and non-competitive investment projects in manufacturing, I had the vision of new developmentalism and began to build it – a new theoretical framework focused on middle-income countries that had already made their capitalist revolutions but had their growth interrupted in the 1980s.

2009 - Tendency to the cyclical and chronic overvaluation of the exchange rate

Bresser-Pereira, Luiz Carlos (2009) “A tendência à sobreapreciação da taxa de câmbio”. *Econômica* 11 (1), June: 7-30..

Bresser-Pereira, Luiz Carlos (2010) *Globalization and Competition*, New York: Cambridge University Press.

This tendency, directly associated with that of financial crises, is central to New Developmentalism. The currency cycle begins and ends with a financial crisis, when the exchange rate sharply depreciates. After the crisis, the exchange rate gradually depreciates, crosses the industrial equilibrium, crosses the current equilibrium, and enters the area of current account deficits where it remains for a few years (characterizing a financial bubble), until the country's foreign debt begins to worry creditors and they, suddenly, suspend debt rollover, and a new financial crisis breaks up putting an end in the cycle. This cycle was first published in *Globalization and Competition*, the first book to present a relatively complete account of New Developmentalism.

Thus, except in the case of the Dutch disease, the current-account deficits (or surpluses) may only be chronic if we it as the consequence of a choice; if the country adopts the policy of incurring in current-account deficits (or achieving a current account surplus). Either one or the other policy may seem surprising, but many countries adopt it. Countries like Germany and the East Asian usually adopt deficit policies, while countries like the Latin American countries and the United States adopt surplus policies. Countries justify deficits with the argument they are searching to grow with foreign savings; or that they are a "necessary" consequence of the balance of payment constraint, but in fact they are engaged in exchange rate populism: the country is expending more than what it gets. Surplus countries don't have a justification for the adoption of the surplus policy, but the fact is that they view international competitiveness as more important than consumption.

The policy of growth with current-account deficits and foreign indebtedness is a major mistake that developing countries usually make with the support of the international agencies and the international financial system. In this case, the competitive exchange rate is the current equilibrium – that balances intertemporally the current account – and the exchange rate floats around an overvalued level. Consider, now, the countries that have the Dutch disease. In this case, the competitive exchange rate is not the exchange rate that floats around the current equilibrium; is the industrial equilibrium – the exchange rate that makes competitive the investment projects utilizing the best technology – a still more depreciated currency. In this case, the exchange rate will be non-competitive in relation to the manufacturing industry even when the country shows a balanced if not surplus current-account. If the countries, besides ignoring and not neutralizing the Dutch disease, adopt the growth with foreign indebtedness policy and incurs in current-account deficits, this is not just an equivocated, it is a suicidal country.

In realizing their industrial revolutions, all individual countries adopted import taxes on manufactured goods and legitimized such intervention with the infant industry argument. But the validity of this argument is temporary. It was a good argument after the World War II, when the underdevelopment problem was defined, and classical developmentalism was born. For the following 30 years after 1945, several developing countries adopted the developmental strategies to industrialize and grow, while in the North, the Keynesian macroeconomic policies which were also developmental policies, were successful and defined the Golden Years of capitalism.

New developmentalism is a theoretical framework which sees the state and the market not in opposition but complementary institutions. It argues that in discussing the role of one or the other institution we should adopt a subsidiarity principle: whenever a sector or activity is competitive, the market will be the preferred coordinating institution. But we should have in mind that in any circumstance the state is the main coordinative institution in a modern society. Besides regulating markets, the state must intervene or closely regulate in the non-competitive sectors, mainly the infrastructure industry and the basic inputs industry, the great commercial banks too big to fail, the two macroeconomic accounts (the fiscal and the external accounts), the five macroeconomic prices, the distribution of income, and the protection of the environment.

New theories are relevant when they are counterintuitive and obliges us to drop out theories long cheered. The critique of the growth with foreign indebtedness policy is counterintuitive. The fact that current-account deficits or surpluses are not endogenous but depend on a policy decision or a policy accommodation is another counterintuitive claim. They will result of a decision when the current-account is relatively zeroed, and the government *decides* to incur in current-account deficit on the mistaken assumption that the additional capital inflows will finance additional public or private investments. This is what happened in the first term of the FHC administration (1995-1998); it was the result of an accounting, simplistic, vision of the economy in which domestic savings plus foreign savings give total savings. Yes, ex-post this is an accounting truth, but economically is false because foreign savings may not add to domestic savings but to replace them to the extent that the appreciation of the national currency encourages consumption while it discourages investment in productive activities. The Lula administration (2003-2006) was essentially a case of accommodation to an ongoing current-account constraint. Both are cases of economic populism.

2011 - The exchange rate as a light switch that connects or disconnects the capable companies from their demand

Bresser-Pereira, Luiz Carlos (2011) "Uma escola de pensamento keynesiano-estruturalista no Brasil?" [A Keynesian-structuralist school of thought in Brazil?" *Brazilian Journal of Political Economy*, 31(2) April: 305-314.

Bresser-Pereira, Luiz Carlos (2015) "The access to demand", *Keynesian Brazilian Review* 1(1) 1st semester 2015: 35-43.

For years I searched a metaphor to explain the role of the exchange rate in economic development. Finally, I believe that in writing "A Keynesian-structuralist school of thought in Brazil?", I came to the idea of the light switch that connects or disconnects the good companies from their market. Later, on writing a paper to the Festschrift of Jan Kregel, "The access to demand") I advanced this idea. If the companies of a country are technically competitive but face an exchange rate overvalued in the long-term, for long periods between financial crises, they will not have access to demand and will not invest.

2011 – 2012 - Why the exchange rate determines growth

Bresser-Pereira, Luiz Carlos (2012) "The exchange rate at the center of development economics" *Estudos Avançados,* 26(75): 7-28.

Bresser-Pereira, Luiz Carlos (2012) "A taxa de câmbio no centro da teoria do desenvolvimento" *Estudos Avançados,* 26(75): 7-28.

As we already saw, since I began to development this research program or theoretical framework, I assumed that the exchange rate is determinant of investments and growth, while several studies showed empirically this fact, but I didn't have a theory to explain this causal relation. In 2012, I finally came to this explanation. In "The exchange rate at the center of development economics" (2012), I came to the light switch metaphor – that the exchange rate connects or disconnects the investment projects from their demand. the companies utilizing the best technology available, and I argued that in making their calculations, they considered the ongoing exchange rate. If it was overvalued in the long-term, the investment project would prove to be non-competitive and the investment project would be discarded. But why had not previous theories come to this explanation which seems obvious? Essentially because all theories assumed that the exchange rate was volatile, but it floated around the current equilibrium which could not be an overvalued equilibrium. New developmentalism was the first theory to drop this view and show that the exchange rate tended to be overvalued in the long-term.

2012 – Mistakes deriving from the foreign constraint

Bresser-Pereira, Luiz Carlos (2012) "Estratégia nem wage-, nem export-led, mas novo-desenvolvimentista" in André de Melo Modenesi, Daniela Magalhães Prates, José Luís Oreiro, Luiz Fernando de Paula e Marco Flávio da Cunha Resende (orgs.), *Sistema Financeiro e Política Econômica em uma Era de Instabilidade*. Rio de Janeiro: Elsevier/São Paulo: Associação Keynesiana Brasileira, 2012: 26-32.

We saw that new developmentalism was born with the critique of the growth with foreign indebtedness policy. Thus, it was born from the fact that this policy supposes that the current-account deficit is an exogenous variable. On the other hand, we have the foreign constrain concept, which Raúl Prebisch used in arguing in favour of industrialization. The two perverse income-elasticities are real – in countries exporting primary goods the income-elasticity of the demand for manufactured goods is greater than one, while in rich countries the income-elasticities of demand for primary goods is below one – but from it the only legitimate conclusion we can infer is this is a development disadvantage that only industrialization will resolve. Yet, developmental economists soon derived from this constraint the mistaken need of capital inflows from rich countries.[4] Some time later, Thirlwall formalized elegantly the foreign constraint, and the Thirlwall's law became central to post-Keynesian development economics, not so much because it legitimized the capital exports to developing countries, but because it endowed post-Keynesian economics of a demand-induced growth model. I always remember Paul Davidson saying that a in meeting in the University of the Tennessee in the early 1990s.

I was not persuaded of the importance or relevance of the foreign constraint in defining growth policies. I had no doubt on the disadvantage or cost that it represents for developing countries, but I stop there. The exchange rate that will balance the current account will be a little more depreciated than it would be in the absence of the constraint, and the purchasing power of all, labour, salaried middle-class and rentier capitalists would be smaller. It is not legitimate to infer from the constraint the conclusion that current account deficit is "structural", or, worse, that it is desirable. To go in this direction is as wrong as is wrong the growth with foreign indebtedness policy.

New Developmentalism's microeconomics

I am not sure on when I wrote for the first time on the microeconomics of New Developmentalism (how the market and the state coordinate the economy in a development country), but I remember that I had the idea in a 2011 trip to China. The basic contribution of classical developmentalism occurred in the field of micro: it was the identification of economic development with industrialization or structural change. To industrialize, countries adopted high customs tariffs. From the late 1990s a second generation of classical developmentalists focused on "industrial policy", which soon turned the dominant idea (the first generation spoke of planning, not industrial policy). In 2011, New Developmentalism already had a development macroeconomics but nothing that would serve as a basis for a microeconomics. Before my 2010 visit to China, my explanation of its incredible growth as well as of the other East Asian countries was, first, that they didn't have the Dutch disease problem, second, they adopted industrial policy, and third, that they adopted a macroeconomic policy that rejected current account deficits and kept the exchange rate competitive. But this was not enough to explain such high growth. When I was arriving in Shanghai, I found the microeconomic explanation for China's success. The Chinese divided their economy into two sectors, the competitive and the non-competitive, and established a very simple rule: for the competitive sector, they allow the market to resolve, because the market is much better than the state in coordinating competitive economic sectors; for the non-competitive sector, where the market is ineffective by definition, and in setting the exchange rate and the profit rate right, something that the market is incapable to do satisfyingly, they maintain economic planning by the state. The state does not need to own the companies, but it must be able to plan its actions, its investments. The non-competitive sector is made up of infrastructure companies, companies that produce basic inputs, and the big banks that are "too big to fail" - if a company cannot go bankrupt, it is not competitive.

2013 - Five macroeconomic prices; the value of the foreign money

Bresser-Pereira, Luiz Carlos (2013) "The value of the exchange rate and the Dutch disease", *Brazilian Journal of Political Economy* 33 (3): 371-387.

Bresser-Pereira, Luiz Carlos; José Luis Oreiro; Nelson Marconi (2014) *Developmental Macroeconomics*, London: Routledge.

I believe that the first time I used the idea of the five macroeconomic prices - that they are prices that the market is entirely unable to set right – was in writing "The value of the exchange rate and the Dutch disease"; an alternative, is the book that I wrote with José Luis Oreiro and Nelson Marconi, *Developmental Macroeconomics*. I don't know when I came to this idea that there are five basic macroeconomic prices. I don't remember having heard it before from someone, but for long I thought that they exist and that a very interesting way of studying macroeconomics should start from them. On the other hand, it was clear to me that to make growth depend essentially on industrial policy was inacceptable and would not explain the success of the East Asian countries: they had always adopted industrial policy while keeping the five macroeconomic prices right.

As to the value of the foreign money or the exchange rate, in 2012 I met Jan Priewe in Berlin. He is a competent post-Keynesian economist specialized in development macroeconomics, and he showed a strong interest for New Developmentalism. Yet, when I said that the way of neutralizing the Dutch disease was a variable export tax, he didn't agree. His main argument was that the exchange rate was determined by the demand and supply of foreign money, and an export tax would have no effect in the demand or in the supply. I then realized that the concepts of current and industrial equilibrium were not based on the demand and supply, but on the value that covers the costs plus reasonable rate of profit of the companies. Thus, I had come to the concept of the value of the foreign currency. The exchange rate or price of the currency floats around this value, as the prices of goods and services float around their respective value in labor terms, or, more simply, in production cost terms. The variations on the value depend on the variations on the comparative index of the unit labor cost.

2013-14 - New developmentalism and industrial policy

> Bresser-Pereira, Luiz Carlos and Fernando Rugitsky (2018) "Industrial policy and exchange rate skepticism?". *Cambridge Journal of Economics*, 42(3), April 2018: 617-632.
>
> Nassif, André, Carmem Feijó and Luiz Carlos Bresser-Pereira (2018) "The case for reindustrialization in developing countries: toward the connection between the macroeconomic regime and industrial policy in Brazil**"**, *Cambridge Journal of Economics*, 42(2) February 2018: 355–381.

I have been always supportive of industrial policy, but in the process of building a new development macroeconomics, in the early 2010s, I realized that the deep belief of developmental economists in industrial policy had become a major obstacle for the acceptance of New Developmentalism. Facing a crisis from the 1970s, Classical Developmentalism experienced a renewal with the rise of a second generation of classical developmentalists. Chalmers Johnson, Alice Amsden, and Robert Wade on East Asian countries (the only countries that achieved the catch up in the twentieth century); the publication of their 1982, 1989 and 1990 books have shown that industrial policy had been a key policy in their growth. The historical contributions of Eric Reinert and Ha-Joon Chang confirmed such renewal. Industrial policy is certainly an important instrument, but it would not cause the growth of the East Asian countries if they had not adopted a firm macroeconomic policy that kept the five macroeconomic prices right and the two main accounts, the fiscal and external accounts balanced – the fiscal policy being, certainly, countercyclical.

2015 - The 2008 financial crisis, neoliberal capitalism, the 2010 Euro crisis, and the quasi-stagnation of Brazil since the 1980s.

Bresser-Pereira, Luiz Carlos (2010) "The global financial crisis, neoclassical economics, and the neoliberal years of capitalism", *Revue de la Régulation*, 7, 1st semester 2010: 1-29.

Bresser-Pereira, Luiz Carlos e Pedro Rossi (2015) "Sovereignty, the exchange rate, collective deceit, and the euro crisis", *Journal of Post Keynesian Economics* 38 winter/spring 38 (3): 355-375.

Bresser-Pereira, Luiz Carlos (2018) "Brazil's macroeconomic policy institutions, quasi-stagnation, and the interest rate–exchange rate trap" (2018) in Edmund Amann, Carlos Azzoni and Werner Baer, orgs. *The Oxford Handbook on the Brazilian Economy,* Nova York: Oxford University Press: 221-240.

In 2010, I wrote a key paper on the crisis of neoliberal capitalism, where I already used some new-developmental concepts, but the first full application of the new-developmental macroeconomics to rich countries was done in the paper with Pedro Rossi on the Euro crisis. This crisis was essentially an exchange rate crisis and its solution, "internal adjustment", a key component of orthodox austerity.

Determination of the exchange rate

Bresser-Pereira, Luiz Carlos, José Luis Oreiro e Nelson Marconi (2016) *Macroeconomia Desenvolvimentista*, Rio de Janeiro: Elsevier.

Bresser-Pereira, Luiz Carlos, Carmem Feijó, Eliane Cristina Araújo (2021) "The Determination of the exchange rate", Texto para Discussão Centro do Novo Desenvolvimentismo.

The determination of the exchange rate depends, first, on the variations on the value of the foreign money, which vary according to comparative index of the unit labour cost; second, on the exports and imports, that depend mostly on the terms of trade; and third, of capital flows, which vary according to the variations of the interest rate. In middle-income countries, the interest rate tends to be high due to two habitual policies involving the attraction of foreign capitals: the growth with foreign indebtedness or "foreign savings" policy and the use of the exchange rate as a monetary anchor against inflation. The level around which the central bank defines its monetary policy tends also to be high due to the political influence of rentier capitalists and financiers.

This analysis is already present in the English (2014) version of this book, but in the 2016 Portuguese version they are more deeply and systematically developed. Since the Portuguese version of this book was published two years after the English version, it presents the models more completely.

2016 - Distinction between developmentalism as a theory (classical and new) and as a historical reality.

Bresser-Pereira, Luiz Carlos (2016) “Reflecting on New Developmentalism and Classical Developmentalism”, *Review of Keynesian Economics* vol 4 n.3: 331-352.

New Developmentalism is a theory; developmentalism is a form of organizing capitalism or a style of policymaking. New Developmentalism adopts the historical method having as its main object of study the phases and countries where capitalism and the state were not liberal but developmental.

2019 - Comparison between New Developmentalism, Classical Developmentalism and Post-Keynesian Economics

Bresser-Pereira, Luiz Carlos (2019) “From Classical Developmentalism and Post-Keynesian Macroeconomics to New Developmentalism”, *Brazilian Journal of Political Economy* 39(2) April: 187-210.

I wrote this paper as a kind of introduction to New Developmentalism. Its greatest merit is to clearly locate the new school in the history of economic thought. It is also the best comparison available between New Developmentalism, Classical Developmentalism, and Post Keynesian Theory.

2019 - The liberalization trap

Bresser-Pereira, Luiz Carlos (2019) “Why did trade liberalization work for East Asia but fail in Latin America?’, *Challenge* vol.62 n.4: 273-277.

Bresser-Pereira, Luiz Carlos, Eliane Cristina Araújo e Samuel Costa Peres (2020) “An alternative view to the middle-income trap” *Structural Change and Economic Dynamics,* 52 (2020): 294-312.

In these two papers we explained why Latin America stopped in the 1980s while East Asia continued to grow using new-developmental theoretical tools. We criticized the concept of “middle-income trap” and showed theoretically and empirically that makes more sense to speak of the “liberalization trap”.

2020 - The best summary of New Developmentalism to date

Bresser-Pereira, Luiz Carlos (2020) “New Developmentalism: development macroeconomics for middle-income countries”, *Cambridge Journal of Economics,* 44 (3), May 2020: 629-646.

It is the best summary I could make to this day of New Developmentalism. I owe a lot to both reviewers of that journal.

Political economy of new developmentalism

2008 - Capitalist revolution and growth

Bresser-Pereira, Luiz Carlos (2020) "Revolução capitalista e desenvolvimento" Revisado e disponibilizado no site para uso de meus alunos (2019).

Bresser-Pereira, Luiz Carlos (2008) "Desenvolvimento econômico e revolução capitalista", *Discussion paper EESP/FGV* n.170, September 2008.

Economic development is a historical process that begins for every people when they are able to build a nation and a state and form a nation-state or country. In other words, when they make their capitalist revolution. Thus, this is a crucial moment in the history of a country. In all cases, with no exception, the capitalist revolutions happened in the framework of developmentalism, not of liberalism.

2008 - Economic nationalism and developmentalism

Bresser-Pereira, Luiz Carlos (2008) "Nacionalismo no centro e na periferia do capitalismo" [Nationalism in the center and in the periphery of capitalism]. *Revista Estudos Avançados* 22 (62): 171-194.

Bresser-Pereira, Luiz Carlos (2018) "Economic nationalism and developmentalism", *Fiscaoeconomia,* Special issue on "State and Development in 21st Century", 2 (1) 2018: 1-27. In Portuguese, in *Economia e Sociedade* 27 (3): 853-874.

Despite the globalist ideology, nationalism remains strong in rich countries. Naturally dominant. Differently from what happens in dependent peripheral countries, nobody doubts that their politicians in office are supposed to defend the national interest.

2008 - Globalization and the nation-state

Bresser-Pereira, Luiz Carlos (2008) "Globalization, Nation-State and Catching up", Brazilian Journal of Political Economy 28 (4) 2008: 557-578.

Bresser-Pereira, Luiz Carlos (2010) *Globalization and Competition,* New York: Cambridge University Press.

The 2008 financial global crisis had not yet happened, globalization and globalism were hegemonic, the earth was said "to be flat", and the nation-state was supposed to be something from the past. Not so.

Models of developmental state and the industrial revolution

Bresser-Pereira, Luiz Carlos (2019) "Modelos de estado desarrollista", *Revista de La CEPAL* 128, agosto: 39-52.

Bresser-Pereira, Luiz Carlos (2015 [2019]) "Models of developmental state", *CEPAL Review* 128, August: 39-52. Discussion paper EESP/FGV n,426, September 2016.

The industrial and capitalist revolution in all countries happened in the context of developmentalism. We can distinguish four models according if the country is peripheral or central (depending on it was submitted to the industrial nineteenth century imperialism or not), the central divided into original (UK, France) and latecomers (US, Germany), the peripheral into independent (East Asia) and dependent (Brazil). And, after the war, the Second Developmentalism, now democratic and socially progressive.

2015 - The crisis of neoliberal capitalism

> Bresser-Pereira, Luiz Carlos (2015) "After the demise of neoliberalism, but not of conservatism, a third developmentalism?" EESP/FGV Discussion Paper 394, June 2015.
>
> Bresser-Pereira, Luiz Carlos (2017) "Depois do capitalismo financeiro-rentista, mudança estrutural à vista?", *Novos Estudos Cebrap* 107. V.36 (1). March: 136-151. Versão em inglês, "The political crisis of globalization", available in the author's website.

In these two papers I discuss the economic and political crisis of neoliberalism. In the first paper, I am predicting the rise of a conservative developmentalism, which is now been called nationalist conservative populism.

2017 - Two forms of organizing capitalism: developmentalism and economic liberalism

> Bresser-Pereira, Luiz Carlos (2017) "The two forms of capitalism: developmentalism and economic liberalism"**,** *Brazilian Journal of Political Economy* 37 (4), October 2017: 680-703.

The state and the market are the two institutions coordinating capitalist societies; economic nationalism and liberalism are the two corresponding ideologies. Considering this binary reasoning, we can say that there are two forms of economic organization of capitalism: one is economic liberalism, assigning to the market the greatest possible role in coordinating the economy, the other calls for a moderate intervention of the state in the economy. How to name this second form? "Statism" is not a good word, because it reserves no role for the market. Neither "state-led capitalism", which reserves a minor role for the market. Actually, there is no established word with the meaning of moderate state intervention with a nationalist perspective. In this paper we practice semantic expansion and define developmentalism as the alternative to economic liberalism.

2018 - Rentier-financier capitalism

> Bresser-Pereira, Luiz Carlos (2018) "Capitalismo financeiro-rentista". *Estudos Avançados* 32(92), 17-29.
>
> Bresser-Pereira, Luiz Carlos (2018) "Rentier-financier capitalism": *Discussion Paper* EEESP/FGV, 477, January 2018.

Nineteenth century liberal capitalism was an entrepreneurs' capitalism; in the beginning of the following century, as an outcome of the Second Industrial Revolution and the Organizational Revolution, it became a managers' capitalism, as managers replaced entrepreneurs in private corporations. After the Second World War it turned into a rentiers' capitalism, where rentiers (mostly heirs) replaced entrepreneurs in the ownership of the corporations, or better, into a rentier-financier capitalism, as financiers were called to manage the wealth of the rentiers and serve as their organic intellectuals defending neoliberalism - a radical form of economic liberalism which does not allow for the classical (and healthy) combination or dialectics between economic liberalism and economic nationalism.

---

[1] Schumpeter, Joseph A. (1949) "Science and ideology", in Daniel M. Hausman, ed. (1994) *The Philosophy of Economics: An Anthology*, Cambridge: Cambridge University Press.: 224-238.

[2] I refer to Edmar Bacha, Francisco Lopes, Pérsio Arida, and André Lara Rezende.

[3] Bresser-Pereira, Luiz Carlos (1973) "A função investimento e a eficiência marginal do capital", Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas, Ec-Macro-L-289, 15 de junho de 1973. Available in the author's website.

[4] See, specially, Hollys Chenery and Michael Bruno (1962) "Development alternatives in an open economy: The case of Israel", *Economic Journal* 72(285), March: 79-103.