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New developmentalism and quasi-stagnation in Brazil

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Nuevo desarrollismo y cuasi-estancamiento en Brasil

Resumen. Este artículo sostiene que la economía brasileña ha estado en cuasi-estancamiento desde la década de 1980. En esa década, el ingreso per cápita se estancó debido a la crisis de la deuda externa y a la alta inflación. A partir de 1990, el país reanudó el crecimiento, pero a un nivel considerablemente más bajo, con una tasa inferior a la de los países ricos, configurando así el cuasi-estancamiento. Los nuevos hechos históricos que explican este fenómeno fueron los ahorros públicos, que se volvieron negativos, y dos causas relacionadas con el tipo de cambio: la creencia en la política de crecimiento con ahorro externo y la falta de neutralización de la enfermedad holandesa al implementar la liberalización comercial. Estos tres factores deprimieron la tasa de inversión. El artículo concluye con algunas recomendaciones de política económica.

Palabras clave: Cuasi-estancamiento, ahorros públicos, inversiones, tipo de cambio, enfermedad holandesa
Clasificación JEL: O1, O16, F31

New developmentalism and quasi-stagnation in Brazil

Abstract. This paper argues that the Brazilian economy has been quasi-stagnant since the 1980s. In this decade, income per capita stagnated due to the foreign debt crisis and high inflation. From 1990 on, the country resumed growth but at a considerably lower level, with a rate inferior to the rich countries, configurating quasi-stagnation. The new historical facts that explain this were the public savings that turned negative, and two causes associated with the exchange rate: the belief in the policy of growth with foreign savings and the non-neutralization of the Dutch disease by engaging in trade liberalization. Those three facts depressed the investment rate. The paper ends with a few policy recommendations.

Keywords: Quasi-stagnation, public savings, investments, exchange rate, Dutch disease
JEL Classification: O1, O16, F31

1. Introduction

The Brazilian economy has been quasi-stagnant for 44 years. Such as East Asia, Brazil experienced a fast growth rate between 1950 and 1979 but stagnated in the 1980s due to the great foreign debt crisis, high inflation, and the fall in public investment. From the 1990s, the country has started to grow, but slowly because, as I will argue in this article, Brazil has fallen into the 'liberalization trap', not the middle-income trap as liberal orthodoxy proposes.[i] By submitting to the US-led Empire or Global North, the country lost autonomy in the execution of its economic policy, the manufacturing industry faced a long-term competitive disadvantage, stopped investing, and deindustrialized, while internally a state fiscal crisis was unleashed—public savings became negative, unable to finance the public investments required for the resumption of development. Thus, the fall in public and private investment growth rates had led the country, since 1990, to a condition of quasi-stagnation, growing less than other middle-income countries and less than rich countries. Thus, Brazil, which between 1950 and 1980 had caught up with the US, began to further and further fall-behind

Around 1980, the advanced capitalist countries changed their economic policy regime from social democratic and developmentalist to a conservative and neoliberal regime.[ii] Core capitalism, which, since the Second World War, had been characterized by moderate state intervention and a moderate economic nationalism, abandoned these policies and embarked on rentier-financier neoliberalism – a form of capitalism in which the state only guarantees property rights and contracts and keeps fiscal accounts balanced, leaving the rest to the market coordination. The *mainstream* economics in the universities, which since the Second World War had been Keynesian, reverted to neoclassical economics, while economic policymaking began to be guided by the liberal orthodoxy—the more general expression that I use instead of the so-called Washington Consensus.

The Neoliberal Turn was not limited to the North countries. Since mid-1980s, the United States decided that the earth was or should be 'flat', and all countries should adopt the Panglossian best of all possible worlds—liberal democracy. The country profited from the world hegemony achieved with the fall of the Berlin Wall. Liberal democracy ceased to be just a political regime, to refer to the capitalist social formation that I call 'rentier-financier neoliberal capitalism'.

While Latin America bowed to this pressure coming from the Global North, the East Asian countries seemed to submit to the 'new truth' but not really, keeping their own economies developmental. China made virtually no concessions and remained developmental, while it was admitted to the World Trade Organization. Such admission was no concession to neoliberalism because China's manufacturing industry was no longer an infant industry that required import tariff protection.[iii] Besides, China and the other East Asian countries have the paradoxical advantage of not having natural resources, thus no Dutch disease and no need to neutralize it with import tariffs to industrialize. Therefore, trade liberalization required to the admission in WTO represented no cost, only advantages to China. Instead, Brazil and the other South American countries, rich in natural resources, *required* tariffs to neutralize the Dutch disease—and trade liberalization plus financial liberalization involved a huge cost. In addition, we must consider that, unlike what happened in Brazil, the countries of East and also Southeast and South (India) Asia maintain firm control over capital flows. After a mild crisis around 1980, the East Asian countries resumed growth, and today South Korea, Taiwan, and Singapore are rich countries, while China, which began to industrialize later, is also heading to be rich.

2. Quasi-stagnation

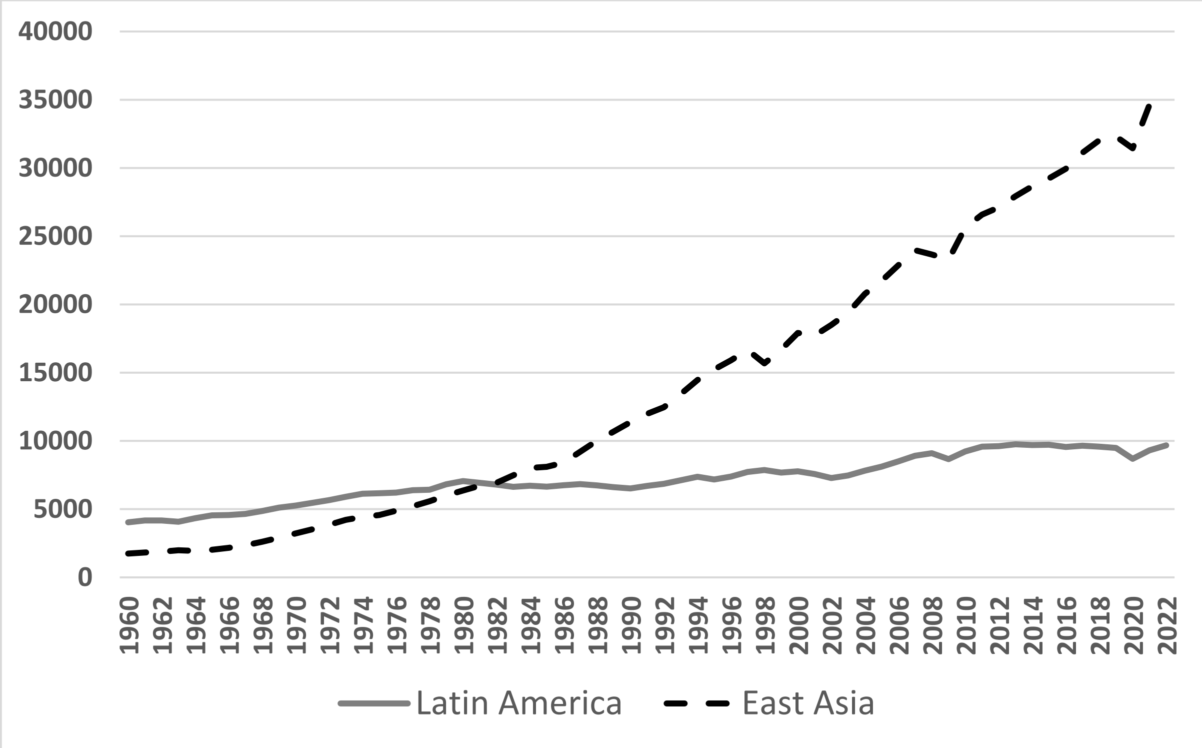
Brazil had industrialized since the 1930s using the import substitution industrialization model—a developmental strategy suitable for a country just beginning to grow that adopts import tariffs legitimated by the infant industry argument. This argument loses validity as time goes by and each sector ceases to be infant. This happened to Brazil, but the tariffs remained high because policymakers understood that if international trade was liberalized, most companies even those using a competitive technology would cease to be competitive. They were pragmatic and had the intuition that Dutch disease existed (which they didn’t know) and kept the import tariffs. In addition, from 1969 to 1990, the country used export subsidies to manufactured goods and exhibited an exceptional performance: during these 21 years, exports of manufactured goods increased from 10% to 60% of total exports.

In 1990, after ten years of an economic and political crisis, and under the American pressure, Brazil gave up the developmental strategy and embarked on the neoliberal reforms: trade liberalization, financial liberalization, privatization, deregulation. It has done this firmly, liberalized trade widely, removed capital controls, privatized almost everything, and attempted to deregulate although there was not much requiring deregulation since the Brazilian economy was already limitedly regulated. Then, foreign and local liberals claimed that Brazil would grow fast and soon would become rich, on the condition that public deficit and public debt were kept under control. That was reasonably achieved, but the country didn’t confirm these foolish expectations. On the contrary, it remained quasi-stagnant; the reforms rather obstructed than promoted economic growth.

Figure 1 and Table 1, which compare the growth rates before and after the 1980s’ crisis in Brazil, show that, before 1980, East Asia was already growing faster than Brazil, but the difference was small. Both prioritized industrialization and infrastructure investments and adopted industrial policies, but East Asian countries invested more in primary education, carried out land reforms, enjoyed lower inequality, more firmly avoided fiscal populism, and were more economically nationalist because, unlike Brazil's economic elite, East Asian elites never believed they were ‘European’. These differences can explain why East Asia grew somewhat faster than Brazil until 1980. After the 1980 crisis in Brazil, however, the growth rates of East Asia and Brazil changed radically. While between 1990 and 2019, Brazil’s per capita growth rate fell from 4.7 to 1.2 percent per year, East Asia's growth was 3.89 percent per year, or, if we exclude China, 3.64 percent per year. The difference is striking.

Let's look at the quasi-stagnation data that are in Figure 1 and 2, and Table 1.

Figure 1. Comparison of per capita growth in Brazil and East Asia (1954-2022)



Source: World Bank Indicators (WDI-WB). GDP per capita (constant 2015 US$). East Asia: South Korea, Indonesia, Singapore. Latin America: Argentina, Brazil, Colombia, Mexico.

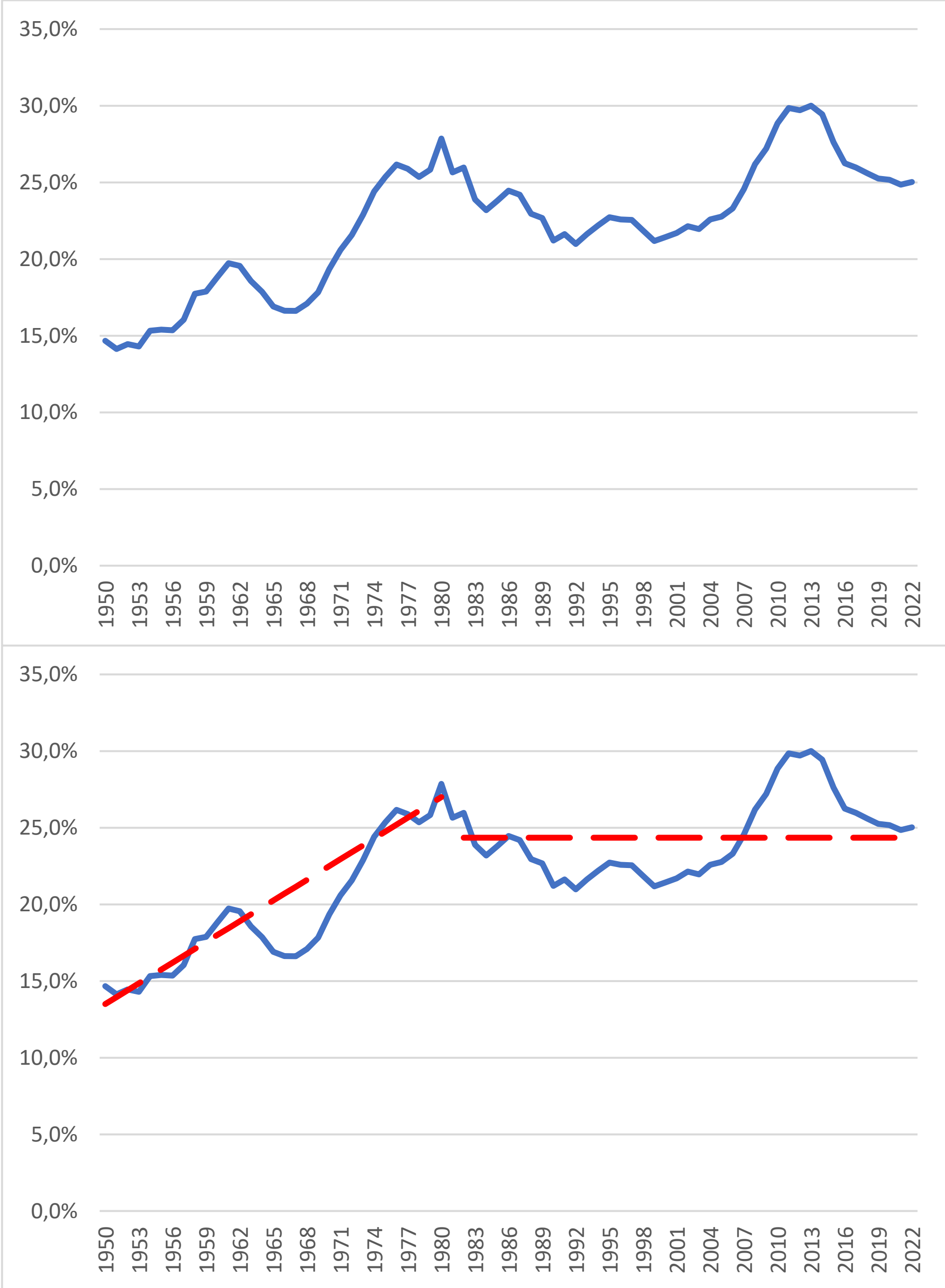
Table 1. Per capita growth in Latin America and East Asia before and after the 1980s

	1961-1980	1991-2022
Brazil	4.7%	1.20%
East Asia	6.6%	3.89%
East Asia (excl. China)	6.7%	3.64%

Sources: World Bank Indicators (WDI-WB). GDP per capita (constant 2015 US$). East Asia: South Korea, Indonesia, Singapore, China.

Brazil turned quasi-stagnated from 1990 on. Two reasons explain such quasi-stagnation: firstly, in the 1980s we can observe a fall in public savings and the consequent fall in public investments; secondly, the cyclical and long-term overvaluation of the real for the manufacturing industry that starts with the 1990 trade liberalization. Overvaluation not because such opening canceled ‘protectionism’, but because Brazil, at that moment, stopped neutralizing the Dutch disease, and the manufacturing industry, which was exporting successfully, turned suddenly *noncompetitive*. The import tariffs had protected originally the manufacturing industry because the industry was infant, but after some time the tariffs assumed intuitively a new role—to neutralize the Dutch disease on the domestic market side, while, on the export side, export subsidies implemented in 1968 were effective in increasing the share of the exports of manufactured goods in total exports to 60%.

Figure 2. Brazil catching up? Level of income per capita of Brazil divided by the US's – 1950-2022 (%)

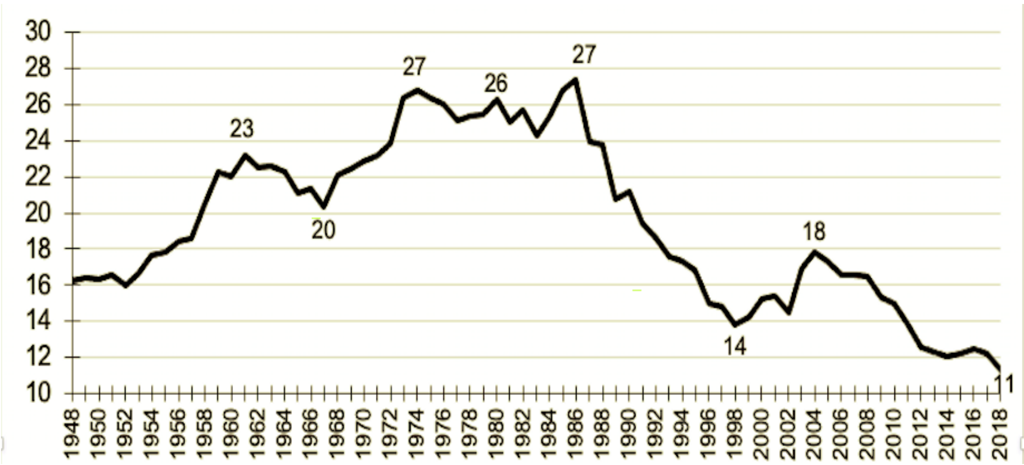


Source: Real GDP per capita in 2011$. Maddison Project Database (MPD) 2023.

Figure 2 shows the growth of Brazil's per capita income in relation to the United States. The Brazilian per capita income in 1950 was only 15% of that of the United States. From that year until 1980, there was a great catching up, the Brazilian reaching 28% of the American one—it was the time of the Brazilian capitalist revolution. Then, the near-stagnation: in 2022 per capita income was 25% of that of the United States. It is true that between 2004 and 2010, there was a strong catching up which, however, was due to a commodity boom and was consistent with the deindustrialization process that continued. Coming off the figure, the dashed red-line highlights the substantial difference in productivity performance between the two periods: While there is a convergence between 1850 and 1980, the country is stagnant relatively to the USA since then.

From the 1980s to 2018, the industrial sector's share of GDP fell from around 26% to 11%. This premature deindustrialization took place in two waves.[iv] The first with the collapse of the Cruzado Plan at the end of 1986, the trade and financial liberalization between 1990 and 1991, and the extreme overvaluation of the national currency immediately after the Real Plan of 1994, which was followed by a very huge real interest rates. After the depreciation of the real in 1999, the exchange rate remained relatively competitive, but with the *boom* in commodity *prices* and the high increase in commodities exports, in 2007 it appreciated again, initiating a second wave of deindustrialization that would last until 2018. Throughout the two waves, capital accumulation has fallen and kept depressed. The second wave of deindustrialization coincided partially with the period 2005-2010 in which the growth rates of the manufacturing industry were satisfactory.

Figure 3. Deindustrialization 1948-2018



Source: P. C. Morceiro (2021).
Note: Series adjusted to the 2010 IBGE National Accounts System, correcting for methodological changes and the financial dummy.

Economic development means increasing per capita income, which reflects increasing labor productivity overtime. Productivity gains in developing countries stem mainly from the transfer of labor from low to high per capita value-added activities—in practice, from agriculture to manufacturing. Deindustrialization is the movement in the opposite direction; low-quality jobs in services increase while high-quality work in the manufacturing industry decreases. This causes a relative fall in the rate of growth of labor productivity and a fall in the productivity of capital (the output-capital ratio) and the rate of growth.

The absurd notion that 'Brazil is an essentially agricultural country' prevailed among the elites. The developmentalist industrialization strategy from the 1930s to the 1960s was so successful that by the mid-1950s no one dared to repeat such nonsense. Since the 1990s, however, economic liberalism was back in; the new idea was that everything must be liberalized or, in other words, "there is no difference between microchips and potato chips".[v] Quasi-stagnation was unavoidable.

However, from the first half of the 1990s, the problem of foreign debt and high inflation had already been solved, and it was expected that Latin American countries would resume economic development, but this did not happen.

The causes of the stagnation in the 1980s are well known; they were the great external debt crisis and high inflation. In 1979, after an experience of stagflation and the second oil shock, the Federal Reserve of the United States made a huge rise in the interest rate, which triggered the 1980s' debt crisis that was disastrous for Brazil. It involved a white moratorium and led the country to a 'structural adjustment', i.e., to fiscal adjustment and a radical depreciation of the national money. As to inflation, from 1964, the military government had formally allowed the indexation of all sorts of contracts, and from then on, the informal indexation became more and more spread, turning inflation inertial, autonomous from demand. Each inflation shock as, for instance, a depreciation, accelerated inflation that reached a higher stage and, in this stage, it remained never decelerating. The increase of the money just sanctioned the price increases so as to maintain the real monetary liquidity.

3. New historical facts and quasi-stagnation

Once the foreign debt crisis and the high inflation (the causes of the stagnation in the previous decade) were overcome, Brazil should have returned to growth at approximately the same pace observed between 1950 and 1979, but growth was much smaller. Then begins what I have been calling 'quasi-stagnation'— very low growth, no catching-up, no gradual approximation with the standards of living of the rich countries, something that is (or was) expected from developing countries.

To understand this quasi-stagnation, we need to consider the new historical facts that have caused such a change. It makes no sense to explain what is new with the old—to explain this poor performance since the 1980s with facts that were already present before that decade. For instance, arguments like that the country lacked the institutions that guaranteed property rights and contracts, or that it did not spend enough on basic education, or even that it did not invest enough in infrastructure. These three variables are microeconomic conditions for capital accumulation and economic growth, but they are not new historical facts. Education has been neglected in Brazil during fast growth and catching up; only after the 1985 democratic transition, the country has started spending more on basic education; institutions defending property and contracts were no better before the 1980s than they were after; actually, they improved; only the investments in infrastructure didn't increase their pace. Besides, institutions are rather endogenous than exogenous; neoliberal reforms suppose that they are exogenous. The institutional instance of every society changes as the economic and ideological instances change.

In the early 2000s, New Developmentalism was born out of the recognition that Latin America, and especially Brazil was almost stagnant and that the diagnostics of policies defended by either the liberal orthodoxy, the post-Keynesians, or even the classical structuralist developmentalists failed to understand what was happening and offered solutions.

The liberal orthodoxy offered a ready explanation—the policy of import substitution would be causing the quasi-stagnation—but such policy was abandoned in 1990, and yet quasi-stagnation continues with us. Classical developmentalists explained it by the abandonment of the developmentalist policies that had been so successful until 1980. This is true, but it is a too general explanation. They did not explain why trade liberalization was a root cause of this quasi-stagnation. They did not consider that the import tariffs on manufactured goods, which had been central in the first part of the accelerated growth period (1930-1960), continued necessary in the following period (1960-1980), when most industrial sectors had ceased to be infant, but import tariffs remained necessary for neutralizing the Dutch disease. Finally, the classical developmentalists insisted on the support of science and technology and in recommending industrial policy—good proposals that were adopted in the administrations of the Labors' Party (PT) but proved insufficient to make the country grow again. As to Post-Keynesians, they were interested in the insufficiency of demand, which is a short-term, not a long-term problem. They also focused in the Thirlwall's law—a formalization of the Prebisch's foreign constraint—that cannot explain the long-term low growth of Brazil since the 1980s. Prebisch defined this constraint just to show that this was a competitive disadvantage for developing countries that could be overcome only by industrialization.

For New Developmentalism, two basic new historical facts happened: in the early 1980s, the collapse of public savings, and in 1990, trade and financial liberalization and the ensuing long-term appreciation of the exchange rate; both facts required a new regime of capital accumulation. New Developmentalism was born in the early 2000s to make a new diagnostic and offer new solutions for Brazil's (and Latin America's) quasi-stagnation. Let's now see these two new historical facts.

The first new historical fact was the fall of public savings and public investments. Public savings are supposed to finance public investments. State-owned enterprises' profits were the major source of public savings. In the second half of the 1970s, the policies adopted by the military regime explain why public savings, which were around 4% of GDP in that decade, turned negative (around minus 2% of GDP) and remained so from 1980 to today. First, the state-owned enterprises were used to control inflation, thus reducing their profits; second, they either were constrained to become indebted in dollars (which they didn't need), or to serve as collateral for foreign currency loans, so as to provide dollars to finance the current-account deficits, again, hurting their profits.

The second new fact was the trade liberalization that occurred between 1990 and 1991, followed, at the end of this year, by financial liberalization. By reducing import tariffs on manufactured goods, the real became a cyclically and chronically overvalued currency. The exchange rate for the manufacturing industry (the industrial equilibrium) will be more depreciated than the general or current equilibrium, which balances the current account.

There are two causes for a long-term overvaluation of the exchange rate: chronic current account deficits and Dutch disease. The first cause was not a new fact as Brazil was running current account deficits before 1980. These deficits, which are around 2% of GDP, are associated with the so-called 'policy of growth with foreign savings. This policy is an attempt to grow incurring in current-account deficits (foreign savings) and finance them with foreign loans or direct investments. Many defenders of such policy believe that foreign savings would add to domestic savings, leading the country to invest more and grow more. However, foreign savings don't add to domestic savings but replace them. The current account deficit, associated with a net inflow of capital, appreciates the national currency and makes the local companies noncompetitive, discouraging investment and stimulating consumption.[vi]

A chronic current-account deficit requires an implicit or explicit policy, on the part of the country, to prevent the exchange rate from pulling back to equilibrium due to the market forces. Or, as some classical developmentalists argue, the current-account deficits are 'structural'; they would be the consequence of the external constraint. They are not. The external constraint was defined originally by Raúl Prebisch, not to legitimize current-account deficits, but to show that industrialization was the only solution to it. If the country does not engage in a policy, the current account would be balanced. The consequence of the foreign constraint is the necessity of a more depreciated currency.

The current account deficit policy is a route in which governments embark gladly by increasing state expenditures. Governments know intuitively that current-account deficits and corresponding appreciated currency make everybody happy except the industrialists, and search to find reelection in exchange rate populism.

The second cause of long-term appreciation of the national currency is the Dutch disease. All Latin American countries, except for Mexico, are rich in natural resources, export commodities, and they suffer from the disease. Which may be defined as an appreciation of the national currency, applied *only* to the manufacturing industry, because the country is able to export its commodities at an exchange rate substantially more appreciated than the one that the manufacturing industry requires to be profitable. This overappreciation may be relatively permanent when it is caused by Ricardian rents—concretely, when the cost of producing oil, for example, is so low that even when its international price is relatively low the Dutch disease is present. This is the case of Venezuela and Saudi Arabia and may be now the case of Brazil where the oil exports from the Pre-Sal will be for some time high and at a very low cost. Usually, however, the Dutch disease occurs when the country faces a commodity boom, which causes a cyclical appreciation of the exchange rate.

The first step to neutralize the Dutch disease is to recognize that the country has this problem. They usually do not, mostly because they don't know what the Dutch disease is. In the case of Brazil, despite policymakers having a good idea of the concept, they don't recognize it. Probably because if they did, they would have to adopt an exchange rate policy aiming to keep the national currency competitive—therefore making competitive the companies using the best technology. From the 1950s to the 1980s Brazil had an exchange rate policy, which was an essential part of their growth strategy. But today, when Neoclassical Economics and the neoliberal orthodoxy are still dominant in Brazil (not the Global North), an exchange rate policy is a sin.

The current account deficit policy and the non-neutralization of the Dutch disease maintain the exchange rate overvalued chronically and cyclically, creating the problem of *access to demand*.[vii] The concept of 'general conditions of capital accumulation' is useful to understand it. We have, first, the microeconomic general conditions—education, good institutions, investments in the infrastructure, expenditures in science and technology, and a domestic financial system able to finance investment. Second, the macroeconomic condition—the Keynesian tendency to the insufficiency of demand. And third, the new-developmentalist concept of 'access to demand'. If a country's national currency is overvalued in the long-term, the fact that it attends satisfactorily to the micro and macro general conditions of accumulation will make no difference. The country will not invest, will not improve its technology, and will fall behind. The overvalued currency will not be compensated by the other policies.

The liberalization trap

The classic argument in the economic literature for adopting legitimately import tariffs is the *infant industry argument* which was originally developed by Alexander Hamilton (1792) and Friedrich List (1841). When the country is beginning industrialization or a certain sector is beginning to industrialize, customs tariffs are legitimate; they are not merely protectionist. Before the competition between the companies, it is necessary to define a leveling field of competition.

In the 2000s, New Developmentalism added an additional argument for the adoption of import tariffs and export subsidies for manufactured goods—the neutralization of the Dutch disease. Import tariffs and export subsidies on manufactured goods are a form of neutralizing the disease, thus also a form of defining a leveling field of competition. Tariffs have been widely used to counteract Dutch disease not only by developing countries. The United States used them extensively until 1939, when it finally lowered its tariffs.[viii]

By opening its economy in 1990, Brazil has fallen into the *liberalization trap*—the second new historical fact that triggered the brutal process of deindustrialization. In the Brazilian trade liberalization reform, average tariffs were reduced from 45 to 12% and export subsidies to zero. At that moment, tariffs were not responding to the infant industry argument but to the neutralization of the Dutch disease argument. Brazilian policymakers didn't know what the Dutch disease was; there was not yet a clear economic model from which to derive the policy neutralizing the disease, but they knew that if they liberalized trade, deindustrialization would follow. Thus, pragmatically, and intuitively, they kept the high import tariffs and, in this way, neutralized the Dutch disease. Around 1990 (10 years after the neoliberal turn in the North) there was the neoliberal turn in Brazil and the rest of Latin America, and the import tariffs – in the case of Brazil also export subsidies for manufactured goods – were drastically reduced.

I originally developed the liberalization trap concept in 2018 and substantiated it in a 2020 paper with Eliane Araujo and Samuel Peres, in which we showed that it was not the middle-income trap that had led countries to stop growing.[ix] The subscribers of the middle-income trap adopted a wide concept of the trap (incomes per capita from 2 to 16 US dollar per capita) that made it a poor predictor of no-growth, while the fact that Latin-American countries (the majority of the countries that were not growing when, in 2007, the World Bank coined the expression) had made their liberalization reforms around 1990 was understated. The roots of deindustrialization and quasi-stagnation were in such reforms. In countries exporting commodities, the liberalization trap derived from the drastic reduction of import tariffs on manufactured goods, which until this year neutralized the Dutch disease.

In 1992, when Brazil liberalized finance—ceasing to control capital flows and inflows—the disaster was complete. Now the Central Bank could freely increase the interest rate—one of the causes of the overvaluation of the real. Since the 1950s, Brazil had an exchange rate policy involving capital controls, and, from 1964, minidevaluations—a crawling peg regime. Since 1992 and still more after 1999, when Brazil adopted the inflation targeting regime, the country ceased to have control over its exchange rate. This is disastrous to a country in which the exchange rate tends to be chronically and cyclically overvalued.

Brazil, by liberalizing its financial accounts, made it possible for the Central Bank to use a high interest rate—always higher than the international interest rate plus the country risk—that discouraged investment. The objective was, 'of course', to fight inflation, without explaining why it was necessary to make the real interest rate three to four times higher than the international interest rate. A second objective was to establish an interest rate differential that would attract foreign capital to finance the misguided policy of growth with foreign savings. And so, the Central Bank responded to the pressures of the financial market and the local rentier capitalists, while it was suggested that if the real interest rate was lowered, the Treasury would lose its ability to finance its debt. Nonsense, the market has no alternative but to finance the Treasury.

4. What to do?

In East Asia, neither of these two new historical facts that halted Latin America's growth was present. Countries such as South Korea and Taiwan have not suffered a fiscal crisis that has turned their public savings negative; they did not adopt the policy of growing with foreign savings; not being commodity exporters, they do not face the Dutch disease and were therefore able to open their economies without damage; they did not adopt the policy of incurring high interest rates to control inflation and attract capital inflows; their elites have never considered themselves 'Europeans' and have always taken the national interests as their main economic policy criterion. For these reasons, they did not incur early deindustrialization and continued to develop from the 1980s onwards, albeit a little more slowly.

We have seen in the previous section the new historical facts have led Brazil to quasi-stagnation. Regarding the fall of public savings and public investment, I have some proposals, but I understand that they will not be enough. To increase public savings, it is necessary to decrease the spending in government consumption. Among them, the two consumer expenditures that should be reduced the most are those that refer to the high interest paid on public debt and the enormous subsidies and multiple tax exemptions that exist in the country. Both policies primarily benefit the wealthy and are seen by neoliberalism as 'immutable'.

To lower the payment of interest, it is necessary to revise the Central Bank's interest rate policy—a policy that is more concerned with attracting foreign capital, protecting the banks, and guaranteeing extra gains to rentier capitalists than controlling inflation. These high interest rates plus orthodox fiscal adjustment epitomize the *austerity* of liberal orthodoxy. As for the export subsidies that existed between 1969 and 1990, neoliberalism sees them as mere favors from the state that benefit the sectors of the economy whose lobbying is most effective, rather than as part of a well-conceived industrial policy.

Concerning the exchange rate, first, Brazil should abandon the implicit policy of incurring chronic current account deficits. If deficits and surpluses alternated, there would be no current account deficit policy. When, however, they are recurring, the exchange rate is not fulfilling its role because governments' implicit policies of 'growing with foreign savings' or controlling inflation with a 'currency anchor'. Governments should therefore take note of this policy and review it.

Second, in the case of Dutch disease, the solution is to use one of the two neutralization mechanisms or combine them. Both are economically equivalent, both assume that an export tax on commodities or tariffs and subsidies on the import of manufactured goods should be *variable*, according to the changes in the terms of trade or the average price of the commodities the country exports. Considering that the parliament will decide on one or other form of neutralization of the Dutch disease, which is preferable? To adopt a policy politically viable, the policymaker should consider that mineral extraction is generally concentrated in a few companies, so it is preferable to use an export tax. In the case of agricultural commodities, where there are a large number of producers, import tariffs on manufactured goods are the best alternative, because farmers and their associations have the political power to prevent the tax from being approved in parliament. In any case, the government will have obstacles to implement the neutralization of the Dutch disease. There are countries like Argentina or Saudi Arabia where there are export taxes, but their purpose is purely fiscal; they are not intended to neutralize Dutch disease.

5. Economic populism

There are two political conditions for the adoption of these three key new policies. First, the center-left and center-right must push aside extremists on both sides and return to developmentalist policies—that right and left differentiate themselves not by the development policy but by the policy of income distribution. This is possible today in the Northern countries because neoliberalism is demoralized, and they are bringing the state back into the economy. Latin American countries can also bring the state back into their economies but first they must realize that neoliberalism is dead.

There is also the problem of economic populism—the policy of the state and also of the country spending irresponsibly more than they collect. In the first case, public deficits that cannot be characterized as a countercyclical policy will manifest; in the second case, current account deficits are the outcome. Note that I am distinguishing *economic* populism from political populism or simply populism. Political populism may either be an obstacle for the macroeconomic stability or represent the first stage of the relative autonomy of the masses and a national development project; it is a way in which charismatic political leaders get the support of the masses to promote the development of the country. Getúlio Vargas in Brazil and Lazaro Cardenas in Mexico were classic examples of good populism.

This is for political populism. As to economic populism, which involves irresponsible policies or practices, New Developmentalism distinguishes two forms: fiscal and exchange rate populism. In the case of *fiscal populism*, the state spends irresponsibly and runs a fiscal deficit, while in the case of *exchange rate populism*, the country spends irresponsibly more than it gets and incurs current-account deficits. Fiscal deficits are not populism when they are the outcome of countercyclical macroeconomic policies. It is difficult to find circumstances in which the country engages responsibly in current account deficits. This only happens when the country is already growing very rapidly, the marginal propensity to consume falls, the marginal propensity to invest increases, and current-account deficit and net capital inflows do not replace domestic savings.

I believe that economic populism is an obstacle as serious as imperialism to Latin America's growth. Economic populism is a central feature of the three most relevant "classes" in modern societies: the rentier capitalists who have the money, the politicians who have the formal power, and the popular classes, who vote. Thus, none of them accepts all basic policies here discussed: (a) the increase in public savings, (b) the end of growth with chronic current account deficits, and (c) the neutralization of the Dutch disease. The rentiers engage in exchange rate populism because it ends with (i) a depreciation of the national money that will reduce the purchasing power of their revenues (interest, dividends, and real estate rents), (ii) reduction of their wealth in the national money, and (iii) because the depreciation of the national money will require the fall of interest rates—something that is the opposite to what they desire in the long term. The popular classes support economic populism because they want to protect the wages and the profits of their small businesses in the short term. And the politicians, because they want the financial support of the rich and the vote of the poor.

6. Final remarks

Macroeconomic policies are a priority, but they must be complemented by supply-side policies, mainly an education policy and an infrastructure investment policy, and a new industrial policy in which import tariffs are once again at the center. In relation to this, Nassif and Morceiro (2021), in a recent work, defined six missions for industrial policy and identified some priority industrial subsectors: sectors related to health and the pharmaceutical industry, the reindustrialization of some niches intensive in sophisticated work such as the chemical and aerospace industry, the engine and battery sector, computer services, and infrastructure and the expansion of green subsectors. On the other hand, the New Industrial Policy of the Lula government defines as 'missions' (a) to increase to 50% the share of agribusiness in the agricultural GDP; (b) to produce 70% of the country's national needs for medicines, vaccines, and equipment and health; (c) to reduce travel time in cities and increase their density; (d) to digitize the manufacturing industries and triple the share of national production in the new technologies segment; (e) to promote the bioeconomy and decarbonize the country; and (f) to increase autonomy in the production of critical technologies. Yes, an industrial policy is necessary, but in the case of the New Industrial Policy the main instrument of any industrial policy—tariffs—has been 'forgotten'. And I cannot see how any industrial policy will succeed if there is no assurance that the exchange rate will remain competitive.

In terms of distribution, support for the state's major social services and mainly a progressive tax reform should reduce inequality. In terms of environmental protection, it is necessary to adopt comprehensive policies to protect the Amazon rainforest and reduce carbon dioxide emissions. These two fundamental problems are only referred here. The environmental problem requires a series of policies that are out of the scope of this essay; the same applies to the problem of economic inequality, which in the context of quasi-stagnation only gets worse.

In short, East Asian countries have limited or, in the case of China, simply rejected neoliberal reforms, and have continued to grow; they have been able to remain more open on the commercial level because they don't have the Dutch disease to neutralize. Meanwhile, Brazil and other Latin American countries have been caught in the liberalization trap. East Asian nations are more cohesive because their elites know they are Asian, while Latin American economic elites often believe they are "white and European" and more easily submit to white Northern elites.

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Rosenstein-Rodan, Paul (1943) "Problems of industrialization in Eastern Europe and South-Eastern Europe", *Economic Journal* 53, (June): 202-211. doi.org/10.4135/9781446262092.7 ent Paper.

[i] I discussed originally the *high interest rate-appreciated exchange rate trap* in *Macroeconomics of Stagnation* (2007); the *liberalization trap*, in a keynote speech at the 2018 Shanghai Forum (Bresser-Pereira, 2018b), and in the paper "An alternative to the middle-income trap" (Bresser-Pereira, Araujo and Peres, 2019).

[ii] The United States did not form a welfare state, but it was then, and always had been, developmental—it did not hesitate to get the state to intervene in the economy in order to grow more.

[iii] In addition, China continued with its industrial policies that contributed the international competitiveness of its companies.

[iv] Premature because it began in Brazil when its income per capita was sensibly smaller than was the income per capita when deindustrialization began in the rich countries.

[v] This is an expression attributed to Gabriel Palma.

[vi] Bresser-Pereira and Gala (2007); Bresser-Pereira, Araujo and Gala (2014).

[vii] Bresser-Pereira (2015).

[viii] It should be noted that since then the dollar has tended to appreciate for this reason and also because since the 1960s the United States has run high current account deficits.

[ix] Bresser-Pereira, Araujo e Peres and (2019).