

Back to developmentalism

Luiz Carlos Bresser-Pereira
Folha de S. Paulo, September 26, 2011

Brazil is behaving again as an independent country, after realized that the neoliberal project was a huge mistake.

Since 1991 Brazilian economic policy was ruled by conventional orthodoxy or the Washington Consensus. However, from 2006 on, with Guido Mantega in the Ministry of Finance and Luciano Coutinho in the BNDES [*Brazilian Economic and Social Development Bank*], the Lula administration started to shift the development strategy towards the new developmentalism. In 2009 a decisive step in this sense was taken with the beginning of the control of capital inflows. Now, in the ninth month of the Dilma Rousseff administration, the Central Bank's decision to lower the interest rate, surprising the financial market, and the government's decision to tax the import of vehicles that have less than 35% of domestic content consolidate this shift. The deepening of the world crisis, with Europe at its center, and the cooling down of Brazilian economy confirm the good quality of this decision.

The new developmentalism is not a panacea, but is theoretically anchored in a structuralist development macroeconomics, whose criterion is the national interest, and it knows that the national interest can only be met by government leaders who, instead of applying ready-made formulas, evaluate competently each problem and each policy. If adopted with firmness and caution, Brazil will grow at higher rates, with more financial stability and inflation under control. Whereas the orthodox tripod is “a high interest rate, an overvalued exchange rate, and a minimum State”, the new-developmental tripod is “a low interest rate, an equilibrium exchange rate, which makes competitive the industrial companies using modern technology, and a strategic role for the State”.

Whereas for the conventional orthodoxy financial markets are self-regulated, for the new developmentalism only regulated markets are able to guarantee stability and growth. Both the new developmentalism and the conventional orthodoxy defend fiscal responsibility, but the same is not true regarding exchange rate responsibility. Whereas the new developmentalism rejects the current account deficits, the conventional orthodoxy promotes them, and, therefore, behaves in a populist way (exchange rate populism). It argues that “foreign savings” would increase the country's investment, but the capital inflows needed to finance those deficits increase consumption rather than

investment, make the country indebted, make it dependent on creditors and on their “advices”, and result in a balance-of-payment crisis.

By returning to new developmentalism, Brazil is behaving again as an independent country. It had ceased to act like this in 1991, because the country faced a profound crisis, and because American neoliberal hegemony over the whole world was, at that time, almost irresistible. But since the middle of last decade Brazilian society started to realize that the neoliberal project was a huge mistake, and that there was an alternative to it. As the 2008 global financial crisis demonstrated beyond doubt, the neoliberal economic policies were not good, not even to rich countries. This way, the neoliberal hegemony collapsed, and the developmentalist forces – the industrial entrepreneurs, the workers and part of the professional class – became stronger, which opened the way for the Dilma administration to deepen its commitments to them. A new and wide-ranging political pact is forming in Brazil. Let's hope that it will lead Brazil faster to development.