New developentalism and structuralist devevelopment macroeconomics

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New desenvolpmentalism

–is the national developent stratgy appropriated for middle income countries

Struturalist Development Macroeconomics

–is the theory that founds new developentalism

Developmentlism x Economic Liberalism

- The new developmentalism is based on the developmentalist ideology,

  which opposes ec liberalism, because

1. Adopts explicitly economic nacionalism
2. Rejects the liberal thesis of the general superiority of markets over administration
3. Assumes a class coalition of business entrepreneurs, public bureaurcracy and the working class.
4. Assume the existence of a developmental state.

1.Developmentalism defends economic nationalism

1. It assumes that in global capitalism the major nation-states compete (instead of making wars).
2. And that, secondarily, cooperate to establish the global competition rules
3. For that reason, it is nationalist,
4. And suspects from the “generous” advices offered by rich countries (that have in common high wages and the interest in occuping the domestic markets of developing countries).

2. Rejects the thesis of the general superiority of markets

- It views markets as efficient in coordinating compectitive industries..
- Sees several industries as intrinsically non-competitive (ex., infrastructure).
- Sees sectors where the economic criteria are not the more important (education, health care, p.ex.).
- For that reason developmentalism defens administration and planning as complementary coordinating mechanism.

3.It assumes a developmental class coalition

In the globalization era we have two cross class coalitions in conflict::

Developmental – formed by entrepreneur capitalista, professionals associated to production and workers.

Liberal – formed by rentier capitalist, professional fianciers (that manage the wealth of the former) and foreign interests.

4. It assume the existence of a developmental state.

- The developmental state is the alternative to the the liberal state.
- It is the form state that that is historically conducive to catching up.
- It is the state that priorizes economic development.
- In a second historical phase, after transition to democracy, it becomes a developmental and social state: equality turns a second fundamental objective.

Structuralist Development Macroeconomics (SDM)

-is an alternative to the macroeconomics of rational expectations and to the neoclassical growth models.

-is a complement to Keynesian macroeconomics

-is an actualization (aggiornamento) of the structuralist development economics of the 1940, 50 e 60s,

which fall into crisis in the 1970s, in the framework of the Neoliberal Years of Capitalism.

A SDM is Keynesiano-structuralist

- Is Keynesian because assumes that the main constraint to growth is on demand side and that the investiment determines savings.
- Is structuralist because assumes that that the increase of productivity takes place mainly through the transference of labor to industries with higher value added per capita;
- Shares with both the historical-deductive method, thus rejecting the hypothetic-deduductive one.

But the emphasis in macro does not imply to ignore <u>the supply side</u>

- Educaton;
- Industrial and technological policy;
- Planing and ivestment in monpolist sectors
- Better institutions

But don't get misled:

- The institutional instance changes correlatedly and structurally with economic instance and the ideological instance.
- Thus, action (political construction) must occur in the three instances.

SDM is a <u>second moment</u> of Structuralist Theory

- Structuralist development economics:
- Was more focus on supply;
- It did'nt present theoretical advances since the 1970s;

1. It accepted two associated mistaken theses: the foreign constraint and the policy of growth with foreign savings;
2. It does not have a theory of the exchange rate in developing countries

SDM is a answer to these questions.

Keynesiano-structuralist central theses (pré-SDM)

- Given disponibilities on the supply side,
- Growth depends on investment,
- Which (assumed the existence of credit) depends on public savings and on the difference between the expected rate of profit and the interest rate.
- The expected rate of profit depends on the existence of domesti and foreign demand. (Domestc demand depends os wages grow with productivity, what did not tend to happen in developing countries).

Central theses of SDM

1. Additionally,the expected rate of profit depends o the access to foreign demand, which depends on the exchange rate.
2. The exchange rate is in equilibrium when it makes competitive business enterprises utilizing technology in the world state of the art ("industriral equilibrium").
3. But the er tends to be cyclically and chronically overvalued, if it is left to the market and to the liberal orthodoxy policies.
4. Also the rate of interest tend to be high.

Exchange rate cyclically and chronically overvalued (and high interest rate)

Because

1.Dutch diseased is not neutralized;

2.Excessive capital inflows appreciate the national money, because

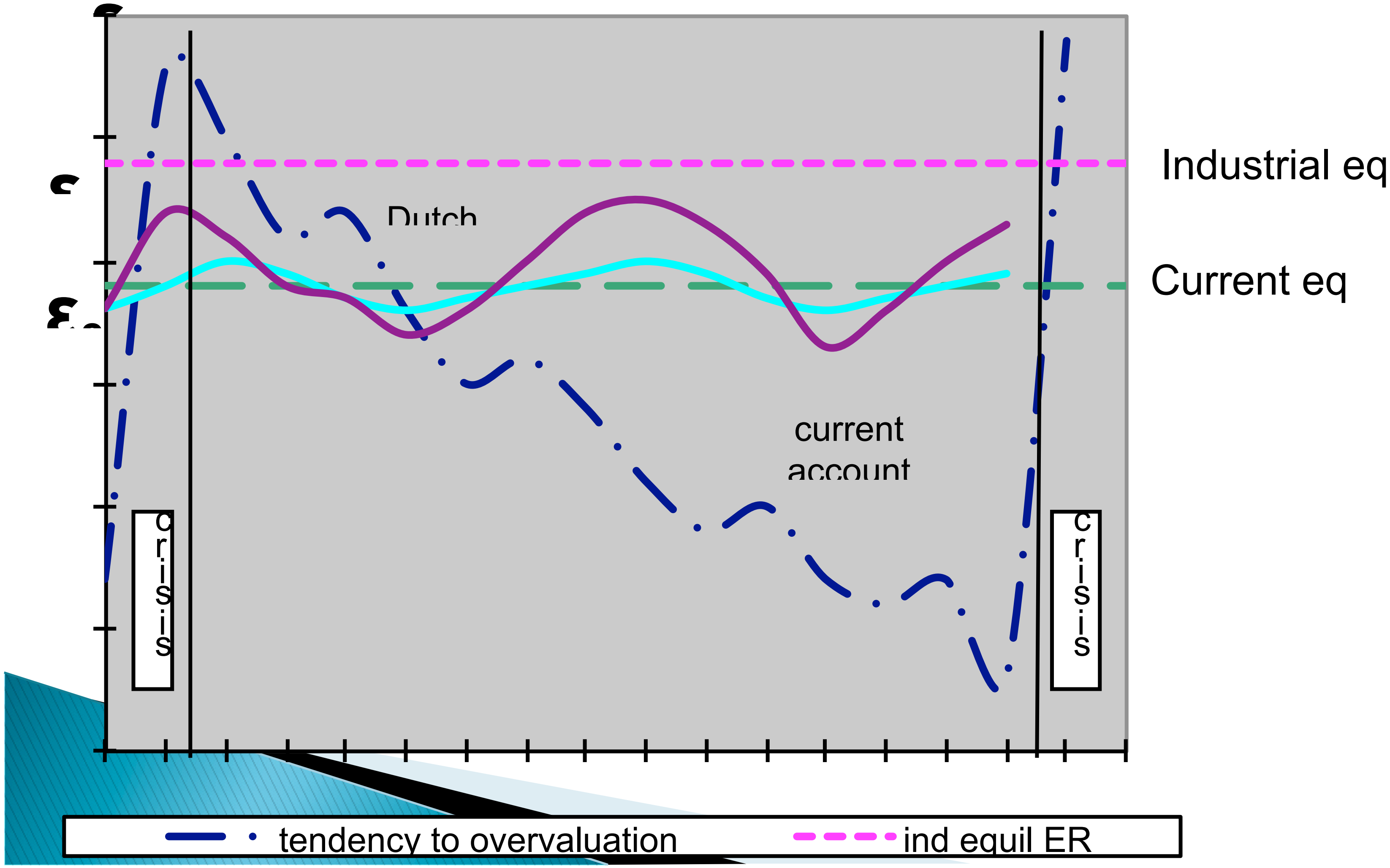
2.1.Policy of high interest rates;

2.2.Policy of growth with "foreign savings";

3.Use of exchange rate anchor against inflation;

4.Exchange rate populism (aiming to reelect politicians).

Summary Graphic



1.Non-neutralized Dutch disesease

- Th Dutch disease is a permanent overappreciation of the exchange rate because it is consistent with satisfactory profits on the exports of commodities that benefit from Ricardian rents.

  When there is DD, we have two equilibria:

1. "Current equilibrium" (market eq)
2. "Industrial equilibrium" (makes competitive firms utilizing technology in the world state of the art).

- The Dutch disease is not being neutralized when the exchage rate floats around the current equilibrium, instead of the industrial equilirium.

2.1.Excessive capital inflows due to high interest rates

They are caused by high level of the interest rate, which result not only of relative scarcity of capitals, but of a policy of hith interest rates:

1. to “atract foreign capitals”;
2. to control inflation (depite is the variation, not the level of the interest rate, that is relevant;
3. To avoid “finacial repression” (and achieve “capital deepening”).

(Such policies interest directly the liberal cross class coalition).

2.2.Policy of growth with “foreign savings”

- Justified by a theses and an assumption:

2.2.1. The foreign constraint thesis

The 1950s’ structuralist observerd shortage of dollars and explained this “second gal” (besides the investiment-savings gap) with the high income elasticities of imports in developing countries and low income elasticity in rich countries of exports of commodities.

Actually, the elastiscities were a minor and transitory cause. The major cause of the shortage was the chronic overvaluation of the exchange rate.

2.2.2. The assumption that “foreign savings” add to domestic savings

- Actually, the current account déficit appreciates the national money, dimishes the investment oportunities, and causes successively:
- 1.high rate of substitution of foreign for domestic savings (rather increase in consumption than in investment). Note that the substititution is not high only in moments of high grwoth.
- 2.financial frangility and “confidence building” policy;
- 3. currency crisis (sudden stop).
- Note that in the short run exchange rate appreciation stimulates investments oriented to the domestic market, because real wages increase.

3.Exchange rate anchors policy

- The exchange rate is often perversely used as a means to control inflation.
- In principle, orthodox policy leaves this job to the interest rate (what is OK if the variation is not conufused with the level of the interest rate, and if this insrument is combined with others).
- But, in practice, inflation targetting policy uses often an exchange rate anchor to control inflation.

4.Exchange rate populism

- It was always the tool of politicians with poor republican spirit (besides fiscal populism).
- Recently it also turned into an argument of ohtodox economists in Brazil, because:
- 1.they reject a policy of competitive exchange rate in the industrial equilibrium leve (which they call "depreciated") because it would be "injust to the poor"...
- 2. They defend current account deficits because they "help to increase the consumption of the poor".

The SDM puts the exchange rate in the center of development economics

- The exchange rate ceases to be a short term problem (just a macro problem) because it is chronically overvalued (in the long-term).

- The exchange rate is a light switch that "connects" or "desconnects" the efficiente business enterprises to and from world demand. It gives access to the world demand to business firms that use technology in the state of the art.

But this does not mean that new developmentalis is export-led

- **The strategy hacia adentro or wage-led**

-implies the reduction of the coeficient of openess (X+M)/GDP (import substitution model)

-it is just viable for short period in the beginning of industrialization.

- **Ballanced strategy**

-implies constant coeficient of openess;

-it is the normal growth path.

- **Export-led strategy**

-implies increasing coeficient of openess;

-it also is just viable for short periods.

Export-led strategy. When?

- When society recognizes that the exchange rate is overvalued, and the investment and growth rates, depressed, insatisfactory.
- And accepts the costs of transition: -shifting the exchange rate to the industrial equilibrium will reduce wages and increase the rate of profit. But soon wages will grow fast.
- It is possible to reduce inequality without reducing the rate of profit – by reducint rents or rentier capitalist and high salaries and bonuses of financiers.

Main policy consequences for developing countries

- 1. Keep public finances sound and the state capable of playing a strategic role.
- 2.Manage their exchange rate (through capital controls and tax on exports of commodities).
- 3.Have a current account surplus if the country faces the Dutch disease. Never a déficit.
- 4.Direct investments – see next slide.

4.As to direct investments

- Given that (1) direct investments and loans replaceu rather than add to domestic capital; (2) that the country should have a surplus in the current account; and (3) that direct investments occupy the domestic market of developing countries without that these countries occupy the domestic markets of the rich countries,
- Investment directs only interest in so far as they bring technology (and for the foreign markets that sometime they open) not for their capital.

These ideas and models are in

- *Globalization and Competition*
  (Cambridge Univeresity Press, 2010)

- **“Structuralist development macroeconomics and new developmentalism”** (*Brazilian Journal of Political Economy*, October 2012)

- And in the website: www.bresserpereira.org.br

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