Latin America: after the neoliberal years, is the developmental state back in?

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Abstract. Latin America was probably the region that suffered most in the neoliberal years, because it was also the region where the respective reforms and policies were taken further. For that reason, it was also the region where the neoliberal years first came to an end. Since the late 1990s, left wing and economic nationalist political leaders started winning elections. On the other hand, a new economic school of thought based on a new "structuralist development macroeconomics" has been under discussion, and the Ten Theses on New Developmentalism are today an alternative to the Washington Consensus. Does this mean that the developmental state is back in? It is too soon to say that, not only because ideas and politics seldom match, but also because the rise in commodity prices is threatening industrialization in the region.

The neoliberal discourse that was dominant in the North since the early 1980s presented two alternatives for the state in developing countries: it would be either liberal or populist. With this rhetoric, it was suggesting that the developmental and the populist state are the same, and that the liberal state is the ideal form of the state – the one that can assure growth with stability and social justice. But this ideological discourse was rejected by the facts. Following the Washington Consensus, neoliberal politics were implemented in practically all Latin American countries. The result of those politics was that Latin American economies grew at lower growth rates than they did when they strove for being developmental, and were outmatched by Asian states that pursued their own way of development. In Latin America, financial instability soared, and inequality increased. In contrast, the Asian countries, that were much more resistant to the Washington Consensus, continued to present high rates of growth with financial stability and reasonable social fairness.

After the neoliberal changes in Latin America, nationalist and leftwing politicians were elected, beginning with Hugo Chaves, in 1999. In Venezuela, Argentina, Brazil, Bolivia and Ecuador – the countries where this change was neater – the new governments have been trying to build up a developmental state. That involved the renationalization of some monopolist firms, usually utilities, and of large oil and mining firms where Ricardian rents are large. Is the developmental state really the only alternative to countries that want to grow and catch up? What is a developmental state? Can it be also a social or welfare state? Is the developmental state back in Latin America? To answer these questions, we will present the concept of new developmentalism and of the structuralist developmental macroeconomics that founds it. Our two assumptions will be, firstly, that a developmental class coalition is a condition for a developmental and social state, and, second, that in Latin America the "New Nationalist Left" is making a move to developmentalism.

The first argument that will be presented in this paper is: the state has the tendency to assume two alternative forms in countries that are trying to economically develop today: it will be either a liberal state or a developmental state. Secondly, the developmental state is today different from the one that it was in the 1960s or 1970s; it is democratic and must be social. And, third, in Latin America of the 2000s and 2010s, the New Nationalist Left is trying to in Latin America to shift from a liberal state to a new developmental and social or welfare state.

To conduct the argument, we will first define what we mean by liberalism, old and new developmentalism and the respective role of the state, then have a look at the economic backgrounds and assumptions of each one, and finally we will analyze some policies and social backgrounds of the Latin American "shift" that could signalize (or not) a shift to the new developmental state.

Some Definitions

When we talk about a new developmental state, we are contrasting it to two other forms of the state: the liberal state and the traditional developmental state. A liberal state is defined here considering the classical concept of economic liberalism (and, today, neoliberalism) a minimum state that just protects civil rights and assures the compliance of contracts. This state is meant not to interfere in the economy, because the market is seen as a more efficient and desirable tool of allocation of resources in and development of a given society. It is also seen as the only form of government compatible with democracy - with liberal democracy.

The developmental state, in the traditional sense, is a state that intervenes directly in the economy with the purpose to foster national development. Associated originally with authoritarian rule in Latin American and in East Asian countries, it tends to become democratic in so far as it is successful in promoting the national and industrial revolution in each country. It is nationalist in the sense that it presumes a context of economic dependency in relation to rich countries, which represents a major obstacle to economic growth. For that reason, it contains an "anti-imperialist" component. While rich countries use neoclassical economics to justify their liberalism, the developmental states justify their active role in development with Keynesian-structuralist economics; they protect and foster their industry, pursuing initially an import substitution industrialization strategy, followed, since the 1970s, in Brazil and Mexico, by a strategy based on exports of manufactured goods.

Today, after the major 1980s' foreign debt crisis that opened room to the Washington Consensus' neoliberal policies and reforms, middle income countries in Latin America continue to pursue development, but in a different context of intern and extern constraints: internally, industrialization or the capitalist revolution is already completed; externally, all countries compete economically in the context of global capitalism. [1] Given that, structuralist economists and political scientist in the region are defining "New Developmentalism" – a national development strategy that supposes that the country already "completed" or is near to have completed its national and industrial or capitalist revolution. [2] It is based on new economic models that have been developed taking into consideration successful developmental policies in Asian countries, Keynesian macroeconomics and structuralist development economics.[3] Giving the emphasis on the demand side and on the main macroeconomic prices (particularly the exchange rate and the interest rate), these models put the exchange rate in the core of development economics, and the sum of them can be viewed as a "structuralist development macroeconomics".

What define the new developmental state are the strategic role of the state in the development process, the priority given to economic development, a nationalist perspective (without disregarding globalization and the need of international cooperation) and the increase of social expenditures. New developmentalism adapts the developmentalist ideas to global markets. A dominant political pact or a class coalition involving the entrepreneurs, the public bureaucracy and the working class, in conflict with the rentier capitalist class, the traditional middle class, and foreign interests characterizes the new developmental state. The increase in social expenditures is crucial for the new developmental state, because in the realm of democracy the poor increased their power, and they demand increased state expenditures in education, health care, social assistance and social security.

The basic question put in this paper is: to what extent middle income countries like Brazil and Argentina are back to the developmental state – actually, to a new developmentalism and the new developmental state. Secondly, is to discuss to what extent recent political and economic change in poorer countries, in Venezuela, Bolivia, and Ecuador[4], go in the same direction.

Political and Economic Background

To overcome underdevelopment, Latin American countries implemented developmental policies in the twentieth century. In Brazil, industrialization and state-led economic development were pursued by all regimes and administrations since the 1930s until the 1970s. Getulio Vargas was a central figure in building the developmental state. After him, president Juscelino Kubitschek continued on the developmental path, and the same the military regime that was in charge from 1964 to 1984, but, differently from the 1930-1960-class coalition, the working class was fully absent from the modernizing military political compact. Of course, the means and ideologies that sustained the different administrations differed from each other. Vargas was an autocratic leader, who stressed the importance of urban workers in the social agreement for development.

Current Brazilian labor regulations refer back to that time. One could say that Vargas was the Brazilian Bismarck. He was not a democrat, but, generally speaking, no country made its industrial revolution in a democratic context. In Brazil, although there were elections before, they were very restricted[5] and a means for an oligarchic elite to take turns in power. After the "Estado Novo", democracy was implemented, but the military coup of 1964 made Brazil fall back to authoritarian rule. Return to civilian rule took place in 1985, and direct presidential elections occurred again only in 1989.

Brazilian old or national-developmentalism had two phases with different economic aims and different social bases: First, from the 1930s to the beginning of the 1960s, developmentalism aimed import substitution and was based on a political compact between industrial elites, the new public bureaucracy, urban workers and the non-exporting agricultural elites.[6] From the mid-1960s to the end of the 1970s the growth strategy changed from import substitution to exports of manufactured goods; now the social agreement involved only the industrial entrepreneurs, the public bureaucracy of military, engineers and economists, and the non-exporting agricultural elites.

Besides economic bases and objectives of the dominant class coalition, we have to look at a third variable: how development was financed. Originally, after the financial crisis of 1929, domestic savings financed growth from the 1930s to the 1950s. Yet, since the mid-1950s, foreign finance was resumed, first, in the form of direct investments aiming to assure the domestic markets of manufactured goods that had been previously closed to imports, and, since the early 1970s, also in the form of foreign loans, as the petrodollars originated from the oil exporting countries increased the world monetary liquidity dramatically.

In the beginning of the 1980s, Latin America entered a deep debt crisis, initiated by the Mexican crisis of 1982. Its origins were not, as usually announced, in the exhaustion of the model of import substitutions– the industrializing strategy that the neoliberal critics identified with the developmental state. That model had already been exhausted in the 1960s, and countries like Brazil and Mexico were already pursuing an exporting model in the 1970s.[7] The main reason of the economic crisis in the 1980s was the choice of external financing. This was, per se, a questionable policy (given the high rate of substitution of foreign for domestic savings that is involves) and dangerous policy in so far as it makes the country that is getting finance in foreign money prone to currency or balance of payment crises. It was what happened in 1979-80: debt contracts at floating interest rates plus the decision by president Reagan and the Federal Reserve Bank of the U.S.A. to increase drastically the international interest rate led the highly indebted Latin American countries to a major financial crisis, that changed into a fiscal crisis of the developmental state, as the state assumed the private debts, and to high inflation. Capital outflows increased dramatically especially in Mexico (US$ 41.8 billion from 1978-82), Venezuela (US$ 29.9 billion from 1979-83) and Argentina (US$ 23.6 billion from 1978-82), in Brazil, current account deficits went up to US$ 57.5 billion from 1978-82.[8]

In this context of financial crisis and instability, these countries made their transitions from authoritarian rule to democracy: Bolivia in 1980, Argentina in 1983, and Brazil in 1985. Venezuela was already democratic since 1958 (or, as some may argue, really since 1968[9]). The 1980s was therefore a decade lost economically, but also a decade of political gains. The debt crisis and the following high inflation made the transitions easier as the democratic coalition could attribute particularly high inflation to the military regime. But it made government much more difficult for the new democratic administrations. The insolvency that the countries faced plus an economic populism and erroneous economic policies led the new democracies – particularly Argentina and Brazil – to the worsening of the financial crisis and to hyperinflation in the late 1980s.

At the same time, in the United States, a neoliberal class coalition involving rentier capitalists and financiers had turned dominant. After the fall of the Berlin Wall 1989 followed by the collapse of Soviet Union in 1991, the economic path of the United States seemed to be unquestionable. In Brazil and Argentina, the inability of the new democratic administrations to face the great foreign debt crisis and high inflation led to a loss of support of the national-developmental state model, and both countries bowed to the neoliberal Washington Consensus – a path that Mexico had already followed since the mid-1980s, and that Chile had taken much earlier, in 1973, but had started to establish limits to it after the major financial crisis of 1981-82 caused by the monetarist policies.[10]

The 1980s were the years of the Great Foreign Debt Crisis, were also the year of democratization in two major Latin American countries (Argentina and Brazil), and were years of economic populism in these two countries, in the Carlos Alfonsin and José

Sarney administrations (1983-89 and 1985-89) and also in Mexico, in the Lópes Portillo administration (1976-82). As a reaction and reproducing the new American hegemony, the 1990s were the neoliberal years of Latin America. Mexico was the first major Latin American country to curve to neoliberalism, still in the 1985, in the Miguel de la Madrid administration (1982-88), after confronting a major financial crisis left by his antecessor; and in the Carlos Salinas administration (1988-94), by adhering to NAFTA[11], the submission turned complete. In Argentina, neoliberalism turned fully dominant after the 1989 hyperinflation, in the Carlos Menen administration (1989-99). In Brazil, the submission to the Washington consensus begins in the Fernando Collor de Melo administration (1990-92); the Itamar Franco administration, (1992-94) tried to revert the change, while Fernando Henrique Cardoso, as finance minister, implemented successfully the Real Plan – a heterodox price stabilization plan that used the theory of inertial inflation to control a high and inertial inflation that plagued the population since 1980. Yet, once elected president, Cardoso also succumbed to the neoliberal ideas except in the social or welfare area where he developed a social-democratic agenda. Actually, in his administration (1995-2002), two economic models were competing inside the government: a neoliberal and a developmental one. The neoliberal current, which was dominant, gave priority to the stabilization of prices, held the Real appreciated, liberalized commerce, offered high interest rates, advocated fiscal austerity and did not offer direct incentives to the industrial sector (Sallum Jr. 1999: 33). This line of action offered short-term advantages, but middle- and long-term risks that later appeared: low economic growth, an increase in unemployment and susceptibility to perturbations in the international financial market. It also led to a beginning de-industrialization in the country. At the other side, parts of the government advocated a kind of liberal-developmentalism, demanding the depreciation of the currency and lower interest rates and a lower dependency of foreign capital to equalize the balance of payments; but the president did not follow this line of action. The poor economic performance of the Cardoso administration, and the major 1998 financial crisis caused by the Washington Consensus policy of financial liberalization and growth with foreign savings demonstrated that the critics were right, and helped the election of Luiz Inacio Lula da Silva to the presidency in October 2002.

But economic and social results of the neoliberal economic policies and market-oriented reforms were not limited to Brazil; they were common to practically all Latin American countries. And they soon produced political results. Nationalist and leftwing presidents, a New Nationalist Left, started to be elected in Latin America. We have a succession of newcomers. First, Hugo Chávez (today PSUV)[12], who became president in 1999 in Venezuela; Luiz Inacio Lula da Silva (PT)[13] in 2003 in Brazil followed by Dilma Rousseff in 2011; Eduardo Duhalde (PJ) [14] in 2002, followed by Néstor Kirchner (PJ) in 2003 and Cristina Kirchner (PJ) in 2007 and 2011 in Argentina; Evo Morales (MAS)[15] in 2006 in Bolivia[16], Rafael Correa in Ecuador in 2007, Daniel Ortega in Nicaragua in 2007,[17] Mauricio Funes (FNLM)[18] in El Salvador in 2009, Fernando Lugo (APC)[19] in Paraguay in 2011, Ollanta Humala (PNP)[20] in Peru in 2011. All these presidents are known for their attempts to implement some kind of developmental policies and many social policies.

Liberalism, Old and New Developmentalism and their Economic Assumptions

At the same time, new ideas also emerge, particularly in Brazil. Bresser-Pereira, in a panel at the LASA-2002 Congress and in a book,[21] rejected the neoliberal consensus that viewed developmentalism as synonym of populism and backwardness, and launched the concept of New Developmentalism, opposing it to the Washington Consensus and to old National-Developmentalism. Soon, a large group of post-Keynesian and structuralist economists in Brazil joined him. And in 2010, eighty development economists discussed and approved the Ten Theses on New Developmentalism.[22] As an alternative national development strategy to the Washington Consensus and to old developmentalism, New Developmentalism was now an institution, a body of policies well defined and shared.

New developmentalism differs from national-developmentalism and from the liberal or orthodox policies on several accounts.

Scope. Old developmentalism applied to countries that were beginning their industrial revolution; liberal orthodoxy, to all kinds of countries; new developmentalism, to middle income countries that have already completed their capitalist revolution.

State in production. Old developmentalism attributed to the state a large role in production, liberal orthodoxy, none; new developmentalism limits it to monopolist industries, particularly the ones in the infrastructure and in public services.

Strategic role for the state. Both old and new developmentalism keep a strategic role for the state in defining with society a national development strategy; liberal orthodoxy limits the role of the state to assure property rights and contracts and to defend competition.

Planning. Old developmentalism asked for encompassing economic planning; liberal orthodoxy rejected it; new developmentalism asks for planning just for the monopolistic industries, particularly the ones that form infrastructure the economy and the ones on the mining area involving high Ricardian rents and strategic commodities like oil.

Fiscal Responsibility. Old developmentalism limited budget deficits to the moments of crisis in which insufficiency of demand was acute and accepted current account deficits; liberal orthodoxy rejected expansionary fiscal policy even in the downturn of the cycle, but also accepted current account deficits because they meant "foreign savings"; new developmentalism asks for fiscal as well as for exchange rate responsibility.

Interest and exchange rates. Old developmentalism paid little attention to the interest rate and the exchange rate or to macroeconomic policymaking and emphasized industrial policy (whose scope was broad enough to include macroeconomic issues); liberal orthodoxy also did not pay attention to these prices that are supposed to be market determined; new developmentalism rejects high interest rates and argues that the exchange rate tends to be cyclically and chronically overvalued.

Dutch disease. Old developmentalism had an intuition of the Dutch disease and neutralized it through multiple exchange rates regimes; liberal orthodoxy ignores it; new developmentalism sees it and excessive capital inflows as the two causes of the tendency of the exchange rate to be cyclically and chronically overvalued in developing countries;

Competitive exchange rate. Old developmentalism did not believe in the possibility of developing countries to export manufactured goods, and paid no attention to a competitive exchange rate; liberal orthodoxy assumes that the market exchange rate is the competitive one; new developmentalism bets on exports of manufactured goods and defines as competitive the "industrial equilibrium" exchange rate – the rate that makes competitive tradable industries utilizing technology in the state of the art.

Inflation. Old developmentalism adopted the theory of a structural inflation that explained it with structural supply bottlenecks and accepted inflations up to 20% a year; liberal orthodoxy sees no reason to developing countries to present inflation rates above international standards; new developmentalism agrees with that when the country is a middle income country because, in that case, supply bottlenecks have already ceased to be relevant.

Protection x exchange rate. Old developmentalism argued for strong tariff and also for multiple exchange rates in order to protect manufactured industries that were assumed to be "infant industries"; liberal orthodoxy rejects any kind of protection; new developmentalism assumes that in middle income countries manufacturing industry is not anymore infant, and sees no reason for protection for it, but asks for a competitive exchange rate.

Foreign constraint. Old developmentalism believed in the existence of a structural foreign constraint to economic growth – a permanent shortage of dollars or other reserve currencies; liberal orthodoxy strongly supported such claim; new developmentalism asserts that this constraint only exists in so far as a fully floating exchange rate tends to be chronically overvalued in developing countries, and explains this fact with the Dutch disease and with excessive capital inflows that are caused by such disease or natural resources curse, by the belief that middle income countries "need" foreign capitals, by the strategy of using the exchange rate as nominal anchor to control inflation, and by exchange rate populism – the practice of many politicians of fixing the exchange rate, what, in the short term, will reduce inflation, increase artificially wages, and facilitate their reelection.

Foreign x domestic savings. Based on the foreign constraint assumption, old developmentalism accepted the conventional policy of growth with foreign savings, i.e., with current account deficits and foreign indebtedness; liberal orthodoxy happily agreed; new developmentalism rejects such a policy, argues that there is usually a high rate of substitution of foreign for domestic savings, and stresses the permanent risk of currency crises involved; it asks for a growth strategy based on domestic finance and domestic savings; and it argues for current account surpluses when the country suffers from the Dutch disease, because when it is neutralized a surplus necessarily materializes.

Fix or float. Old developmentalism asked for firm control of the exchange rate but did not present a systematic argument in favor of that except that the appreciation of the exchange rate may cause a currency or balance of payment crisis; liberal orthodoxy asks for the free float and dismisses the probability of financial crises; new developmentalism rejects the “fix or float” alternative, and, based on the model of the cyclical and chronicle tendency to the overvaluation of the exchange rate, asks for a close management of the exchange rate through buys and sells of hard currency, capital controls, and taxes on the exports of the commodities that originate the Dutch disease.

Wage-led x export-led. While it was characterized by import substitution and the import coefficient was falling, old developmentalism was domestic market oriented, but not necessarily wage-led; liberal orthodoxy ignores the opposition wage x export-led growth; new developmentalism seeks the increase of exports of manufactured goods, but wants that wages increase with productivity.[23]

Social development. Old developmentalism was usually part of the strategy of an authoritarian regime that was involved in the national and industrial revolution of the country, and was essentially concerned with growth; liberal orthodoxy is just concerned with free markets because the market will take care of the rest; new developmentalism happens usually in new democracies and must be also a “social” developmentalism – a developmentalism that is also concerned with distribution.

Theoretical foundation. In making this threefold comparison, we believe that we made clear that new economic models serve as foundation of new developmentalism. Old developmentalism was founded in Keynesian macroeconomics and in the Structuralist Development Economics that were mainstream between the 1940s and 1960s; liberal orthodoxy, in neoclassical economics; new developmentalism draws on these theories, but adds new economic models that are forming a Structuralist Development Macroeconomics.

New developmentalism is not just a list of policies. It is an informal national development strategy – a sum of values, objectives, policies, laws, and, principally, understandings and compromises that create good investment opportunities to entrepreneurs and improve the standards of living of the population. Thus, some kind of consensus in a society regarding the policies that are chosen is essential. When these policies and their sustaining ideas are not imposed by force, we can assume that, despite problems of representation or agency, the social compact builds upon the nation, and has political support. In democracies, the implementation of (new) developmental states implies that the government adopts a developmental strategy that counts with the support of the people and of part of the elites – a broad support linking different parts of society, a support meaning that the different fractions or sections of social classes are able to make an unspoken or a tacit agreement for the purpose of national development.

No state fully conforms to the three ideal types of strategies that we described above. We know that governments in developing countries often adopt incompetent and irresponsible policies, independently of the fact that they are old developmentalist, liberal orthodox, or new developmentalist. What we are saying is that when developmental social agreement exists and the nation adopts a development strategy that nears the one sketched above, we can say that this nation is building a new developmental state. The existence of a social agreement does not mean consensus. The liberal and dependent elites and foreign interest will continue to oppose the state guidance of the economy and fight for liberal orthodoxy. It also does not mean that the agreement within the developmental class coalition is permanent. It must be constantly rebuilt, because the possibility that it breaks down or splits is always present. When this happens, the political agreement will be over, what will open room for class struggle, liberal dominance and social repression.

The New Developmental State is a form of state adapted to global capitalism, to a stage of capitalism where the economic competition among nation states is paramount. The role of the state is to create investment opportunities, invest when necessary, and regulate markets, particularly financial markets, to assure growth with price stability and financial stability. Development is seen not only as economic growth and industrialization, but also as reduction of social inequality and improvement in living standards.

A New Developmental State does not necessarily have to follow all the policy orientations that we presented, but it must have a national development strategy, backed by a development-oriented class coalition. This state has a strategic role in investing in in natural monopolist industries, in regulating financial markets, in inducing investment and technical progress, and in having social or distributive policies, particularly a large welfare system to assure quality of life for all. The aim of middle-income countries is to catch up with rich countries. While the liberal-orthodox strategy seldom is compatible with long- term growth, new developmentalism is a path to that aim. But the developmental state will be successful only in countries that have already completed their industrial revolutions.

New developmental and social states in Latin America?

Can we say, then, that a developmental state is back in in Latin America, and that this state tries also to be a social or welfare one? If so, can we say that it is a new developmental state that is in the making? Comparing synthetically just New Developmentalism with Liberal Orthodoxy, in relation to the role of the state, the later asks for just to assure property and contracts, the former, for a strategic role for the state; as to the exchange rate, a free and overvalued against a managed and in the "industrial equilibrium" currency; in relation to finance, foreign finance against domestic finance. Thus, to answer the question, we will take a look at recent policies related to these main topics. As New Developmentalism was thought considering middle-income countries, we will focus on Brazil and Argentina, and then make some remarks on the developmentalism of governments in the other countries (Bolivia, Ecuador and Venezuela).

In Argentina, president Duhalde certainly made developmental choices (with his Minister for Economy Roberto Lavagna, who served also under Néstor Kirchner until 2005). The Argentinian administration confronted orthodox interests and economic rules, established tariffs upon commodity exports and sought a surplus in current account that neutralized the Dutch disease. Néstor and Cristina Kirchner maintained this political course of increased economic intervention by the state. One recent example was the nationalization of the (Spanish) oil company YPF, decided by the Argentinian Chamber of Deputies with a great majority in May 2012. Although the president was criticized for her stile in pushing the topic without negotiation with the company, the decision had broad support both of the population and of the opposition. Other signs of New Developmentalism in Argentina were the policy of keeping the peso not overappreciated through the imposition of an export tax on commodities, current account surpluses, and the increase of public investments, and relatively high economic growth rates. Yet, like in Brazil, great part of export increases and current account surpluses were due mainly to primary goods exports. On the other hand, with the falsification of inflation indices and the diminution of current account surpluses as the exchange rate gradually again appreciates suggest that the country falls back to old developmental mistakes. As for industrialization, after a decade of decrease of GDP share in the 1990s, Argentinian manufacturing industry recovered in the 2000s: it had a share of 32,7% of GDP in 1991, 26,6% in 2001, but was back to 30,9% in 2010.[24] Poverty, that was at a level of 6,7% in 1992, and rose to 25,8% 2002 after the crisis, was tamed and reduced to the unprecedented level of 3,9% in 2009.[25]

In Brazil, president Lula tried to forge a huge social agreement for development involving workers, industrialists, social leaderships, and the state bureaucracy. The creation of the Council of Economic and Social Development[26] was the formal initiative in this direction. The adoption of a more active industrial policy, the strengthening of the BNDES[27], and the resumption of nationalist policies supporting national business enterprises were clearly developmental policies. The same must be said of his independent and active foreign policy. Yet, his administration was unable to face the prevailing high interest rates and the low exchange rate that were an inheritance of the previous dependent and liberal-orthodox administrations. Economic growth was high and current account surpluses materialized during Lula's administration, but this was mainly due to a strong rise of commodity prices combined with competent distributive policies, principally a 54% real increase in the minimum wage, that assured domestic demand to the manufacturing industry. Given the fact that growth rates practically doubled in the Lula administration, several old developmentalists interpret this fact as a sign of a wage-led growth. Yet, soon the domestic market was also supplied by imports, and in the last year of the Lula administration the manufacturing industry was back into crisis. Lula's great achievement was poverty reduction with income transfer programs. Absolut poverty rates, ranging at 31% in 1992, 28% in 2002 and went back only to

24,8% in 2005, decreased rapidly after that, being at 14,2% in 2009.[28] That is still a high rate, but with a noticeable improvement in comparison to the country's history.

Lula's successor, president Dilma Rousseff, acknowledges the economic macro-structuralist problem that leads to growth stagnation and deindustrialization. She developed a firm new developmentalist policy oriented to reduce gradually the interest rate and to depreciate the Brazilian Real. Today, Brazil is on a New Developmental path, but the government remains unable to tax the export of commodities – a condition for the neutralization of the Dutch disease and the achievement of high growth rates. This fact shows the difficulty that the government is facing in leading a new developmental agreement – a difficulty that originates in a relatively dependent and fragile industrial bourgeoisie (weakened by deindustrialization and denationalization during the neoliberal years) and in the new strength of a new and modern agricultural bourgeoisie supported ideologically by the liberal and dependent alternative political coalition.

In Venezuela, Bolivia and Ecuador, the other Latin American countries we wanted to take a look at, the situation is more difficult. They are leftwing and nationalist, they are implementing some developmental policies, they try to combine growth with distribution, and they nationalized some business enterprises (mainly oil industries and public utilities), but their starting point is completely different from middle-income countries.

In Venezuela, the economy depends mainly of the oil industry. Poverty, in general terms similar to Brazil, increased startlingly during the 2002/2003 oil strike and political and economic crisis (40% of the population lived with less than US$ 2 per day in 2003[29]). But, government increased social spending massively, especially in health care, subsidized food and education. Total social spending increased from 8.2% of GDP in 1998 to 13.6% in 2006, without considering social expenditure of the state oil company PDVSA, which contributed with 7.2% of GDP to social projects in the same year. The huge economic growth since 2004 was mainly due to the non-oil sector. Venezuela has taken advantage of the current expansion and increased oil revenues to reduce its public debt, especially foreign public debt (Weisbrot and Sandoval 2008). But, inflation is still high and the exchange rate tends to cyclical overvaluation.

In Bolivia, there are huge problems of primary goods dependence in addition to high poverty rates (still 32% with less than US$ 2 per day in 2007[30]). Developmental policies of president Morales included nationalization of industry and natural resources. Private funds were taken over and state pension was extended to millions of poor Bolivians[31]. Trade of goods and services balance changed from deficit to surplus since 2003. But, government`s social spending increased only slightly (Weisbrot et al 2009).

Ecuador's economy is also based upon the export of primary goods, like bananas, flower, shrimps and oil. Industry share of GDP was at 38% (2010), but manufacturing industry only at 10% (2010)[32]. Extreme poverty could be reduced from 31.4% in 2003 to 19.6% in 2009[33]. A new Constitution enabled changes, but, although there has been a certain increase of state control over oil activities and an attempt to increase the efficiency and to strengthen the state oil company, the dependence of the Ecuadorian economy on natural resources still remains.

To define the kind of state of a country, we have to look at the organization of its economic system, at the objectives and strength of the supporting social and political coalition, and at the financing of development. Those states are trying to be developmental, but they are poor and did not yet complete their industrial revolution. This means that the appropriation of economic surplus still depends on the direct control of the state. These countries are non-consolidated democracies, they are still economically weak and dependent of commodity exports and the Dutch disease and excessive capital inflows keeps their exchange rate cyclically and chronically over-appreciated. Developmental class coalitions are more difficult to occur in such countries, where interests diverge radically between export-oriented rentiers and workers and peasants, when there is no mediation by a common national development interest that gathers around the domestic market and a broad industrial base. Without the necessary broad political support of parts of the ruling classes (principally of the industrialists), and without the respective industrial basis, these countries are very difficult to govern in the current context of global competition.

Summarizing, yes, we have a return of developmentalism in Latin America. Middle-income countries like Brazil and Argentina are experimenting with what we call New Developmentalism, and are trying to build a New Developmental and Social State, which is the developmental state adapted to global competition and to democracy. In the poorer countries with no industrial basis, developmentalism and active social policies is also being implemented in Latin America, but its chances of success of the former are relatively low due of the classical political poverty trap: low levels of education, poor ideological identification, difficulty in coming to broad social agreement or political pact associating industrial entrepreneurs, the public bureaucracy and workers, and the disposition of traditional elites to overthrow progressive governments in the first opportunity that appears. This plus the difficulty in financing investments with domestic savings makes governing such countries very difficult, and explains why is rare that in poor countries governments are successful.

Countries in such conditions have no alternative than to recur to political populism – the direct contact of the chief of the state with the masses. Per se, this was not bad; political populism is initially the basic way that the poor participate in politics. The problem is when political populism turns economic populism, into irresponsible fiscal and exchange rate policies. Today this is not a central problem for these three poorer countries. All Latin American countries face the opposition of rich countries and their hegemonic culture, but the poorer ones will have more difficulty in implementing real developmental states, because, besides their internal weakness, they depend on foreign finance which comes from institutions and countries that oppose developmentalist or nationalist policies.

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[1] For a discussion on East Asian developmental states and how they adapted to new circumstances, see Wong (2004).

[2] A country "completes" its capitalist revolution, or, in other words, its national and industrial revolution, when it turns into a market economy where a new and dominant class, the bourgeoisie, appropriates the economic surplus in the market under the form of profits, and a large professional middle class is already present and shares power with the capitalist class.

[3] By "structuralist development economics" we mean the theories that were developed between the 1940s and the 1950s by economists like Rosenstein-Rodan, Ragnar Nurkse, Gunnar Myrdal, Raul Prebisch, Hans Singer, Arthur Lewis, Celso Furtado and Albert Hirschman.

[4] The "New Left", the term used to described left-wing politicians and coalitions elected in Latin America since 1999, is generally used for Argentina, Bolivia, Brazil, Chile, Ecuador, Uruguay and Venezuela, since these countries had a shift to the left (see, for instance, the articles in Natanson (2008) and Arnson et al. (2009). We believe that "nationalist new left" describes more accurately what is happening in these countries.

We will concentrate on the mentioned countries because the changes in the economy affecting international industrial competition were greater there.

[5] Although some women managed to vote and be elected before, women`s vote was regulated and allowed unrestrictedly in Brazil only in 1934, and illiterate people were allowed to vote only after 1988.

[6] The exporting agricultural and mining elites usually do not participate from a developmental class coalition because they benefit from Ricardian rents that originate the Dutch disease or the natural resources curse – a market failure that makes the exchange rate permanently overvalued. In order to make the exchange rate competitive and industrialize, the development state is supposed to tax directly or indirectly the commodity exports – something that the agricultural and mining elites do not accept.

[7] Maria da Conceição Tavares (1964) had already declared the exhaustion of the import substitution model in Brazil in the 1960s. Brazil's exports of manufactured goods increased from 6% of total exports in 1965 to 60% in 1985. The closure of the country to imports of computers, always cited as proof that the import subsitution strategy was still pursued by the developmental state in the 1970s and 1980s, existed, and was a mistake, but IT was a minor industry at that time.

[8] Source: Portella Filho, 1994.

[9] See Levine (1985).

[10] The classical analysis of this crisis as well of the Martinez de Hoz led crisis in Argentina, in 1979-80, was made by Carlos Diaz-Alejandro (1981). The Chilean finance minister that adopted more sensible economic policies and eventually straight out the Chilean economy after the disaster caused by the Chicago Boys in 1982, but still under the Pinochet dictatorship, was Hernán Büchi (1985-89).

[11] North American Free Trade Agreement. It was signed by the United States and Canada in 1988; by Mexico, in 1992; and turned effective in 1994.

[12] Partido Socialista Unido de Venezuela, created in 2008 uniting parties which support Chávez and the Bolivarian Revolution.

[13] Partido dos Trabalhadores.

[14] Partido Justicialista.

[15] Movimiento al Socialismo.

[16] Also, Tabaré Vázquez in 2005 in Uruguay (and after him in 2010, José Mujica), Michelle Bachelet in 2006-2009 in Chile, and Rafael Correa in 2007 in Ecuador.

[17] Actually, not a newcomer.

[18] Frente Farabundo Martí para la Liberación Nacional.

[19] Alianza Patriótica por el Cambio.

[20] Partido Nacionalista Peruano.

[21] Fifth edition of *Development and Crisis in Brazil* (Bresser-Pereira 2003).

[22] See www.tenthesesonnewdevelopmentalism.org.

[23] In a steady state condition, when the rate of investment and the rate of profit are seen by society as "satisfactory", wages, profits and exports will grow approximately at the

same rate, while the exchange rate is kept competitive; only when it is necessary to depreciate the exchange rate, exports and profits will increase faster than wages for some time, before wages increase more.

[24] Data of World Bank (World Development Indicators) compiled by European Commission, 2010

[25] Data of Cepalstat, population living with less than US$ 2 per day. http://websie.eclac.cl/sisgen/ConsultaIntegradaFlashProc.asp#, acsessed at 06/15/2012

[26] Conselho de Desenvolvimento Econômico e Social (CDES), also known as “Conselhão”.

[27] Banco Nacional de Desenvolvimeno Econômico e Social (BNDES), National Bank for Economic and Social Development.

[28] Data of Cepalstat, population living with less than US$ 2 per day. http://websie.eclac.cl/sisgen/ConsultaIntegradaFlashProc.asp#, acsessed at 06/15/2012

[29] Idem.

[30] Idem.

[31] http://www.bbc.co.uk/news/world-latin-america-12166905

[32] World Bank Indicators, http://data.worldbank.org/indicator/NV.IND.TOTL.ZS/countries and http://data.worldbank.org/indicator/NV.IND.MANF.ZS.

[33] Data of Cepalstat, population living with less than US$ 2 per day. http://websie.eclac.cl/sisgen/ConsultaIntegradaFlashProc.asp#, acsessed at 06/15/2012