

## REFLECTIONS ON NEO-DEVELOPMENTALISM IN THE LIGHT OF THE LULA'S GOVERNMENTS

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**Abstract.** Since the mid-2000s, the maintenance of the orthodox macroeconomic regime of the Lula's governments surprised several intellectuals in the applied social sciences sector. What marks Lula's government, especially, are two characteristics: *i*) the economic growth with the commodities boom or the commodities super cycle, and *ii*) the fight against poverty. This second phenomenon propitiated for a group of intellectuals to formulate the thesis that Brazil would be in a process of "social developmentalism". On the other hand, a fraction of economists met to formulate a new theory, the "new developmentalism", criticizing the process of de-industrialization, debt crisis and external dependence that occurred in Brazil. These two theoretical currents formed what some academics called "neo-developmentalism". This article proposes to make a critical reflection and differentiation on the two currents.

**Key words:** economic development; Latin America development; new developmentalism.

**Clasificación JEL:** O10; N96; L50; B22; B50.

## REFLEXIONES SOBRE EL NEO-DESARROLLISMO A LA LUZ DE LOS GOBIERNOS DE LULA

**Resumen.** Desde mediados de la década del 2000, el mantenimiento del régimen macroeconómico ortodoxo de los gobiernos de Lula sorprendió a varios intelectuales del sector de las ciencias sociales aplicadas. Lo que marca al gobierno de Lula, especialmente, son dos características: *i*) el crecimiento económico con el boom de los *commodities* o el súper ciclo de las *commodities*, y *ii*) la lucha contra la pobreza. Este segundo fenómeno propició que un grupo de intelectuales formulara la tesis de que Brasil estaría en un proceso de "desarrollismo social". Por otro lado, una fracción de economistas se reunió para formular una nueva teoría, el "nuevo desarrollismo", criticando el proceso de desindustrialización, crisis de deuda y dependencia externa que ocurrió en Brasil. Estas dos corrientes teóricas formaron lo que algunos académicos llamaron "neo-desarrollismo". Este artículo propone hacer una reflexión crítica y diferenciación sobre las dos corrientes.

**Palabras clave:** desarrollo económico; desarrollo de América Latina; nuevo desarrollismo.

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## 1. INTRODUCTION

The debate about the concepts of development since the 2000s, propitiated by the rise of progressive leaderships in Latin America, has returned to the agenda of intellectual and political discussion. This is because, since the mid-1980s and especially in the 1990s, most Latin American countries have low economic performance and precarious social conditions with high rates of unemployment, misery and social inequality. Furthermore, the countries of the region have not known how to manage integration into the globalized world and suffered deindustrialization, denationalization and “reprimarization” of their productive structure.

There have been some positive changes since 2000s due to the improvement of social and economic indices. Latin America has begun to show growth in its Gross Domestic Product (GDP) higher than that of some central economic regions, for example the Eurozone. The rise of progressive governments in Latin America, a phenomenon called the “pink tide” (Saad-Filho, 2016), brought with it the developmental hope that the region would finally adopt policies of sophistication, expansion and integration of the productive structure and increased competitiveness in the international market. Latin America once again lived in the hope that it would abandon orthodox macroeconomics, cease to be a continent that exports predominantly commodities and is under the domain of rentiers.

It was not necessarily the return of the policies proposed by classical developmentalism, such as the model of import substitution industrialization (ISI) to complete the process of sophistication of the productive structure, or the consolidation of national productive forces without the participation of foreign capital. Nevertheless, “neo-developmentalism” rescues the thesis that it is possible for Latin American countries to achieve catching-up and break out the “middle income trap”, leading the region to overcome dependence and economic underdevelopment within the capitalist system (Bresser-Pereira, 2014; Leão and Vaz, 2019).

It is possible to affirm that in the theoretical field, “neo-developmentalism” presents itself as a tangle of several currents of historical-structuralism; a heterogeneous set of economic projects that have in common the understanding of the need to break with the orthodox project and the resumption of the State as a creator of socioeconomic opportunities. The two main currents in Brazil are social developmentalism and new developmentalism.

In this article, we discuss the strategic changes promoted within the developmental thinking from its classical formulation, and, thus, to explore the

new paradigms proposed by neo-developmentalism. Then, we will analyze the question whether the latter has deeper limits than those present in its classical formulation.

The article has, besides this introduction, five sections plus the final remarks. In section 2, we briefly present classical developmentalism and its replacement by neoliberalism in Brazil. In section 3, the article addresses some points of public policies and macroeconomics when the Partido dos Trabalhadores was in power in Brazil. In sections 4 and 5, the paper presents the two currents that claim to be heirs of classical developmentalism in Brazil: social-developmentalism, a current that, as we will see, has close ties with the Lula government; and the new developmentalism, critical of the Worker's Party project. Finally, in section 6, the paper makes a comparison between these currents and, later, we present the final considerations.

## **2. CLASSICAL DEVELOPMENTALISM AND ITS CRISIS**

Initially, developmentalism, as a theory in Latin America, emerged as a synthesis of Latin American structuralist thought, whose main exponent was the Economic Commission for Latin America (ECLAC). Among its references are the works of Raul Prebisch and Celso Furtado who, through criticism of international trade, demonstrated that the neoclassical theory of comparative advantages was not necessarily applicable to Latin America, given the fact that productivity was essentially higher in countries in which the productive structure was predominantly industrial (Prebisch, 1949; Furtado, 1965).

It was necessary, therefore, to overcome the dichotomy of the center *versus* the periphery as well as the end of the reproduction of the cycle of poverty present in underdeveloped countries. Underdevelopment is not a predecessor phase of development. Economic development would not come through a "natural" and mechanical cycle of economic growth. Underdevelopment is a specific condition capable of being overcome with the expansion, integration and sophistication of the productive structure, combined with the expansion of the domestic market through a strategy designed with the leading role of the State, not leaving the economy to the will of market forces as the neoclassicist affirmed.

Bielchowsky (1995) summarizes very well the thought of developmentalism in Brazil, which has similarities with the strategy of other Latin American countries:

We understand by developmentalism, in this work, the ideology of transformation of Brazilian society defined by the economic project that is composed of the following fundamental points:

- a) integral industrialization is the way to overcome poverty and underdevelopment in Brazil;
- b) there is no way to achieve an efficient and rational industrialization in Brazil through the spontaneous forces of the market; therefore, it is necessary for the State to plan;
- c) planning must define the desired expansion of the economic sectors and the instruments to promote this expansion; and
- d) the State must also order the expansion, by capturing and guiding financial resources, and by promoting direct investments in those sectors where private initiative is insufficient (Bielchowsky, 1995, p. 7).

The consolidation of these economic policies, in the structuralist interpretation, would lead to the reinforcement of an “autonomous national bourgeoisie” that would play a crucial role in the construction of the Latin American nations, making them capable of resisting the forces of international competitiveness.

If before the 1950s industrialization began to occur at an accelerated pace in Latin America, after the military coups the association of national elites with the international elite took place. Thenceforward, from the decade of 1970, stagnation and economic crisis began to ravage the continent. After the oil crises, the Latin American countries found themselves completely indebted to their international creditors with low growth, so there was no horizon for economic development.

Brazilian history was not different from the rest of the region, suffering a debt that plunged the country into the so-called “Lost Decade” in 1980. The Brazilian option, and the alternative of most of the Latin American countries, was to grow with foreign savings and a large part of the debt suffered a dramatic increase due to the floating interest rates.

Due to international pressures, Brazil adopted liberalizing policies formulated by the Washington Consensus.<sup>1</sup> These policies start from the following premises, according to Belluzzo (2009):

<sup>1</sup> Washington Consensus is a set of measures formulated in the late 1980s by economists from the World Bank's IMF and the US Treasury founded by John Williamson that in the 1990s became the official policy of the IMF and its prescriptions.

1) price stability would create conditions for long-term economic calculation, stimulating private investment; 2) trade liberalization (and currency appreciation) would impose competitive discipline on domestic producers, forcing them to achieve substantial productivity gains; 3) privatizations and foreign investment would remove supply bottlenecks in industry and infrastructure, reducing costs and improving efficiency; 4) currency liberalization, associated with predictability in the evolution of the real exchange rate, would attract sufficient “foreign savings” to complement the domestic investment effort and to finance the current account deficit; 5) the overflow of income and wealth, promoted by the new dynamism stimulated by the markets and by the targeted action of social policies, is the most efficient way of reduce inequality and eliminate poverty (Belluzzo, 2009).

This political vector, in the Brazilian case, began with the Collor government (1990-1992) and became more radical with the rise of Fernando Henrique Cardoso (FHC) to the presidency (1994-2002). Since FHC's election, control over the flow of capital in and out of the country has ceased. In addition, privatization, economic financialization and trade liberalization advanced. This has brought to the Brazilian context several impacts on important industrial segments, with sales and mergers of national companies (public and private), as well as the increase in the process of denationalization or reconversion of activities for the assembly of imported components (Moraes, 2021).

At that moment, the Brazilian industry was going through a moment of complete instability. It is important to mention that if we are limited to observing the indices of industry productivity, it is not possible to verify the phenomenon of deindustrialization in the 1990-2000s. Since even if there was no industrial policy or a clear development project, there was an increase in productivity, except in the manufacturing industry, as Squeff's article shows:

With regard to the variation of labor productivity, [...] it shows the low dynamism of the Brazilian economy as a whole, given the growth of only 0.8% p.a. between 1995 and 2008. In the manufacturing industry, the result was even worse, with a negative average annual variation of 0.2% p.a., in this period. As services remained virtually stagnant, the labor productivity of the economy as a whole was the result of the excellent performance of agriculture (5% p.a.) and mining (3.5% p.a.) (Squeff, 2012, pp. 32-33).

However, regarding the share of GDP, according to the Brazilian Institute of Geography and Statistics (IBGE), the participation of the manufacturing industry ranged from 17.5 to 16.9%, between 1990 and 2003 (Feijó *et al.*, 2005). Of all these factors in the economic policy of the 1990s, we can consider that the concept of deindustrialization does not fully explain the conjuncture of those times, since the total share of industry in GDP, although stagnant, has not regressed. On the other hand, we can highlight the use of another concept to explain the industrial context of the 90s, that of “relative deindustrialization” or a “selective debugging”, a term used by Diniz and Boschi (2004).

The consolidation of the neoliberal injunctions as vectors of national policy contrasted with low economic performance rates, with the GDP between 1995 and 2002 growing at an average rate of 2.3%. The FHC’s administration started with a public debt of 23% out of the GDP, reaching in 1998 about 35% of the GDP (Sallum Júnior, 1999). Social inequality reached its peak and the minimum wage reached their lowest level in history since its creation, causing a situation of great instability (Corsi, 2014).

These phenomena concretely signal the loss of power by the “national industrial bourgeoisie” in the face of the entry of foreign capital into the country, appropriating the productive forces built during the era of national development and attacking workers’ rights as never before (Filgueiras and Gonçalves, 2007). Despite the weakening of the national development project, as well as the growing dependence, questions about the neoliberal development project and the deepening of social inequalities managed to get space on the agenda only after the Partido dos Trabalhadores<sup>2</sup> (PT) ascension to the presidency in 2003.

### 3. THE PERFORMANCE OF THE PARTIDO DOS TRABALHADORES (PT)

Despite low growth, compared to Brazil’s periods of development, Lula’s government achieved growth rates relatively higher than the rates obtained by the previous president, especially when compared to FHC’s second term. Although Lula’s government did not undergo major transformations in terms of growth rates, the few improvements presented motivated its allies to believe

<sup>2</sup> In a direct translation: Workers’ Party.

or to propagate the view that Lula's administration had begun a process of rupture with the previous government and with neoliberalism (Boito Júnior, 2007).

Apparently, at the beginning of its administration, the Lula government embraced FHC's neoliberal economic strategy, despite criticizing its "cursed heritage". This became more evident when Henrique Meirelles, economist adept of conventional orthodoxy, assumed the presidency of the Central Bank (Carcanholo, 2010). The government, with its argument that it was not possible to "change treatment in the midst of illness", chose to respond to the evils of orthodox politics with more orthodoxy (Sader, 2007).

Despite this choice, which was also influenced by external pressures in 2002 due to the huge capital flight, because of the "fear" that the financial sector would have of changes that would be possibly applied by PT. In the first year of government, sectors allied with PT celebrated the inversion of the trade balance, which turned into a surplus. We can also observe a relative increase in social expenditure under PT's management. The total number of formal jobs (registered) under the Consolidation of Labor Laws in Brazil (CLT) has increased to 10.8 million<sup>3</sup> in the labor market; almost double that of the period 1990-2002.

These characteristics of the Lula government, at first sight, could indicate that Brazil had resumed the course of developmentalism and would have made a break with the condition of a dependent country. Barbosa's (2013) thesis separates Lula's administration into at least two phases: before 2006 and after 2006, because until this year little changed in terms of macroeconomic management. The main changes would occur after 2006, with the entry of Guido Mantega to the Ministry of Finance and, mainly, after the international crisis in 2008 (Barbosa, 2013).

The entry of the PT brought an appreciation of the minimum wage, which until the end of Lula's administration, had increases by 53.67%. Furthermore, there was the implementation of income transfer policies, such as "Bolsa Família" (*family allowance*), the democratization of credit and a timid agrarian reform, which contributed to the dynamism of the rural economy and to the reduction of social inequalities. Consequently, in the first term of Lula's government, there was a clear reduction of poverty and increase in consumption, with partial macroeconomic stability and GDP growth (Castro, 2012).

<sup>3</sup> It is important to emphasize that most jobs created were in the area of services, extractivism and lower value-added industry (Squeff, 2012).

On the other hand, the economic and political damage of maintaining the orthodox macroeconomic tripod was visible. One of the main limits consolidated from the macroeconomic tripod was exchange rate policy. Despite the prescriptions of the Washington Consensus economists who advocate a “floating” exchange rate policy, this has not generated good results for the industrial sector, since the Brazilian exchange rate has usually remained appreciated.

In other words, Brazil suffers from a problem called “cyclical overvaluation of the exchange rate”. It is one of the reflexes of the “Dutch disease” or “Natural Resource Curse”.<sup>4</sup> The appreciation of the exchange rate, caused by various factors—for example by the exchange rate anchor or by the process of increasing the foreign exchange reserves (forex reserves)—is not only a reflection, but also deepens the Dutch disease.

The financialization of the economy adds another factor of influence to exchange rate policy. This is because the appreciation of the currency guarantees an increase in the liquidity of financial capital, thus favoring the financial system (Bresser-Pereira, 2014). Consequently, this makes it difficult to neutralize the Dutch disease, as the State starts to carry out policies to benefit the financial and rentier sectors. In Brazil, the result was the increase in current account deficits and the increase in the foreign debt, until it became uncontrolled, generating the crisis of 1999. Nevertheless, it is important to mention that the reason for the exchange rate appreciation is not only due to the appreciation of the fictitious financial capital, but there are, also, social reflexes.

Whenever there is exchange rate appreciation, the upper class, which measure their wealth in dollars, see it increase due to the greater parity with the dollar. The middle class, in turn, which is a major consumer of imported products, has a greater purchasing power. The poorest classes, finally, have the value of most products in their consumer basket reduced. Presumably, we can see that among the reasons for the exchange rate appreciation, there is “exchange rate populism” executed to please certain sectors of society (Bresser-Pereira, 2014).

<sup>4</sup> According to Bresser-Pereira (2016 and 2018), Dutch disease can be characterized when a country suffers from the long-term overvaluation of the exchange rate. This occurs because their commodities are benefiting from Ricardian rents and/or subject to price booms, so they can be exported with a profit at an exchange rate (industrial equilibrium) that is substantially more appreciated than the exchange rate necessary for companies of non-commodity goods. With the Dutch disease, the nominal or market exchange rate fluctuates around a lower balance, the current one, impeding or hindering the industrial sector to be competitive.



The maintenance of this “exchange rate populism”, in the long term, brings another negative phenomenon to the Brazilian economic structure: the process of deindustrialization. It is responsible for the deepening of economic vulnerability and the low dynamism of the Brazilian economy (Squeff, 2012). Another policy that negatively affected the country at that time was the appreciation of the interest rate (Selic rate in Brasil). High interest rates brought speculative capital to the country, but on the other hand, increased the State's indebtedness. This reduced the state's “room for manoeuvre” to increase investments in physical and social infrastructure. The attempt to solve Brazil's economic problems in order to reintegrate the country into the axis of economic growth depended heavily on the external environment (Gonçalves, 2002).

Considering this from another angle, since fiscal policy maintains a high interest rate, the State needs to avoid increasing public indebtedness. The high interest rate attracts rentier capitalists who profit from the national treasury bonds. At the same time, rentier capitalists demand total liquidity and zero risk, thus demanding fiscal responsibility and the generation of primary surpluses from the State. In order to fulfill its commitments to rentier capitalists, the State takes resources from taxes, which should go to investments in social and physical infrastructure. The rentiers, therefore, make an imprisonment of politics through debt. It is a capture of power.

By limiting State expenditures, orthodox macroeconomic policy also “plasters” (stop) the investment rate (Gonçalves, 2013). The central criticism of this harmful cycle to the Brazilian economy arises precisely with the neo-developmentalism current, as will be demonstrated later.

Whether or not the Lula's government represents a real break with the orthodox model, it helped influence what would later become a rich debate in the field of Latin American structuralist economic thought. The rise of the State as the protagonist of public policies to combat poverty, serving, until then, marginalized sectors of society, demonstrated that it was again possible to think about new models of economic development in Brazil. The PT directly influenced one of these recent models of economic development. It is social developmentalism. It was born from intellectuals and militants linked to the PT. The model had direct action during the government of Lula and Dilma Rousseff in Brazil.

#### 4. SOCIAL DEVELOPMENTALISM

Social developmentalism as a theory has, among its collaborators, predominantly intellectuals from the University of Campinas (UNICAMP) and intellectuals linked to the PT. Unlike new developmentalism, as we will see in the next section, social developmentalism has its reflections more scattered and its analytical contours are still unfinished. However, we can characterize it as a developmental thought whose main contribution is social inclusion as an axis to overcome underdevelopment (Rossi, 2015). This axis is also a break with classical developmentalism. Carneiro (2012) presents:

The reflections involving social developmentalism are still fragmented and with less academic insertion, resulting in much of partisan debates and government policies. Its key idea is the definition of the social as the axis of development, that is, it proposes an inversion of priorities in relation to the old and the new developmentalism in which the development of productive forces was the main objective to be achieved (Carneiro, 2012, p. 773).

Lula's government, by the interpretation of the intellectuals of social developmentalism, had as its center growth with social justice. Lula's social developmentalism agenda would surpass both classical developmentalism and neoliberalism. This would be a new strategy in Latin America with regard to social development and the fight against inequality (Mercadante, 2010).

Social developmentalism emphasizes a development strategy centered on expanding the domestic market, more specifically on the amplification of the mass consumption market. What predominates in social developmentalism is the growth regime based on investment and wage-led growth strategy.

Carneiro (2012) believes that social developmentalism arose in a favorable context; it being a strategy forged to exploit the potential of the domestic market in a timely manner, but would have structural limits that should be complemented later:

Given the high concentration of income observed in Brazil as well as the low level of household indebtedness, the strategy proposed above can boost the economy for a considerable period, but it will inevitably lose momentum over time. It must, of course, be supplemented or supported by other dynamic axes, in particular that of autonomous investment. The expansion of the infrastructure and its productive chains is one of the driving forces. There is clearly a repressed demand for economic and social infrastructure in Brazil and its expansion will be an addi-

tional autonomous element of growth due to the indivisibilities of this sector – as it happened in moments of accelerated growth during national developmentalism (Carneiro, 2012, p. 775).

Therefore, the success of social developmentalism would depend on the ability to create jobs, to do the expansion of the domestic market and to adopt restrictions on foreign trade. This last point is important, because the increase in purchasing power without an effective policy of productive restructuring and industrialization leads to an increase in the consumption of imported products, increasing the trade deficit. According to Carneiro (2012), to overcome a negative balance of trade, social developmentalism needs to treat the economic and social infrastructure in different ways.

Economic infrastructure would give the private sector the possibility to make a profit, allowing the State to make partnerships that would encourage private investment. Social infrastructure, on the other hand, cannot expand only through private sector investment. Here the role of the State is fundamental. The private sector would always be in favor of increasing productivity, which would be contrary to the social developmentalism model. Carneiro (2012) understands social developmentalism as a strategy with different degrees of priority:

In light of what has been discussed and the recent experience of Brazilian development, the Social-developmentalism strategy comprises four distinct and necessarily complementary axes, but which have been implemented with different degrees of priority and maturity: i) the improvement of the income distribution; ii) expansion of economic and social infrastructure; iii) reindustrialization through chain condensation; iv) the expansion of the sector based on natural resources (Carneiro, 2012, p. 776).

In this case, social infrastructure would depend exclusively on the leadership role of the State and public resources. This characteristic made Bastos (2012) call social developmentalism “State-led distributive developmentalism”. In the author’s view, the term social developmentalism signals an agreement between economic development, public and private financing and social distribution. This is false, as there is a lack of interest from the private sector in financing social distribution and income. Thus, the term State-led distributive developmentalism would be more concrete and real to designate the model.

The full realization of any of the expansion frontiers requires an expansion of State planning, but also the provision of fiscal resources. Thus, the financing needs of the demands of economic and social development requirements are not as easily reconciled as the use of the term Social developmentalism seems to imply. Thus, I prefer a term that suggests a less rigorous harmony or unity, such as State-led distributive developmentalism (Bastos, 2012, p. 797).

Finally, social developmentalism is a growth model based on the investment and wage-led growth strategy. Social developmentalism advocates the increase of the salary for a development by the consumption of masses, greater public investment in economic and social infrastructure.

This model, partially adopted by the Lula government, resulted in changes in the structure and organization of social classes in Brazil. According to Singer (2012 and 2015), there was the rise of a new social class: the subproletariat. This is a fraction of Brazilian population in extreme poverty that could not even reach the condition of proletariat. Lula's Social developmentalism has placed this mass of people within the consumer and labor market.

This model has not been free of criticism both in the orthodox and heterodox field of the economy. In the heterodox field, one of the main criticisms came from the new developmentalism model.

## 5. NEW DEVELOPMENTALISM

As mentioned, it was only in the 2000s that neoliberalism would be questioned through the rise of several progressive leaders in Latin America. Initially, there was an improvement in GDP growth rates and social indices in most Latin American countries. However, is it possible to say that this growth has its origin in the protagonism of the State? It is possible to affirm that this is a result of the increase in demand for commodities from Asian countries, especially from China. The commodities super cycle provided the means, pink tide governments executed.

Despite the fact that economic stabilization has been a reflection of external forces, part of the neo-developmentalism literature demonstrates a relative concern that Latin American economic growth is occurring along with the loss of technological complexity, that is, deindustrialization, denationalization and "reprimarization" of the productive structure of the economy (Gala, 2017). Then, arises the new developmentalism within the heterodox field of economics. It proposes an economic strategy that, inspired by the Asian expe-

riences, opposes the conventional orthodox models, but also the social developmentalism model.

New developmentalism is a “third discourse” between the old developmental discourse and conventional orthodoxy. It is the alternative to conventional orthodoxy that has been developing in Latin America since the early 2000s, with the participation of Keynesian economists and development economists. Its proposals is predominantly macroeconomic and derive from a “structuralist macroeconomics of development” that is being defined by critical Latin American economists, using the Asian experience as a parameter (Bresser-Pereira, 2012, p. 43).

New developmentalism would be an economic and political theory that emerged with the intention of “explaining progress or human development” (Bresser-Pereira, 2016, p. 238), and then, formulating a strategy to break with external dependence.

The first premise of the new developmentalism theory emerged with Luiz Carlos Bresser-Pereira, its main formulator, in an article published by the *Folha de São Paulo* newspaper in 2004. The article was “The new developmentalism”. According to the author, new developmentalism is a new economic theory that emerged with the aim of organizing a new developmental strategy for Brazil. This has to be different from Classical developmentalism and offer a way for Brazil to realize its catching-up and break out the “middle income trap”.

New-developmentalists theorists do not ignore the role of classical developmentalism neither as a historical phenomenon nor as an economic theory. However, they do believe that the historical moment is different, with new challenges, consequently, new theories are needed. In the words of Bresser-Pereira (2004, p. 2): “Brazil needs a new developmentalism not because the old one was wrong, but because the country is in a different phase of development, it lives a new reality, and it faces new challenges”.

There are also differences in the international context, where the country would need more support from the private sector, and the State would have a different role to play. In summary, there are three major differences between the periods:

The old developmentalism was based on the import substitution model and, therefore, on the trade protection. Nowadays, the great protectionists are the rich countries. Brazil is interested in continuing to open its trade and market, albeit in a negotiated way, with due reciprocity, in order to be able to export. Second,

Brazil already has a reasonably installed economic infrastructure, so there is no longer any need for the State to invest directly in industries such as steel or petrochemicals, which the private sector can do better. Third, concerning about macroeconomic stability is more necessary today than in the past due to the instability caused by international capital flows. In short, the market and the private sector now play a more important role than between 1930 and 1980: the form of planning must be less systematic and more strategic or opportunistic, in order to allow national companies to compete in the globalized economy (Bresser-Pereira, 2004).

In other words, in classical developmentalism, industrial policy and State action are fundamental. It is an economic developmental model based on productive structural change via ISI and debt-financed investment-led growth strategy. New developmentalism, in turn, gives more importance to the market, the State coordinates investments, but the market executes them. The State has to reject fiscal deficits and avoid inflation at all costs. The expansion of the domestic market happens in the wake of the increase in exports. New developmentalism is investment and export-led growth strategy (Bresser-Pereira, 2010; Bresser-Pereira *et al.*, 2016; Moraes and Ibrahim, 2020).

Despite the greater role of the market in the interpretation of the new developmentalists, they do not exclude the need for a strong State in parts. In the introduction of the work *New developmentalism - A national project of growth with social equity* entitled “Why new developmentalism?”, written by Sicsú *et al.*, the role of the State in the economy appears:

Without a strong State, monopolies tend to establish themselves, bringing to the entrepreneurs the sensation of an easy profit and disrespect for the need to reduce prices and improve the quality of their production. Without a strong State, the market would be anemic, creating a situation in which entrepreneurs settle in and lose the revolutionary impetus for innovation, cost reduction and the quality of the goods they produce. Keynes estimated that the State would be able to arbitrate and stimulate competition and, in addition, to influence decisively on the most relevant economic variables, among them, unemployment and the distribution of income and wealth (Sicsú *et al.*, 2005, p. XXXIX).

Consequently, for new developmentalism, the model does not have to have a strong State with a weak market. Both the State and the market need to be strong. Since they would fulfill relatively different roles in the economy (Sicsú *et al.*, 2005).

New developmentalism, even with differences from classical developmentalism, still believes that the way to overcome underdevelopment, full employment and the reduction of inequalities lies in the expansion, integration and sophistication of the productive structure. This, however, can happen differently depending on each case. In the case of Brazil, a middle-income country, there is no more room for ISI and debt-financed investment-led growth strategy. An investment and export-led growth strategy is needed. The latter model has its advantages according to Bresser-Pereira:

There are two major advantages of the export model over import substitution. Firstly, the market for the industries is not limited to the internal market. Second, if the country adopts this strategy, the economic authorities, which are making industrial policy in favor of their companies, have an efficiency criterion on which they can rely: only companies that are efficient enough to export will benefit from the industrial policy [...] (Bresser-Pereira, 2012, p. 47).

In relation to the orthodox, new developmentalism would present, since its inception, much more criticism and divergence, one of them in relation to the concept of “macroeconomic stability”:

In contrast to conventional orthodoxy, the differences are much deeper. First, while one is a development strategy, the other is a “kicking the ladder” strategy; it is a non-conspiratorial but effective strategy of disorganizing the national States of countries competing in the global arena with cheap labor force. There is a common point between the two perspectives: both new developmentalism and conventional orthodoxy are favorable to fiscal equilibrium, but the motivation is different [...]. The disagreement between the new developmentalism and conventional orthodoxy begins with the definition of macroeconomic stability. Unlike conventional orthodoxy, which is concerned only with inflation and fiscal balance, new developmentalism is also concerned with the equilibrium in balance of payments, and reasonable full employment (Bresser-Pereira, 2004, p. 3).

In orthodoxy, the role of the State in the peripheral countries is minimal due to association with the international bourgeoisie. In the new developmentalism, the State resumes its protagonism and expands the concern with macroeconomic stability with the constant monitoring of the five macroeconomic prices: the exchange rate, the interest rate, the wage rate, the inflation rate, the profit rate. In addition, of course, the State is concerned with the reduction of social inequalities.

## **6. DISAGREEMENTS BETWEEN THE TWO CURRENTS OF NEO-DEVELOPMENTALISM**

Bastos (2012) defends social developmentalism by accusing new developmentalism with breaking with the centrality of Latin American structuralism. In the author's view, new developmentalism believes in the ability of the private sector to lead development through efficient market allocation. It would be enough for the State to control the five macroeconomic prices. In his words:

According to Bresser-Pereira (2012), the central argument of the export developmentalism of the private sector is that, in contemporary Brazil, companies would already have sufficient technological capacity and financial resources to invest in industrial sectors with high technological intensity for the foreign market. The emphasis of classical structuralism, firstly, on the direct intervention of the State, secondly, on the integration and diversification of the domestic market as the primary source of growth, would be antiquated. Thus, the fundamental action of the State would be to ensure correct macroeconomic prices (interest and exchange, above all). It can be said that this developmental trend shares with neoliberalism, in a minor tone, the valorization of the private sector and exports as engines of growth and the devaluation of the role of the State as banker and investor, although it does not devalue the role of the State as a driver development strategy (Bastos, 2012, p. 789).

For Bastos (2012), the limitation of the State created by new developmentalism, which focuses more on its role as administrator of macroeconomic prices, is a political option. It occurs because of the export-led growth strategy given the lack of a deeper formulation on the importance of developing the domestic market via an investment and wage-led growth strategy. Moraes and Saad-Filho (2011) agree with Bastos's Statement:

The great missing point in the new-developmental literature is the emphasis on the expansion of the domestic market, one of the most notable pillars of ECLAC structuralism. This absence is offset by the emphasis on foreign trade and international competitiveness. This approach approximates the new developmentalism of neo-structuralist thinking present in the ECLAC literature in the 1990s, being justified by the emergence of a new technological revolution and globalization (Moraes and Saad-Filho, 2011, p. 515).



Nevertheless, Bresser-Pereira (2016) rejects these criticisms by stating that this would be a misleading statement. The central objective of new developmentalism would be the fight against “inequality and injustice”, that is, the overcoming of underdevelopment. The best way to do this would be the investment and export-led growth strategy. For, only later, there is an appreciation of the minimum wage. Social developmentalism, in the author's view, promoted economic populism by raising the minimum wage and keeping the exchange rate appreciated. This economic populism only increased the purchasing power of workers for a short period, but it did not remove Brazil from underdevelopment.

Let's look at the policies that distinguish social-developmentalism from the New developmentalism. First, the defense of a strategy based on wages, wage-led, rather than an export-led strategy. A wage-led strategy would solve the problem of insufficient demand and at the same time, it would reduce inequality, without the need to make the exchange rate competitive, that is, floating around the industrial equilibrium. [...] it is practically a closed model, insofar as a wage-led strategy can only work if the country protects its domestic market with high tariffs, or, in other words, adopts the import substitution industrialization model – something that makes sense for poor countries that are beginning their industrialization, but certainly not for the middle-income countries for which it is intended the New Developmentalism. Second, it assumes that a consistently competitive exchange rate promotes increased inequality, which, as we will see in the next paragraph, it is true in relation to profits, which must be satisfactory to motivate investment by firms, but false in relation to wages, since rentier revenues are also benefited in the short term. In fact, there is in social-developmentalism a high preference for immediate consumption that is highly detrimental to workers in the medium term (Bresser-Pereira, 2016, p. 247).

From this statement, we note that new developmentalism assumes a concern with the long-term financial stability of workers. In addition to a concern with the five macroeconomic prices to establish an investment and export-led growth strategy. On the other hand, social developmentalism still believes in a greater loosening of macroeconomic prices, a more entrepreneurial State to generate an investment and wage-led growth strategy.

## 7. FINAL REMARKS

The period of greatest economic and social development in Brazil in the 20th century was undoubtedly the period, to which the State was protagonist to planning, organizing and executing a project of sophistication, expansion and integration of the productive structure. The Brazilian market was too weak to carry out this project alone. This period, understood as “classical developmentalism”, came to its exhaustion and the end of its ability to respond to aspirations in a globalized and financially integrated environment. There was the option of growing via foreign savings.

Thus, the Brazilian economy adhered to the orthodox current and begins to apply the policies of the Washington Consensus. This reduced the State’s capacity for action and advanced trade liberalization, privatization and financialization. This period meant the loss of participation in the manufacturing industry with deindustrialization, denationalization and “reprimarization” of the productive structure as well as the increase in unemployment and a drop in workers’ wages.

After the FHC administration, the rise of the PT generated relative hope that this situation would change. In fact, part of the PT’s social policy signaled that the State would take deeper action, at least in the fight against inequality. This mobilized a part of the intellectuals who understood that Brazil would show vestiges of a long cycle of social-developmentalism.

Conversely, the adoption of “exchange rate populism” and the maintenance of the orthodox macroeconomic tripod only contributed to a “chicken flight” growth in Brazil. The deindustrialization, denationalization and “reprimarization” of the productive structure even intensified. This trend of quasi-stagnation of the Brazilian economy for more than 30 years, a stop-and-go type of growth, with an even worse characteristic, the reprimarization of the productive structure, worried some heterodox economists. They believed that it was necessary to adopt a long-term economic policy. Then, they found the new developmentalism. This proposes that the State neutralize the “Dutch disease” by establishing an agreement of the five macroeconomic prices (interest rates, exchange rates, wage rates, profit rates and inflation) for Brazil to take a different path away from the hands of rentiers. The model is investment and export-led growth strategy. Thus, managing to make the country break with underdevelopment by sophisticating the productive structure and fighting social inequality.

Social developmentalism, on the other hand, continues to advocate a model of investment and wage-led growth strategy. Its theorists consider themselves

the true heirs of Latin American structuralism whose main names were Celso Furtado and Raul Prebisch. After the governments of Lula and Dilma, many of their intellectuals made self-criticism in relation to the conduct of industrial policy and the control of macroeconomic prices, especially the exchange rate. They are perfecting a new macroeconomic matrix. There is an advance in theory, just as there is in new developmentalism.

We truly believe that these two currents that make up the “neo-developmentalism”, although they present divergences and arise in different ways, have room to cooperate and dialogue. They have a deep capacity to oppose the orthodox project in Brazil. They deserve the attention of the scientific field with new studies and research efforts.

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