

Neoliberalism collapsed - Conservative developmentalism is on the way

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Abstract

In this essay, I relate my personal experience in politics with the construction of the political economy of New Developmentalism and the definition of two alternative forms of economic coordination of capitalism: economic liberalism and developmentalism. From this framework, I discuss the collapse of neoliberalism, which the 2008 global financial crisis pushed and the Covid pandemic represented a final blow; the superiority of developmentalism when well managed; the Developmental Turn in the Biden administration; and my bet that this change will open room for more growth in the US and the other central countries. Yet, given the continuing competition of developing countries, I predict that this third historical developmentalism will be conservative, and that it will continue to press wages and salaries.

Policy Recommendations

- Rich countries should deepen the Developmental Turn to ensure price and financial stability and grow faster.
- Rich countries should understand that they cannot impose policies and reforms to developing countries, which have learned how soft-power imperialism works and how to defend themselves.
- Developing countries must, as soon as possible, embrace the Developmental Turn and resume catching up.

In the last twenty years, a group of Brazilian economists including myself, have been developing New Developmentalism – an economics and political economy focused on understanding the development of middle-income countries.ⁱ In 1999, after occupying several positions in government since 1983,ⁱⁱ I was back to academic life at the Getúlio Vargas Foundation.ⁱⁱⁱ I was dismayed by the poor economic performance in Brazil from 1980 on. I expected that Brazil would resume growth after the end of the great 1980s' foreign debt crisis and the control of the high inertial inflation in 1994, which, for fourteen years, had haunted the Brazilian economy, but Brazil remained quasi-stagnated. I looked for the causes, starting from the assumption that Neoclassical Economics and the corresponding neoliberal orthodoxy didn't offer solutions for the problem. After some thinking, I realized that the same was true regarding Classical Structuralist Developmentalism, the school of thought within which I had been personally formed, the school of Raúl Prebisch and Arthur Lewis. This school of thought had been behind the huge industrialization of Brazil between 1950 and 1980, but lacked macroeconomics and had no place for the exchange rate in economic growth.

New Developmentalism was gradually developed in the following years. I was critical of neoliberalism and its reforms since the early 1990s.^{iv} Only with the 2008 global financial crisis, I turned to capitalism as a whole and soon, already in the framework of New Developmentalism's political economy, I asked myself the forms of the economic coordination of capitalism. One form was clearly economic liberalism, which seeks to reduce the intervention of the state in the economy by any means. I didn't find a name for the alternative form, in which the state intervenes moderately in the economy and adopts a national perspective. Thus, I decided to use the word "developmentalism" or "developmental form". This distinction allowed

me to identify capitalist phases and countries in this or that moment as mainly developmental or liberal.^v

Following this framework, in a discussion paper written in June 2015, I predicted, having as reference the more advanced countries, that the coming new phase of capitalist development would be again developmental.^{vi} It had been developmental from the 1929 crash to mid 1970s, and neoliberal from then on.^{vii} Now, once again, the liberal form of economic coordination of capitalism was associated with low growth, high financial instability, and a huge increase in inequality, neoliberal capitalism would collapse, and we would have a third developmentalism.^{viii} Not, however, a progressive capitalism as had been the Golden Era of capitalism, but a conservative one.

To face the great problems that developing countries face, New Developmentalism benefits from Classical Structuralist Developmentalism, Post-Keynesian Economics, and the French Regulation School. But we are far from the minimum developmental and social-democratic consensus that today is required for progress – for societies not only richer (without extreme poverty) but with a better quality of life.

In this essay, I begin by defining my core claim – that neoliberalism collapsed and a conservative developmentalism is replacing it – and I offer some definitions that may better explain my argument. Between 1979 and 2008, neoliberalism was hegemonic in the world. Following the 2008 global financial crisis, it became clear that it was heading for a collapse. In 2023, there is little doubt that neoliberalism has collapsed, and the state is back in the economy. Economic liberalism, trade liberalization, financial openness, deregulation – all neoliberal slogans – have lost their lustre and ceased to be the solution to all ills.

Neoliberalism is an exacerbated form of individualism and a radical form of economic liberalism. It is social formation where, like in Hobbes “state of nature”, everyone competes with everyone and there is no room for solidarity and cooperative actions, where possessive individualism closes room for trust and cooperation.

Developmentalism is the form of economic coordination of capitalism alternative to economic liberalism. It is the default form of capitalism to the extent that capitalism was born in the time of mercantilism, the first historical form of developmentalism – a conservative developmentalism. The second form occurred in the post-war Golden Era, in which developmentalism was social-democratic (progressive). Developmentalism also is a way of defending the developing world from ideological hegemony or the soft power of the rich world.

Since 2021, the West (the rich countries around the Atlantic Sea) have been moving toward developmentalism as a reaction to neoliberalism’s poor economic performance, while developmental China boomed. This third developmentalism will be conservative because increased competition with Asian countries has led the West to reduce direct and indirect (welfare) wages. “Conservatism” in this essay means an ideology that prioritizes social order to social equality and views the hierarchical structure of capitalism as natural.

Already around 2015, the discredit of finance, the bailing out of big banks, the emptying of the Doha round aimed at increasing trade liberalization, and the rise of protectionism around the world (in Europe alone, 424 protectionist measures had been recorded since 2008) were some of the symptoms of the end of the neoliberal hegemony. In a brief 2015 article, I argued that “although this is not the conventional story, the history of capitalism is the alternation of developmental and liberal periods. After the Second World

War, we had the Golden Era – a developmental and social-democratic period; from the 1980s, a neoliberal period; today, we are experiencing a crisis and a period of transition.”^{ix}

At the same time, I began to collect an archive with indications that the advanced countries were beginning to change from economic liberalism to developmentalism. Today, I have a big archive on that matter, which became relatively useless since, under the Biden administration, the prediction has turned true. Nonetheless, I will summarise some of the evidence that sustains the thesis that eventually neoliberalism and the globalisation project collapsed, globalisation as reality declined, and today we live in a troubled transition period of crisis that may well be the last phase in the history of capitalism. I will discuss more extensively this theme in a book to be published in 2025.^x

In 2013, *The Economist* lamented the end of globalization: “A subtler change took place: unfettered globalisation has been replaced by a more selective brand. As our [special report](#) (“The Gated Globe”) shows, policymakers have become choosier about whom they trade with, how much access they grant foreign investors and banks, and what sort of capital they admit. They have not built impermeable walls, but they are erecting gates.” And informed: “New impediments—subsidies to domestic firms, for instance, local content requirements, bogus health-and-safety requirements—have gained popularity. According to Global Trade Alert, a monitoring service, at least 400 new protectionist measures have been put in place each year since 2009, and the trend is on the increase.”^{xi}

In 2020, in the framework of the Covid pandemic, the IMF issued a rallying call to rich countries around the world to increase public investment to spark a strong economic recovery from the coronavirus pandemic. On July 10th, 2021, *The Economist*, accused

French president Emmanuel Macron of being “a seducer of the right, who has embraced big government.” And more: that he is a “subreptitious socialist”. The newspaper was exaggerating, Macron is no more than a technobureaucrat that poorly governs France, but Europe that year was also moving towards developmentalism, not so decisively as the US. Europe subordinated itself to the US and, since it adopted the euro as a single European currency, it is falling behind.^{xii}

Sahar Hameiri, in a scholarly essay considering the Covid pandemic, argued that “the disruptions to global supply chains wrought by COVID-19 have combined with rising United States-China rivalry, growing disaffection with the distributional impacts of global value chains, and rising automation, to foster efforts to shift away from globalized production.” The academic from the University of Queensland believes that a full reversal is unlikely. More likely is that multinational corporations “make efforts to maximize profits with a variety of national security and geo-economic agendas.”^{xiii} In other words, corporations adapt themselves to the relative closing of national markets that characterize the end of globalization. Here is an example: total world trade percentage of GDP had increased from 25 percent in 1971 to 61 percent in 2007, falling from then on to 51 percent in 2020.

The 2008 crisis

The demise of neoliberalism began with the 2008 global financial crisis – a banking crisis in the US. It is well-established that financial liberalization was the origin of the crisis. The American financial regulation law – the Dodd-Frank Act – was the most determined effort of rich countries to restore financial regulation. In early 2015, the problem for American regulators was an increase in banks’ debt to capital ratio. And also, to reorganize the banks in such a way that an eventual dismemberment in the case of imminent

bankruptcy could be easily made, thus resolving the too big to fail problem.

Financial deregulation occurred in the 1980s through two “big bangs” (the name that financial markets gave to the liberalization of the financial markets of London and New York in that decade) and had become an evil itself. It produced financialization, a huge increase in the share of finance in GDP, which was the direct cause of the crisis. The speculative and fraudulent nature of financialization became apparent. After the 2008 crisis, the financial sector shrunk for some time.^{xiv} Thousands of workers were laid off. Many countries have since established capital controls to regain some power over the exchange rate.

The creation of the euro and the 2008 crisis led to the 2010-16 Euro crisis. Since 2002, the southern European countries and Ireland had not increased wages above the rise of productivity. They got indebted, and in 2010 faced financial and economic crises. The European Central Bank stopped the financial crisis, but the internal exchange rate of the indebted countries had valorised, and they had no alternative but to adopt austerity programmes causing a long recession and high unemployment. Given the single currency, the only possible policy to restore the competitiveness of indebted countries is “internal devaluation” – the recovery of competitiveness through recession, unemployment, and the fall of wages. This solution didn’t represent a return to liberalism. It was an inevitable adjustment that would have been less dolorous if the countries had their own currencies and could devalue them.

After the 2008 and the Euro crises, the US, the Eurozone, and particularly Japan were involved in aggressive devaluations of their currencies – a well-known “beggar thy neighbour” strategy – by adopting “quantitative easing”, a way of increasing economies’ liquidity and lowering interest rates in countries experiencing low growth and low

inflation. Part of quantitative easing was also a euphemism for the printing of money by central banks through purchases of *new* treasury bonds so as to achieve a never admitted objective; to reduce the net public debt.^{xv}

These unorthodox regulatory and management of currency tactics were already developmental policies adopted by governments that prioritize growth, accepting some inflation. Trade liberalization was also under scrutiny. Since the crisis, virtually all countries have raised tariffs and adopted other protectionist policies. The Doha Round was paralyzed, not so much because developing countries reiterated their traditional resistance to it (this only occurred with regard to India), but because rich countries – the most affected by the crisis – have lost a real interest in a wider commercial opening.

Let's return to the argument on the demise of neoliberalism. How can we explain that financial markets are growing again? Does not this indicate that neoliberalism is back in?

No, all countries need a strong financial system, able to finance investments with local currency. What is associated with neoliberalism is financialization and the speculative action of financiers supported by “financial innovations” that artificially increase two or three times the value of financial assets held by rentiers. This had turned into a routine in the Neoliberal Years; it is not anymore. This perverse behaviour suffered a major defeat in the 2008 global financial crisis, which was the culmination of a series of previous financial crises. Consequently, the financial system that emerged from the crisis is far from ideal but is certainly more and better regulated. This does not mean that financial crises will not happen again. I do not share the belief that financial stability is impossible under capitalism. While the Bretton Woods agreement was being followed (1945-1971), the frequency and amplitude of the financial crises fell to near

zero. Regulation must be stronger than the one we have today.

The efficiency constraint

Given that the alternative to a liberal form of coordinating capitalism is developmentalism and given that the criterion for the choice of one or the other system is the efficiency constraint, I am asserting that neoliberalism is intrinsically inefficient; that, compared with developmentalism, it leads to lower growth rates and increased inequality. In my 2015 paper, I predicted that a third historical form of developmentalism was underway. The core reason for the demise of neoliberalism is that it resulted in low growth, high financial instability, and a huge increase in inequality. This is on the economic side; on the political side, an exacerbated individualism that divides nations, making them lose the relative cohesion that is necessary for democracy, is identifiable. I also predicted that this third developmentalism would be conservative.

Now, after the long crisis that began in 2008 and was aggravated in 2016 with the rise of right-wing populism, and specially the Covid pandemic, in which the state had a huge strategic role in all countries, a third developmentalism emerged in the US in 2021. A capitalism in which financial markets and the production of goods and services are better regulated, industrial policy is again practiced, and the state has more clout on the non-competitive sectors of the economy. This is in the context of moderate economic nationalism or “realism” (to use the foreign relations term) combined with reasonable international cooperation.

Regarding protecting the environment, it is reasonable to predict that advances will continue because global warming has turned out to be a fundamental and urgent global challenge. I am less sure in relation to inequality and social justice because the social-democratic left has become so weak

and disoriented in rich countries, that the possibility of a conservative developmentalism involved in reducing labour costs by making labour contracts more “flexible” remains great. In this third developmentalism, the state will still be a welfare state, but pressure will continue to be exerted on the labour contracts to make labour more precarious or unprotected, and, so, cheaper.

Neoliberalism has failed to dismantle the welfare state because the large social and scientific services that it provides assure a standard of living for the people, which, if replaced by wages, would involve much bigger costs, but it was successful in reducing the direct costs associated with labour contracts to make business enterprises competitive in the context of globalization. The state will continue to be a social or welfare state because that is a demand of voters, and because collective consumption is more economic – besides more compatible with justice – than private consumption. But while the competition coming from low wage developing countries and from immigration continues (by the way, two positive things), countries will continue to depress wages and salaries, which is favourable to conservative political parties and inconsistent with social democracy. A partial solution to this problem found by Scandinavian countries is to recur to “flexsecurity” – by which they reduce labour entitlements but increase social security.^{xvi}

Developmentalism is not a form of state-led capitalism, but a form of *state and market-led* capitalism, where the state takes precedence over the market because it regulates the market, but the two institutions operate together. By being permanently engaged in the reform of institutions, nations build their state and their markets. Things relative to this construction may be seen as “spontaneous”, but most are not; societies have relatively clear objectives in mind when they engage in institutional reforms. Institutions may be

progressive or conservative, pro-growth or against growth, but no institution exists outside the political construction process, where, in capitalism, the role played by the efficiency criterion is central.

Since capitalism faced crisis and, specially, since the rise of right-wing populism, developmentalism is being called back, i.e., the state is again intervening in the economy with Keynesian macroeconomic policies and industrial policies mostly oriented to encourage investments in climate change and in industries the country defines as strategic. This change has happened dramatically in the US, but the other rich countries are following, mainly France and Germany.

The historical rise of a third developmentalism is the acknowledgment that the developmental state is more efficient or more capable in coordinating capitalism than the liberal state. This developmental state that is emerging starts from the subsidiary principle of the coordination of the economy: where there is competition, markets are the first option to consider. This does not mean that in industries where the market is competitive, the state has no role. It pragmatically and moderately regulates these industries and, in given cases, practices industrial policy.

The complexity argument

The mistake of the neoliberal ideology is not because markets are not good institutions for allocating resources. Markets are irreplaceable when there is competition. Capitalism was more efficient than any other previous form of political and economic organization of production because the market is a system of automatic coordination based on competition. Economics is the science of how the market defines prices, and, through them, wages and profits, investment, and consumption. The price system, which is the object of microeconomics, is far from being the

perfect coordinating system. Developmental policies are an answer to this fact.

Markets are a social construction, but they cannot be built from nothing. It makes no sense to accept the generalized privatization of monopolies and quasi-monopolies and to create regulatory agencies, assuming that such agencies will act as if there was competition. On the macroeconomic side, Keynes offered a theoretical explanation for something that experience had proved insistently: in the capitalist countries there is a tendency towards insufficient demand, which is reflected in the fall in investment and unemployment. New Developmentalism and its recommended macroeconomic policies show that there is a tendency to the chronic and cyclical overvaluation of the exchange rate in developing countries. If these countries fail to adopt them, they will not industrialize. If, for example, they get involved in current account deficits and feel good with that, or, when they are commodities exporters and don't neutralize the Dutch disease, the competent business enterprises producing tradable goods will not have access to the existing demand and the country will not grow.^{xvii}

Besides the well-known limits to competition derived from microeconomics, and the limits to full employment and growth derived from macroeconomics, there is a problem derived from the growing *complexity* of economic systems, which also explains the demise of neoliberalism. As economic development takes place, the division of labour and the variety of goods and services produced increase. It follows that goods and services are increasingly differentiated and the economic system, increasingly complex. This makes it even more difficult to coordinate role of the market and requires complementary state action under in the form of regulation and industrial policy. Furthermore, the determination of the value of goods and

services becomes increasingly problematic. As observed by Eleuterio Prado, in the capitalist stage of "post-modern industry", we see the rise of "companies that only focus on research activities and the creation of cultural, scientific and technological value". Companies that do not produce goods but hold intellectual property, companies in which value becomes "excessive as such due to the denial of the sole determinant of value – working time".^{xviii} We also have to consider the companies involved in the production of culture. Since marginal costs are not relevant in such industries, the market performs poorly when searching to coordinate them.

In this context, how can the market alone be an efficient instrument of resource allocation or coordination of the economy? All companies, and not just those that enjoy monopolies based on intellectual property, are always seeking to avoid competition, and, so, undermining the good coordination by the market. Thus, markets alone are ineffective in industries in which the complexity is very large and where a reasonable degree of non-competition is present.

This thesis seems diametrically opposed to that of Hayek, who used the complexity argument to support an extremely liberal position against state intervention. According to him, complexity would make the state unable to regulate the economic system and increase its efficiency. It would not have the necessary and sufficient knowledge to interfere. Still, according to Hayek, it is only possible to have knowledge about the general patterns of behaviour of complex systems, not a precise knowledge of the laws governing their operation that would be necessary for regulations and interventions to be successful. I would subscribe to these words if I thought in binary terms as Hayek: either coordination by the market or by the state planning. But binary thinking does not make sense in this case because there are many intermediary points

between neoliberalism and statism. It also makes little sense the way Hayek (1973 chap. 2) "solves" the problem of complexity. He supposes that every society has an "order" that keeps the whole institutional system standing, which is true. But then he says that this order is a purely "spontaneous" outcome and that there is nothing "built" or "constructed" in it. In fact, the market seems a spontaneous institution but as already thoroughly demonstrated, it is "socially built".

The fundamental reason for the failure of the Soviet system was that its leaders did not realize that, from a certain degree of complexity onwards, market coordination is a necessary condition of efficiency. Something that Chinese leaders understood since 1979 when they gave the market a greater coordinating role in the competitive sector. But this does not mean that they have withdrawn the state from the coordination of the Chinese economy. The state continues to plan and control tightly the non-competitive sector, especially the infrastructure sector and big banks. While the rest of the economy (the competitive sector) it leaves as free as possible, just intervening through industrial policy.

No matter the ideology of the political party or the ruling coalition, the larger and more complex the economic system, the more detailed, in practice, will be the regulations made by the state, and the more often the state will intervene with industrial policy. Despite its professed economic liberalism, the United States, for example, is home to a surprisingly large and complex regulatory system, and industrial policy is present in the more technologically sophisticated industries where the frontier between science and technology is thinner. Regulation is not the result of a "bureaucratic distortion", as is often stated, but proof that markets need regulation, which is also made by a myriad of non-profit

agencies involved in political accountability and advocacy.

A superior form of coordination

In short, I understand that developmentalism, when thought of as a really existing form of economic organization and capitalism (not as a strategy as is the case of New Developmentalism), is superior to economic liberalism, and therefore tends to prevail. Not because it is "more rational", but because it considers the limited capacity of the market and the state to effectively coordinate the economic system and economics' internal contradictions and, so, often adopts pragmatic policies. The neoliberal claim that the market is able to coordinate advanced economic systems almost exclusively through the market is as inefficient as the proposal original socialists that the state was able to coordinate the almost exclusively. I am aware that my statement will not make sense to neoliberals, who, despite all the evidence, continue to view the market as a magical "mechanism". The fact is that properly combined market and state coordination, as developmentalism proposes, capitalism can offer positive economic results. It also can be effectively social-democratic and reduce inequality, but in the present moment, this is not likely to happen because immigration and competition in developing countries will continue to drive wages down. Liberal orthodoxy only makes sense for a short period when the economy experiences a crisis and macroeconomic adjustment is required. A permanent "austerity" harms the economy, while benefitting rentiers and financiers who are not interested in growth but in high interest rates and rejecting trade-offs between inflation and growth.

System's thinking's approach to complexity is gaining increasing influence in the social sciences. Used to help us think about the coordination of contemporary economic systems, it also helps us to understand how

the regulation and planning by the state, combined with competition, can make more efficient capitalist societies. Eleutério Prado (2012: 32) points out that the complexity of the world is structural, that the whole cannot be grasped by the sum of its elements. The whole or the economic system "is a set of elements linked together internally, or expressed in another way, as a kit of parts effectively structured - not just configured as an array of externally attached elements." This is a way of seeing the world that is already present in Marx and Durkheim. Robert Delorme, conceptualizing complexity in the social sciences, refers to the concepts of organic interdependence, inductive probability, and uncertainty – elements that are present in Keynes's view of the economy.^{xix} Ash Amin and Jerzy Hausner observe that this approach to complexity "assumes that both society and social knowledge are regenerated in an interactive and procedural way", and that, in governing complexity, dogmatically defined neoliberal programmes are intrinsically inefficient.^{xx}

The superiority of the combination of state and market coordination may be seen when comparing the European and the American models of capitalism, which have been the subject of a broad comparative literature. European capitalism is more developmental than the American, besides being more social. Hall and Soskice (2001) call them, significantly, "liberal market economies" and "coordinated market economies". When I compare European and American capitalisms, it is clear to me that the Europeans have been more successful in achieving the political objectives that modern societies defined for themselves: security, individual liberty, standards of living, social justice, and protection of the environment. In his 2005 book, Jonas Pontusson compares "social Europe with liberal America". He observes that according to "the market-liberal view governments may create a more equal

distribution of income and consumption through taxation, transfer payments and provision of services, but in so doing they inevitably distort market forces and undermine efficiency".^{xxi} Nevertheless, after an exhaustive comparison between the two models, he recognizes that the United States fell behind and concluded that "any serious effort to address these problems would inevitably involve the introduction of social-democratic elements into economic and social policy and may, over the long run, entail the build-up of institutional arrangements that resemble, in some respects, those of the social market economies".

Considering only the United States and Sweden, the economy of the first is now less regulated by the state than the Swedish economy, and its per capita income is higher. Thus, given the neoliberal hegemony up to 2008, one could conclude that the United States' economy is more "successful" than the Swedish economy. That is not my conclusion. The United States is not a more developed society, progress or human development is not more advanced than in Europe.^{xxii}

If we look at the American economy from a historical point of view, state intervention was strong in the past and today continues stronger than is generally admitted. In the nineteenth century, mainly after the Civil War, the United States engaged in its industrial revolution and, like in all other countries that made their industrial and capitalist revolution, the state supported with import tariffs, investments, and subsidies to key sectors. Since the beginning of the twentieth century, huge state expenditures supporting military technology were essential in maintaining the United States' technological leadership. The protection of the manufacturing industry has been a policy practically since their Independence. One of the founding fathers, Alexander Hamilton (1791), when secretary of the Treasury, classically demonstrated the

need and the logic of the protection of the infant manufacturing industry.^{xxiii} Import tariffs were extremely high until 1939. Only on the eve of World War II, when the American industry was already highly developed and competition coming from Europe had collapsed did President Franklin D. Roosevelt drastically reduce import tariffs. That was not in conflict with the fact that, after the 1929 crisis, under the New Deal and the Fordist class coalition, the United States adopted a developmental policy, as did Western Europe in the Golden Era of Capitalism, with the difference that in Europe developmentalism was social-democratic.

A condition: the ability to govern

Depending on state capacity and the competence of politicians, a third developmental capitalism may rise and be successful. Rich and middle-income countries are reasonably well governed, but the same is not true of poor or preindustrial countries, which did not complete their capitalist revolution, that is, are not independent nation-states, did not industrialize, and do not have a large class of entrepreneurs, executives or private and public technobureaucrats. Developmentalism is a superior form of economic coordination of capitalism when compared to economic liberalism, but under one condition: the developmental state must be a reasonably capable state and count on reasonably competent politicians and bureaucrats to manage it – a condition that often is not warranted.

The liberal state will usually fail to promote rapid and stable growth, while the developmental state may in some cases be successful. In the case of the liberal state, given the tendency to insufficient demand there will be few motivations for investment; due to the false assumption that the exchange rate is balanced in the near-term, governments will usually experiment with low growth rates and recurrent financial crises.

In the case of developmentalism, if the condition above is satisfied, countries will experience growth and catching up. Poorly managed administrations may incur fiscal populism (the state expending irresponsibly more than it gets) as much as exchange rate populism (the nation-state expending irresponsibly more than it gets), while liberal administrations are likely to incur in exchange rate populism, not so much in fiscal populism. Besides incurring in exchange rate populism, neoliberal administrations usually adopt austere fiscal policies that preclude investment. This is contradictory but makes sense: exchange populism facilitates politicians to be re-elected, while austerity interests rentiers and financiers. On the other hand, a common error in developmental governments is being loose in relation to fiscal responsibility. They poorly interpret Keynes and believe that all economic systems suffer from insufficient demand and defend chronic public deficits.

Developmental capitalism in democratic societies is politically progressive or social; therefore, corresponding to social-democratic capitalism. Adam Przeworski (1985) showed classically that social democracy is essentially a distributive compromise between social classes. Similarly, developmentalism is a coordinative compromise between the market and the state alongside a compromise between the social classes. However, contrary to what neoliberal ideologues say, this dual commitment does not imply a loss of efficiency; there is *no* trade-off between policy coordination and coordination by the market. On the contrary, since the degree of regulation of competitive and complex industries and the degree of planning of the non-competitive industries are moderate and transparent, the economy will grow with more stability and efficiency than if the neoliberal policies were adopted.

In democracies, the option for a developmental or a liberal form of state depends on elected politicians. Thus, they are powerful, and they are feared, particularly by liberal ideologues who want to diminish their ability to take decisions that may affect the interests of their rentier and financier constituencies. What liberal ideologues do not recognize is that in democracies there is *political* control of the state's financial imbalances, while there is not the same control in relation to the private sector and the market is unable to perform this control. This happened in the crisis of the euro, in which countries such as Spain and Ireland had their public finances better balanced than those of Germany before 2008, while its external accounts (which include the private sector and are expressed in current account deficits) had huge imbalances. While politicians who make economic policy decisions are permanently under the relative political control of society and are constantly being criticized for their fiscal errors, millions of consumers and business enterprises can make wrong decisions, which result in either asset or credit bubbles, which the market is unable to control. The history of capitalism is filled with examples.

Conservative developmentalism

Social democracy is usually developmental, but developmentalism may be either progressive or conservative. Historically developmentalism was conservative. It was conservative in the case of mercantilism, an economic system highly successful because it was under its framework that England, Belgium, and France held their industrial revolutions. It was conservative when countries that are rich today, such as Germany and Japan, experienced late industrialization and became capitalist. It was also conservative when countries that today are middle-income, such as Brazil and India, held their industrial and capitalist revolutions in the

twentieth century. Russia and China were also "conservative" when they industrialized to the extent that their capitalist revolutions involved distributions of income in favour of the state and industrial companies. Yet it makes little sense to classify countries that were making the transition from statism to developmental capitalism either as conservative or progressive.

Left developmentalism corresponds, in political terms, to social democracy. But for both to be successful it is essential that the compromise between productive entrepreneurs and workers is real, that there are real mutual concessions. If the regime calls itself "social developmental", but the workers have wage increases while the rate of profit of industrialists accrue remains very low, we cannot call it developmental. That is what happened in Brazil between 2003 and 2014.

I understand neoliberalism as a distorted and regressive form of capitalism, but it can also be seen as the "real face" of capitalism; neoliberalism would be the rule, and the Golden Era after the war, the exception. This is the argument adopted by Wolfgang Streeck: "I suggest that is not the *trente glorieuses*, but the series of crises that followed that represents the normal democratic capitalism".^{xxiv} This approach will make sense if we understand capitalism as a "natural" phenomenon, rather than see it as the result of social construction – as an institutional system characterized by the modern state and the market, which was politically built by men and women, at the same time that they were building the respective economic structure.

When Marx and Engels made their original analysis and critique of capitalism, it was legitimate to adopt this approach, because capitalism was "just there" – was something that had evolved from the development of productive forces and the relations of production – from medieval feudalism and from literate agrarian societies and their

absolute monarchies that followed. But even then, the “natural” character of capitalism was questionable because the state and the markets were already institutions – were already socially constructed normative systems. In modern democracies, in which the political debate, the drawing of good institutions, and the adoption of good public policies, especially macroeconomic policies, are a central concern, it makes sense to see capitalism as a natural phenomenon subject to natural forces.

In the same paper, however, Streeck (2011: 7) defined "democratic capitalism as a political economy governed by two conflicting principles, or schemes of resource allocation: one, that operates according to the marginal productivity, or - what is revealed as merit - for a 'free game market forces', and another based on social need or law certified by their own collective choices of democratic politics". Well, if so, then capitalism is not a natural phenomenon – it makes more sense to view it as a social construction, or to go back to Karl Polanyi, who saw the nineteenth century liberal capitalism as an exception, not the rule.^{xxv} The same applies with more vigour to the 1980-2008 neoliberal years: it was a reactionary exception. On the other hand, if this building involves not only the productive capitalists, workers, and public technobureaucrats in conflict with rentier capitalists, middle class rentiers, financiers, private technobureaucrats, this construction necessarily implies a political compromise within each class coalition, and among the two class coalitions. These two kinds of compromises involve not only the distribution between profits, rents, wages, and salaries, but also the allocation of roles between the state and the market.

Neoliberalism was demoralized by the global financial crisis of 2008, but the neoclassical economic theory – the "scientific" ideology of economic liberalism – is still taught in major

universities, as if its mathematical castles built in the air, were a science. That will not change for some time given the bureaucratic power of the academic elite, and given their Platonism, i.e., the preference for formal consistency in relation to adaptations to reality. On the business side, neoliberalism also has the support of the rentier capitalists, financiers, and top executives of large corporations because they are enriched and they do not want to pay taxes – taxes that a social and developmental state requires.

At this point a caveat is necessary. Conservatism, which should not be confused with economic liberalism, is not defeated. Neoliberalism is really not conservative; it is reactionary; it is a regression experienced by capitalism. But the same cannot be said of conservatism. In capitalist societies conservatism and progressive politics, the right and the left, are constantly alternating in power, because social order and social justice are two major values that often do not match in the short term. Conservatism is the ideology and the political attitude that gives priority to social order or security in relation to social justice or equality. And it sees inequality as natural and impossible to be change In contrast, progressivism is the ideology and political attitude that accepts risk in the name of social justice and is more optimistic about the possibility of changing the social order for the better. Conservatism remains strong because security is a major policy goal; because even the poor, the exploited and the excluded are often not willing to risk the existing social order in the name of social justice promised but not guaranteed. Conservatives and progressives, right and left, are always present in capitalist societies and will alternate in power.

We should not confuse conservatives with neoliberals. In Germany, the Agenda 2010 was an example of developmental conservatism. It was a social agreement sewn

in 2002 that guaranteed employment for workers in exchange for wages growing less than productivity, which led to significant growth in the country and led to a crisis in the southern European countries, which did not make a similar political agreement, lost competitiveness and got indebted. Conservatives often adopt a liberal discourse because democracy is a universal value identified with political liberalism. They were associated with neoliberalism from the 1970s as a reaction to the gains of the poor and organized labour at that time. Today conservatives are closing their political association with neoliberalism and accepting moderate state intervention in the economy.

Conservatives have a second attraction for the rich: the most advanced societies are necessarily democratic. Capitalists know this and, after rejecting it throughout the nineteenth century, they settled down to democracy. They did that when they lost the fear of being expropriated in case of the election of a socialist party but continued to fear democracy and set several limits to the action of the state. Besides, they want to pay the minimum taxes possible and expect that conservative governments will assure that.

Capitalists' feelings towards the state are contradictory; capitalist entrepreneurs, who may profit from state protection, mainly when the problem is foreign competition, are more favourable to state intervention than rentier capitalists and financiers. Entrepreneurs often combine conservatism with developmentalism. Differently, rentier capitalists and the financiers – the two ruling classes in neoliberal capitalism – know they cannot count on the support of government, because they have little to offer to society. This explains why they, usually, adopt a radical neoliberal discourse, hoping to derive gains from financialization.

Conclusion

These ideas can be considered optimistic because what we currently see around us is confusion and uneasiness. In the late 1970s, in the framework of the Neoliberal Turn, we saw the centre and the whole political system move to the right and to economic liberalism. Now, it would be reasonable to expect that the new change will be to the left, but I am arguing in this paper that this is just moving to developmentalism, not to a progressive form of capitalism.

There is an argument that would allow us to predict progressive developmentalism. Democracy today is much stronger in the world than it was in the 1930s, and it has always been a demand and an achievement of the poor or the people. Economic liberalism only accepted democracy as a lesser evil. Thus, the existence of democracy is an argument for a progressive, social-democratic developmentalism. But the greater probability is that the third developmentalism will be conservative.

A problem in rich countries today, mainly in Europe, but even in many middle-income countries like Brazil, is that capitalist elites, intellectuals, and technobureaucrats lost confidence in the possibility of economic development. Before, continued economic growth was seen as something given, and the problem was how to divide the economic surplus that was almost automatically produced. Now, after 30 years of neoliberalism and low growth, this continuity is not assured. Neither progressives or conservatives have a recipe for growth and distribution, and a sense of indeterminacy and pessimism is dominant. The world needs new ideas that open room for the future. New Developmentalism hopes to be one of these contributions.

This essay is on political economy, not on economics, and it does not offer policy solutions for the rich world that was here taken

as a reference. It argued that neoliberalism failed and now we are experiencing historically a third developmentalism. China has been in this mode since the 1980s' economic reforms. In the West, the country that is moving more determinately in this direction is the US. My bet is that this Developmental Turn will be successful – there is some room for growth in the rich world.

Thus, my recommendations are: (1) Rich countries should deepen the Developmental Turn to ensure price and financial stability and grow faster. (2) They should understand that cannot impose policies and reforms to developing countries, which learned how soft-power imperialism works and how to defend themselves. (3) Developing countries must do as soon as possible the Developmental Turn and resume catching up.

People ask me whether the ideas I developed outlined in this essay have a connection with my political experience. New Developmentalism was born from my frustration with the Brazilian economy after the debt crisis and the high inertial inflation of the 1980s ended. I worked directly on these two issues when I was Finance Minister (1987). My critical view of American imperialism was part of my formation as a developmental economist in the 1960s. In the 1980s, a major problem was the foreign debt crisis. I and my team developed a general solution for it (securitization of debt) and I proposed it to James Baker, the American secretary of the Treasury, who rejected it. Yet, two years later, the Brady Plan was an exact copy of my original proposal.^{xxvi}

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ⁱ For the more complete presentation of this theory, see Bresser-Pereira (2024, to be published in January this year).

ⁱⁱ From 1995 to 1999, I was Minister of Federal Administration and Reform of the State and Minister of Science and Technology. In 1987, I was Finance Minister.

ⁱⁱⁱ Getúlio Vargas Foundation is a the more important think-tank in Brazil and a prestigious compound of undergraduate and graduate schools in economics, public and business administration, law, and social studies.

^{iv} See Bresser-Pereira (1992).

^v See Bresser-Pereira (2017; 2024).

^{vi} Bresser-Pereira (2015).

^{vii} The first developmentalism was Mercantilism.

^{viii} Bresser-Pereira (2015).

^{ix} Bresser-Pereira (2013).

^x This book, *The Rise and Fall of Neoliberal Rentier Capitalism*, is now (September 2023) been finished, and will be published by Oxford University Press.

^{xi} *The Economist*, "Governments are putting up impediments to globalisation. It is time for a fresh wave of liberalization", October 12th, 2013.

^{xii} Bresser-Pereira and Rossi (2015).

^{xiii} Hameiri (2021: 32).

^{xiv} Recently, the big banks recovered their profit rates, but not their size or prestige.

^{xv} The net public debt is equal to gross public debt less reserves; the effective net public debt is the net public less the existing treasury bonds in possession of the central banks as they engages in quantitative easing.

^{xvi} Boyer (2006).

^{xvii} Bresser-Pereira (2014).

^{xviii} Prado (2005: 108-109).

^{xix} Delorme (2010: 74).

^{xx} Amin and Hausner (1997: 1).

^{xxi} Pontusson (2005: 4; 219).

^{xxii} The literature on this theme is contradictory several arguing that the welfare state in the US is “similar” to

the European countries, but they use around 15 countries, including countries with incomes per capita much smaller than in the US. When, however, I see ranking of rich countries on specific welfare measures, the US is last or second to the last. Consulting Google, October 11, 2023, with the question “Comparing the welfare state in Europe and the United States”, the immediate answer is: “Indeed, welfare-state expenditures are 21 percent of GDP in America compared to 30 percent in the typical eurozone country”.

^{xxiii} Hamilton (1791).

^{xxiv} Streeck (2011: 5-6).

^{xxv} Polanyi (1944).

^{xxvi} Bresser-Pereira (1999).