The BRICS in the Perspective of the New Developmentalism


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Do the BRICs need a new development model?

The answer to this question is straightforward

- **No for China** and India (G2), which continue to grow fast: from 2000 to 2017, China has grown at an yearly rate of 7.9%, and India, 7.3%

- **Yes for Brazil**, Russia and South Africa (G3) whose respective growth rates have been 1.8, 2.0 and 1.4% a year.

- See table.
### GDP growth and investment rate of the BRICs countries: 2010–2017

<table>
<thead>
<tr>
<th>Countries</th>
<th>GDP growth</th>
<th>Investment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>7.9%</td>
<td>46.3%</td>
</tr>
<tr>
<td>India</td>
<td>7.3%</td>
<td>34.4%</td>
</tr>
<tr>
<td>Russia</td>
<td>1.8%</td>
<td>23.1%</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.4%</td>
<td>19.5%</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, World Economic Outlook Database, October 2018
Why do the G3 grow less than the G2?

- As General Economics teach, the G3 countries grow less than the G2 because they invest less.

- We may invoke other causes but, the strong correlation between the growth rates and the investments in most countries, I am sure that no other cause explains so clearly the growth difference in the G2 and the G3.
The key question is why the investment rate is smaller in G3?

- General Economics teaches the entrepreneurial expected rate of profit, \( r' \) (the expected rate of profit less the interest rate) determines investment.
- The neoclassical orthodoxy adds savings determine investment.
- Keynes showed this is wrong. It is “porquinho economics”.
  - given a monetary economy where there is finance, investment determines savings.
- Thus, following post-Keynesian economics, the investment rate should be smaller in G3 because the interest rate should be higher and the expected profit rate, smaller than in G2.
For post-Keynesian economics, it depends on the liquidity preference. But this is a short-term prediction; post-Keynesian don’t have a long-term explanation.

New-developmental economics has:
- the interest rate will be higher the more the country engages in two habitual policies:
  1. current-account deficits (“growth with foreign savings policy”) and
  2. the exchange rate as an anchor to control inflation.

The data in the following table confirm the prediction of a smaller interest rate.
The basic interest rate is smaller in G2

<table>
<thead>
<tr>
<th>Country</th>
<th>2000–2017</th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>0.81</td>
</tr>
<tr>
<td>India</td>
<td>0.52</td>
</tr>
<tr>
<td>Russia</td>
<td>2.05</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.10</td>
</tr>
<tr>
<td>Brazil</td>
<td>7.09</td>
</tr>
</tbody>
</table>

Source: International Monetary Fund, World Economic Outlook Database, October 2018
India, given fast growth, high investment rate and low interest rate, should have a current account surplus but it has a deficit. This is possible because the rate of substitution of the foreign savings for domestic saving is very low, due to high growth and low marginal propensity to consume. 

Russia should have a current-account deficit but has a surplus. This is due to a non-neutralized Dutch disease.
And the expected profit rate, $r'$, is it higher in G2?

- Post-Keynesian economics says it depends on demand. OK.
  - But we cannot say that the expected profit rate is smaller and demand, weaker in G3.

- New-developmental economics agrees it depends on demand, but it is more specific:
  - The $r'$ depends on reachable demand;
  - Effective demand may be strong, but if the exchange rate is overvalued, the companies in the country will not have access to it.

- Thus, the exchange rate is key in determining the investment rate.
Why G2 have better access to demand or their ER is more competitive?

Because

1. Their interest rate are smaller (because they don’t use the two habitual policies)
2. They don’t confront the Dutch disease while the G3 countries do face it (and don’t neutralize it).

It is not necessary to present data on that except:
- G3 are exporters of commodities, not G2;
- G3 don’t impose high export taxes on commodities which would neutralize the disease.