

# NEW DEVELOPMENTALISM AND POST-KEYNESIAN THEORY: A NEEDED SYMBIOSIS

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# Guiding Principles of New Developmentalism (ND)

- 1) Origins of ND: successor of "structuralism" (Prebisch, Furtado); reaction to neo-liberal Washington Consensus.
- 2) Destructive impact of neo-liberal policy prescriptions hurting Brazil and other Latin American economies in terms of macro-economic imbalances, deindustrialization, inequality, and vulnerable insertion in world economy.
- 3) ND proposes a development strategy aimed at overcoming these problems:
  - Active state apparatus working in conjunction with vigorous private sector.
  - Reconcile economic growth with social equity -> link growth – distribution.
  - Macro-economic policies in support of vibrant "mixed" economy and its national development strategy (prudent fiscal policy -> infrastructure; social contract; three-pronged monetary policy).
  - Strengthen national economy's insertion in world economy.

## Post-Keynesians (PKT) and New Developmentalists (ND)

PKT shares with ND opposition to both neo-classical equilibrium theory and to neo-liberal policy prescriptions (deregulation, privatization, fiscal austerity, anti-inflation monetary policy).

PKT also shares with ND emphasis on active state management of capitalist economies prone to instability and inequality.

But PKT aims at developed economies, while ND focuses on LDCs => NICs (≠ “emerging-market” economies).

# Early PKT Contributions

But already at its very inception PKT founders, contemporaries of J.M. Keynes, made key contributions to development economics:

- M. Kalecki's *Essays on Developing Economies* (1972): agriculture and land reform, dangers of structural inflation, investment, financing dev.
- J. Robinson's *Aspects of Development and Underdevelopment* (1981): population growth, three-sector reproduction schemes, choice of techniques in labor-abundant LDCs, price formation (commodities, industrial goods).
- N. Kaldor's *Strategic Factors in Economic Development* (1967): agriculture-industry connection, industrialization, export-led growth, progressive tax policy.

# ND's Macroeconomic Imbalances and Distortions

ND centers on constellation of five key macro-economic prices: wage rate, profit-rate, interest rate, exchange rate, inflation rate.

Three key imbalances in that constellation:

- a) highly elastic labor supply -> wage rate lags behind productivity growth -> chronic problem of inadequate aggregate demand.
- b) rentier-financier coalition insists on excessively high interest rates.
- c) reliance on commodity exports -> Dutch Disease -> overvaluation of currency -> deindustrialization.

Also unstable insertion into world economy: dependence on foreign savings; pro-cyclical capital in- and outflows.

Challenge of financing development amidst underdeveloped local finance.

# PKT's Contributions to ND's Key Arguments

1) Adequate Wage-Rate -> Keynes' notion of efficiency wage. Kalecki's insistence on protecting real wage.

Wage-Led Growth vs Profit-Led Growth (Lavoie, Hein, Stockhammer): is investment demand-driven or does it respond more to profitability -> depends on investment function; relates to export-led growth strategy.

2) PKT's Interest-Rate ("Park-It") Rules:

- Smithin Rule (real interest rate = 0), Pasinetti Rule (real interest rate = productivity gains), Kansas City Rule (nominal interest rate = 0).

- Also Palley's notion of "minimum unemployment rate of inflation."

- 'Flexible opportunistic' approach to inflation-rate bands (Palacio-Vera & Fontana).

3) ND's notion of 'industrial equilibrium exchange rate' can be meaningfully linked to either:

- Fundamental Equilibrium Exchange Rate (Cline): internal and external balances both at  $\pm 3\%$  of GDP.

- Behavioral Equilibrium Exchange Rate (MacDonald): function of fundamentals (e.g. unit labor costs, interest-rate differentials, net financial account, terms of trade).

# Insertion into World Economy

Apart from overvalued exchange-rate, ND stresses other vulnerabilities: unfavorable terms of trade; dependence on foreign savings (esp. when running current-account deficits); destabilizing capital in- and outflows.

PKT has a lot to say about these vulnerabilities:

- Thirlwall's Law of balance-of-payments-constrained growth due to exporting primary products and low-value-added manufactured goods with low income elasticity of demand.
- Lavoie's "Compensation Thesis" of endogenous sterilization -> central bank can set interest rate while also managing exchange rate.
- Kregel's Financing for Development -> apply Minsky's financial-instability hypothesis to open developing economies to stabilize cross-border portfolio-inv capital flows and avoid/manage currency crises.

# Useful PKT Concepts for The Developmental State

Agent-Based Modeling and Stock-Flow Consistent Macro Modeling: a new way to design scenarios and trace adjustment processes in multi-sector structures and with heterogeneous agents.

Development finance: enhance, not crowd out, private for-profit funding sources.

Capital Controls: key tool to shield national economy from the vicissitudes of the global financial cycle (H. Rey).

Industrial Policy -> towards a knowledge-centered development agenda (M. Cimoli, G. Dosi & J. Stiglitz).

Low-Carbon Transition: national indicative planning for net carbon neutrality.