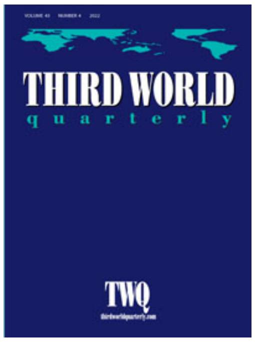

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Developmentalism at the periphery: addressing global financial asymmetries

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ABSTRACT

Since the 2000s, new concepts of developmentalism have emerged in Latin America. In such approaches, the state deliberately pushes the development to achieve structural change and income redistribution. We analyse these from the perspective of policy space constraints imposed by international economic asymmetries, which today are predominantly of a financial nature. Based on a broad overview, we identify and compare the most relevant recent approaches. 'New developmentalism' has its strength in formulating adequate macroeconomic policies shielding the economy from volatility, although it considers redistribution as rather an outcome of structural change. 'Social developmentalism' emphasises the links between redistribution, domestic growth and structural change but lacks a coherent formulation of macroeconomic policies. The same applies to the concept of *buen vivir*, as the only approach that considers environmental aspects. Thus, all of these concepts have their strength in addressing specific issues, but are incomplete insofar as they do not provide a consistent framework for achieving all goals of growth with structural change, income redistribution and ecological sustainability. We identify the need to debate the interdependencies between sustained economic growth, income distribution and ecological sustainability.

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Introduction[1]

Latin America has long been a battleground between paradigms of economic structuralism and liberalism (FitzGerald and Thorp 2005). This paradigmatic debate has intensified over the last two decades, with renewed disagreement about adequate development strategies, grounded in discontent with 'Washington Consensus' style policies that achieved poor results in terms of growth and income distribution. In the years prior to the COVID-19 crisis, the region entered a deep recession associated with falling commodity prices, and generally moved towards more orthodox policies, signalling the end of this debate. However, the current pandemic has once again highlighted the region's economic fragility, with growth declines even greater than in other regions and a further increase in levels of poverty and

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inequality (IMF 2021). This new crisis has once again placed on the agenda the need for an adequate development strategy committed to reducing inequality, creating policy space for counter-cyclical policies, and spurring production and export diversification (Ocampo 2021).

The debate on developmentalism is far from precise, given that the very concept of developmentalism is related to a rather diffuse mixture of different theoretical assumptions and historical experiences. Even if theory and policies related to this concept are narrowly intertwined, Fonseca (2014, 30) proposes distinguishing between what he calls 'the real world' – ie a set of economic policy practices – and 'the world of ideas', ie a set of ideas expressing theories, concepts and perspectives on this real word.

In this paper, we aim to give clearer contours to this world of ideas of developmentalism in the twenty-first century. Broadly speaking, and paraphrasing and extending Storm (2017, 1f.), we inquire what governments can do to foster not only industrial development but also inclusive growth within the constraints and contradictions imposed by domestic political (class) alignments and the current global capitalist order of trade and financial globalisation. We will evaluate these within the framework of the structuralist concept of global asymmetries between the centre and periphery brought forward by ECLAC[2] since its foundation (Prebisch 1949). Despite repeated chronicles of a death foretold, the analysis of structural global asymmetries remains relevant for understanding the challenges of contemporary development (Fischer 2015, 700).

However, it is necessary to update the classical developmentalist concept, which has focussed on issues related to the problems arising from economies specialised in commodity production and income redistribution in one of the most unequal regions in the world, namely Latin America. The aim of redistribution has currently gained centrality, and environmentalist issues are of strong concern. While these two topics have received strong attention in at least part of the developmentalist debates, we focus on a third element that is less commonly discussed but holds no less relevance. Nowadays, the technological and productive asymmetries originally identified by ECLAC overlap with global monetary and financial asymmetries that stem from the hierarchical order of currencies (de Paula, Fritz, and Prates 2017), as well as from the opening to international capital flows and the consequent reinforcement of pro-cyclical adjustment to global cycles (Ocampo 2001a).

In this paper, we aim to elaborate a systematisation of different recent concepts of developmentalism discussed since the turn of the century. While there is a broad debate on the problem of renewed dependence on commodity exports in connection with redistributive policies, the present article aims to make a contribution in systematically assessing and comparing these more recent developmentalist strategies regarding the three identified elements of change, ie income redistribution, economic sustainability and the financial global asymmetries, in addition to productive asymmetries. Our main research question is how recent approaches of developmentalism distinguish themselves, especially regarding recent monetary and financial asymmetries, to broaden the policy space necessary for productive and ecologically sustainable change and increased equal income distribution in peripheral emerging economies.[3]

For this purpose, we first elaborate on a systematic landscape of the manifold recent developmentalist ideas and concepts in Latin America. Accordingly, we first review classic concepts of developmentalism, then provide an overview of the broader debate in Latin America, including the Andean concept of 'buen vivir', and finally identify the two most relevant recent approaches – the social-developmentalist and new-developmentalist approach – and compare them with classical developmentalism. Next, we provide a theoretical framework regarding current global monetary and financial asymmetries, and their limitations upon the policy space of peripheral emerging economies regarding macroeconomic and redistributive policies. On this basis, we scrutinise both new developmentalism and social developmentalism in terms of how they address monetary and financial asymmetries, and we explore their impact on the ability to achieve productive diversification, lower income inequality and ecological sustainability. The final section summarises the paper and discusses the interdependencies between sustained economic growth, income distribution and ecological sustainability.

Classic and new developmentalism: an overview

The concept of developmentalism is a rather ambiguous term by definition. It involves two perspectives that are obviously intertwined but not the same, either from an epistemological viewpoint or in daily practice: a phenomenon of the 'material world' (ie a set of practices of economic policies proposed and/or executed by policymakers) and a phenomenon of the 'world of ideas' (ie a set of ideas proposed to express theories, concepts or visions of the world). The former also expresses itself as political discourse, while the latter seeks to form a school of thought (Fonseca 2014, 30). In this paper, we focus on the ideas and theoretical concepts that inspired these policies and were inspired by them at the same time. We will seek to detach them from concrete cases as much as possible, while intensively drawing on the rich and intensive debate within Latin American academia.

Classic concepts of developmentalism in Latin America

The origin of developmentalism is related to both development studies of the 1950s and the Latin American structuralist approach, also known as 'classic developmentalism' (Bielschowsky 2000). This sought to understand the specificities of underdevelopment and how to overcome it. As a phenomenon of the 'material world', developmentalism translated into national industrialisation as the most efficient way to achieve increased productivity and national income. As a phenomenon of the 'world of ideas', the starting point of Prebisch (1949) – founding father of this approach – is the impossibility of analysing the dynamics of peripheral countries independent of their position within the world economy. Peripheral economies have a quite different dynamic than those that developed earlier, becoming the 'centre' of the world economy. This is the idea underlying the concept of an inherently hierarchical 'centre–periphery' international economic system featured by basic and persistent asymmetries (Ocampo 2001a).

The technological gap between the periphery and the centre is the fundamental asymmetry for Latin American structuralism. According to Prebisch (1951a, 3), the international diffusion of technology is 'slow and irregular', shaping the periphery's pattern of specialisation and resulting in a productive asymmetry (see also Porcile 2021). In Prebisch's time, centre countries were mainly producers and exporters of industrialised goods, and peripheral countries of commodities. Consequently, the exchange between the centre and periphery based on global free trade did not translate into gains for both, as argued by standard trade theories. This is because the technical change that originated in the centre led to changes in production patterns and demand, resulting in a specialisation of the centre countries in goods with high income elasticity (industrialised goods), and of the peripheral countries in the production of goods with low income elasticity (commodities). Moreover, the peripheral countries were marked by what Pinto (1976) called 'structural heterogeneity', where modern and high-productivity sectors (export activities) absorbed a small proportion of workers while the rest of the economy, dominated by low-productivity sectors, absorbed a much higher proportion of workers. This heterogeneity implied the persistence of substantial productivity gaps, wage differentials between these two sectors, weak and fragmented labour markets, and workers with low bargaining power, also resulting in high income inequality (Prebisch 1951b; Porcile 2021).

Latin American structuralism saw industrialisation as the only way to overcome the constraints of an asymmetric international order. This would require an active role of the state – based on state-owned firms, public development banks and trade protectionism – and external financing as a complement to domestic finance. The key role of an active state in reaching development has been repeatedly highlighted in analyses of national economic strategies especially in Asia but also in Latin America during the post-war period. Johnson (1982) uses the term 'developmental state' to describe Japan's post-war experience and the state's coordinating role in it. 'In states that were late to industrialize, the state itself led the industrialization drive, that is, it took on developmental functions' (Johnson 1982, 19). To explain the success in terms of the industrialisation and rapid growth of a group of Asian economies, Amsden (2001) and Wade (1990) identify key features and develop a typology of policy areas and priorities of developmental states, while Evans (1995) characterises the relationship of East Asian states with their economic actors as 'embedded autonomy'. Based on the historical development patterns of Brazil and Mexico, Schneider (1999) collaborates to diffuse the concept of the 'developmental state' for Latin America in the Anglo-Saxon literature, making broad reference to the Brazilian structuralist debate. Evans (1995) applies a similar typology to a comparative perspective of states in Africa, Asia and Latin America, focussing on the interplay of domestic actors and developmentalist aims, which he describes as 'embedded autonomy'.

New concepts of developmentalism: contours of a debate

Latin American structuralism has also been updated over time. According to Bielschowsky (2000, 63), neo-structuralism 'retrieves the developmentalist analytical agenda and policies, adapting to the new times of economic opening and globalization'. In the late 1970s and 1980s, this approach began to rely on evolutionary theories of technical change to explain why technological asymmetry and the resulting patterns of specialisation are so large and persistent (Porcile 2021). In this sense, the main contributions of neo-structuralism came from the work of Fernando Fajnzylber (1983, 1990), director of the Department of Industrial Development of ECLAC in Santiago del Chile since 1986.

As Porcile (2021, 53) underlines, this approach – also influenced by the East Asian catching-up economies and their developmentalist policies – would 'become the microeconomic foundation of the Neo-Structuralist approach to the dynamics of convergence and divergence between center and periphery', providing 'the analytical tools required to discuss the persistence of asymmetries in technology and patterns of specialization'.

Neo-structuralism provided an alternative development policy agenda to the orthodox toolkit titled 'productive transformation with equity' (CEPAL 1990). This agenda included a gradual and selective trade liberalisation combined with policies to promote technological and innovative capacities, and a set of policies to integrate growth, employment, social equity and environmental sustainability. It also included the concept of 'open regionalism'. Regional integration was seen as a basic condition for developing, gains of scale and the concentration of synergies capable of preparing Latin American economies for a competitive insertion into international trade. In contrast to the classic structuralism of Prebisch, which had assigned regional integration a role within import substituting industrialisation especially for smaller countries to increase their industrial scale, here regionalisation had the role of serving as an intermediate step towards internationalisation (Oliveira 2020).

The policy toolkit of neo-structuralism also included overcoming structural heterogeneity and its related income inequality, and addressing the new challenge of climate change. The state should also manage the interest and exchange rates and regulate capital flows to reduce the vulnerability of Latin America economies towards external financial shocks. The crucial role of macroeconomic policies and capital account regulation in this new international scenario was raised by Ocampo (2000) during his term as ECLAC executive director (1998–2003).

Ocampo (2001a, 2001b) argues that the nature of developing countries' external vulnerability changed in the last quarter of the twentieth century. Although current account shocks, in particular terms-of-trade shocks, continue to be important in the cyclical performance of these countries, financial or capital account shocks have assumed the dominant role as part of a broader context of international financial instability characterised by frequent financial and currency crises: 'the center economies – particularly the largest among them – are "*business-cycle makers*", the developing countries (the "periphery", in this framework) are "*business-cycle takers*"'. This implies different degrees of policy autonomy, 'whereas the center has more policy autonomy and is thus '*policy making*' […], the periphery is essentially "*policy taking*"' (Ocampo 2001b, 10; italics added).

Classical developmentalism has also nurtured the most recent approaches of Latin American developmentalism, which give income redistribution high priority. Income in the region shows the highest level of concentration compared with other regions in the world, emerging as a key topic in democratic elections in many countries during the 2000s. The most basic shared elements of these recent approaches can be summarised as (1) a national strategy or project of economic development, (2) giving the state an active role, and (3) resulting in social transformation through inclusion in the labour market or public policies (Fonseca 2014, 41; Bielschowsky 2012).

Inspired by the economic policy discourse and policymaking of the subsequent Partido dos Trabalhadores (PT)-led governments, the Brazilian community of heterodox economists certainly provided the most intensive conceptual debate, whereby this paper is strongly nurtured from this perspective. In 2010, a group of economists all around the world sharing a Keynesian and structuralist macroeconomic approach convened in São Paulo. They discussed a national development strategy for middle-income countries to promote economic catching up, and elaborated 'Ten theses on new developmentalism', under the leadership of Luiz Carlos Bresser-Pereira. This 'Sao Paulo consensus' was based on the idea that development is a process of structural change in which the state has a strategic role in providing an appropriate institutional framework. This role should encompass a national development strategy with full employment as its primary goal, while also ensuring price and financial stability. Such a strategy in turn should neutralise two tendencies of middle-income emerging economies: the tendency for wage increases to be lower than productivity growth rates, and the structural tendency to over-valuate the real or nominal exchange rate. It also included redistributive policies and, above all, a public compromise to provide full employment. This document was a sort of compromised effort among a wide range of developmentalist and heterodox economists, including those who later would split into new developmentalists and social developmentalists.[4]

We also find a long-standing debate in the epistemic communities of other Latin American countries – especially the larger ones – about the adequacy of macroeconomic liberalism and alternative approaches that centre – similar to the Brazilian debate – around the role of the state, the coordination of macroeconomic policies and redistribution.

In Argentina, Frenkel (2006) and Rapetti (2013) especially argue for the centrality of the exchange rate in terms of development, highly similar to Bresser-Pereira's (2011) concept of new developmentalism. Based on the Argentinean experience of the 2000s, Grugel and Riggirozzi (2007) elaborate on the lack of precision of neo-developmentalist approaches to solving tensions in a proactive state with an economy that is reliant on foreign investment and vulnerable to fluctuations in external demand, or how to settle the semi-permanent dispute over domestic income distribution with a unionised labour force and the demand for price stability.

We also find a related debate in Mexico, whereby economists related to the current president, López Obrador, have repeatedly referred to concepts of developmentalism, especially in its Asian version. For example, Castañeda (2018) cites Johnson's (1982) concept of a developmentalist state inspired by the Japanese economic miracle as a reference for the design of economic policies in Mexico. In his critique of standard arguments of productivity-led growth, Ros (2015) outlines alternative macroeconomic policies that contain most developmentalist features. With fiscal policies aiming to boost public investment and redistributive spending, he argues that monetary and exchange rate policies should not focus exclusively on inflation stabilisation, as this leads to significant real exchange rate appreciation. By contrast, a competitive exchange would allow for higher levels of domestic investment as a key source of growth. The author also argues in favour of a gradualist approach to increasing the minimum wage, given that this could strengthen the domestic market. However, at the same time he calls for a cautious approach in this field to balance the aims of redistribution and competitiveness.

Contrary to the larger Latin American economies – and especially the Andean countries – the debate on development alternatives has been dominated by the concept of '*buen vivir*' (from the quechua *Sumak Kawsay*). However, this is much vaguer than the term 'developmentalism'. Hidalgo-Capitán and Cubillo-Guevara (2016) identify three main different types in Latin America: one rooted in indigenism, one with links to post-developmentalist ideas of ecological sustainability, and finally another nurtured by socialist or state-led development.

In the latter sense, some authors have lauded this concept as a post-neoliberal project introducing alternatives into state planning on macroeconomic and welfare policies, asking for a developmentalist state (Villalba 2013; Radcliffe 2015). This idea is confirmed by a series of conceptual documents of the Ecuadorian government, 'Buen Vivir – a National Plan for Good Living' (ie Ecuador SENPLADES 2013). Fitting perfectly with the general definition introduced above, it emphasises the need to diversify production combined with equity. A closer look demonstrates its closeness to the social-developmentalist approach, which will be introduced later. The main difference can be found first in the relevance given to ecological sustainability, a topic that is absent in other concepts. Second, it pursues the idea of 'an economy with a market, not a market economy' (Hidalgo-Capitán and Cubillo-Guevara 2016, 37), assigning the state a more relevant role as an investor and regulator.

Obviously, this statist concept of *buen vivir* is fiercely rejected by others, and especially by post-developmentalist authors such as Acosta (2015). He postulates the idea of *buen vivir* as opposed to economic development per se, declaring any kind of an economically centred development strategy 'the unattainable ghost' (Acosta 2015, 302) that was never reached in the past, independent of its economic policy orientation. From this perspective, de-commodification would have to be achieved by rescaling towards local production and subsistence. This should allow linking social and ecological sustainability to indigenous values and a harmonic relationship between individuals. Svampa (2015) accuses this statist variant of *buen vivir* of placing the concepts of *buen vivir* and developmentalism at the same level, which enables deepening neoextractivism for the sake of providing the resources for technological change towards ecologic sustainability (Svampa 2015, 67). However, this does not make this approach less relevant for our overview. In particular, we take note of the key importance assigned here to ecological aspects of development and growth, which other developmentalist concepts ignore.

Comparing new approaches of developmentalism

Table 1 describes the aims, targets and tools of the three main developmentalism strategies, namely classical developmentalism, social developmentalism and new developmentalism. For this endeavour, we methodologically disaggregate these strategies into three layers: (1) policy aims, ie productive change or income redistribution; (2) policy targets, ie industrial production or a reduction of the Gini index; and (3) policy tools, ie industrial, macroeconomic or social policy.

Table 1. Developmentalist approaches in comparison.

	Classic developmentalism	Social developmentalism	New developmentalism
Aims	Productive change industrialisation with import substitution (ISI)	Productive change with broad income redistribution Industrialisation pushed by domestic market growth	Productive change with moderate income redistribution Re-industrialisation
Targets	Increase of domestic market (consumption) Industrial production Balanced trade account	Increase of domestic market (consumption) Industrial production Reduction in Gini index Balanced trade account	Trade balance surplus (manufacturing net exports) Industrial production Moderate reduction in Gini index
Tools	Public investments (including state-owned enterprises) Active industrial policy and regional policies Trade protectionism Active fiscal policy Growth-cum-external debt Financing of development: active role of public development banks	Public investment Moderate trade protectionism Active industrial policies Wage policies (ie real increase in minimum wage) Social policies (income transfers) Active fiscal policies Financing of development: public banks; consumer credit	Competitive exchange rate Capital account regulation Limiting external debt Industrial policy for export promotion Moderate trade liberalisation Wage policy (real increase in minimum wage along with productivity) Long-term fiscal equilibrium with room for counter-cyclical policies Progressive tax reform

Source: Authors' elaboration.

The agenda of *classic developmentalism*, as described above (section 2.1), includes an active role of the state. The agenda of social developmentalism (see Bielschowsky 2012; Carneiro 2012; Bastos 2012) is closer to that of the classic developmentalist approach, with its proposal of growth driven by domestic consumption and public investment, although it broadens the scope of developmentalist policies towards the social dimension. While the original developmentalism sees income redistribution more as an outcome of structural change, the social-developmentalist approach assigns social policies a prominent role (Lavinas and Simões 2015). Thus, traditional tools such as an active fiscal policy, trade protectionism and the central role given to public banks are complemented by active wage policies (mainly by increasing the minimum wage), social policies (social transfers such as minimum income programmes), and stimulus to consumer credit to boost domestic demand and achieve income redistribution. Industrialisation is expected to be pushed by growing domestic market demand, and exports are seen as complementary to an enlarged domestic market.

New developmentalism is a theoretically well-developed and coherent strategy that is applied 'particularly to middle income countries in which markets are already reasonably efficient in allocating economic resources in the competitive industries' (Bresser-Pereira, Oreiro, and Marconi 2015, 10). It shares the general lines of the neo-structuralist perspective but adds to this an agenda of developmentalist macroeconomic policies. According to this approach, there are two fundamental macroeconomic problems: the tendency of wages to increase below the productivity rate due to the availability of an unlimited supply of labour, and the tendency towards currency overvaluation. The latter is derived from two structural factors: (1) the problem of 'Dutch disease' for commodity exporters, whose currencies tend to appreciate in the long run, which is consistent with the balance in the current account but renders other tradable industries economically unfeasible; and (2) an additional currency appreciation caused by net flows of foreign capital, stimulated by the policy of growth-cum-foreign savings.

Given these two trends, the new developmentalist approach supports the implementation of an income policy that keeps wages growing in line with productivity and an exchange rate policy that counteracts the tendency of currency overvaluation to be complemented by capital controls. This policy has an 'industrial equilibrium exchange rate' as a target, which enables producers of state-of-the-art manufactured goods to compete in foreign markets with a fair profit margin (Bresser-Pereira 2011). For this purpose, it is necessary to devalue the domestic currency to the level of competitive equilibrium, leading to an increase in the profit rate and a temporary decline in wages.[5] Taking a similar approach, Frenkel (2006) states that preserving a competitive and stable real exchange rate can be used as an intermediate target of macroeconomic policies orientated to employment and growth objectives[6] (see also Ros 2015). Moreover, for this approach the monetary policy should maintain a low but positive policy rate to contribute to its objectives, and a long-term balanced fiscal policy[7] should be pursued, albeit with space for counter-cyclical measures, supplemented by a progressive tax reform that places the highest burden on rentier capitalists (Bresser-Pereira, Oreiro, and Marconi 2015).

By contrast, according to the *social-developmentalist* approach, economic growth should be driven by the domestic mass market – 'which will be wider the better the income distribution becomes' – as well as a 'favorable outlook for public and private demand for investments in (economic and social) infrastructure' (Bielschowsky 2012, 730; all quotations from Spanish and Portuguese have been translated by the authors). In particular, the growth of the domestic mass market should be stimulated by the expansion of employment and improvement in income distribution as a result of redistributive governmental policies such as real increases in wages – especially the minimum wage – and increases in social spending. Second, as a growth strategy based on mass consumption might lose momentum as time passes, the expansion would have to be completed or seconded by autonomous investment, mainly public investment in economic and social infrastructure (Carneiro 2012, 775). Financial policy also plays a key role in this approach, in terms of either stimulating consumer credit or providing public financing in conditions favourable to private investment. The balance of payments constraint would be mitigated by export growth induced by scale effects derived from the domestic market growth. It also could be supplemented – at least temporarily – by the expansion of the natural resource-intensive sector and its supply chains (Bastos 2012; Bielschowsky 2012).

Regarding the applicability of these concepts to specific countries in terms of size and level of industrialisation, the social-developmentalist approach has been developed for larger countries where the domestic market can provide strong growth impulses, while the statist version of *buen vivir* has adjusted it to smaller economies as well, giving the state a stronger role in creating demand. For the new developmentalist approach, economic size is not an advantage per se, since growth dynamics are intended to come from cumulative export surpluses, which should be greater the larger the domestic market. Also essential to this approach is a pre-existing level of technological sophistication and productive diversification, sufficient to give manufactured exports a competitive advantage at the global level, when sustained by a competitive exchange rate.

Global monetary and financial asymmetries and policy space

To critically evaluate the recent developmentalist strategies, this section attempts to assess the challenges faced by peripheral emerging economies in choosing and designing economic policies at the domestic level. For this purpose, we follow a Keynesian-structuralist approach that also builds on the Latin American structuralist concept of international centre–periphery asymmetries, but from a post-Keynesian perspective whose starting point is Keynes' concept of currency hierarchy (CH), ie the hierarchical structure of an international monetary system organised around a national currency that becomes the so-called key currency (Keynes 1944).[8]

According to the Keynesian-structuralist approach, and similarly addressed by Ocampo, in the post-Bretton Woods setting the asymmetries of the international monetary and financial system have gained importance, overlapping with the technological and productive asymmetries. *Monetary asymmetry* is a consequence of the CH, whereby currencies are hierarchically positioned according to their degree of liquidity, which relates to the ability to perform the functions of money at the international level (medium of payment, unit of account and store of value).

The key currency (currently, the fiduciary and flexible US dollar) has the highest liquidity premium, as it performs all functions of money at the international level. Below the key currency stands the euro and subsequently the currencies issued by the other centre countries, including liquid currencies, but with a smaller liquidity premium than the key currency, because they perform the functions only partially. At the opposite end, we find the peripheral currencies issued by peripheral economies, whose liquidity premium is the lowest as they do not perform the functions internationally, or do so only marginally.

Although such a hierarchy has been a fundamental feature of the international monetary systems that have succeeded since the sterling gold standard (all of them anchored in a key currency), it has revealed itself as even more detrimental to countries with non-liquid currencies after the emergence of so-called financial globalisation, ie the interpenetration of onshore and offshore financial markets (Chesnais 1996). In this setting, the monetary asymmetry is intertwined with a *financial asymmetry* determined by the dynamics of global capital flows that ultimately depend on exogenous sources.

For the Keynesian-structuralist approach, the interplay of the global monetary and financial asymmetries in the context of financial globalisation reduces the degree of autonomy (compared to centre economies) to implement economic policies for domestic purposes, ie the policy space of peripheral emerging economies. This means that the so-called dilemma (Rey 2015) or impossible duality (Flassbeck 2001) – ie the impossibility of an independent monetary policy under conditions of free capital mobility – is stronger in such economies than in centre economies, regardless of the exchange rate regime. As we can see in Figure 1, the lower the liquidity premium, the lower the degree of macroeconomic policy space. A key manifestation of the monetary asymmetry is the higher interest rate in the peripheral emerging countries to compensate for their reduced liquidity premium compared to centre economies.

Therefore, peripheral emerging economies issuing non-international currencies are particularly vulnerable to the capital flow cycles of financial globalisation that make their exchange rates more susceptible to foreign investors' portfolio decisions, and at same time they have lower policy space to adopt counter-cyclical policies to curb the adverse effects of these cycles. In *boom* periods, they suffer from appreciation pressures that may harm international competitiveness, leading to a deterioration in trade and current accounts. This in turn increases the dependence on international capital flows. During *busts* and depreciation periods, they suffer from an increased risk of financial crisis lashed by currency mismatches and/or the sudden reversal of non-resident portfolio investment. Strong currency depreciation also reinforces the pass-through to domestic prices, posing challenges for inflation control. The scale of negative economic and social effects on a country's macroeconomic performance depends on the amount and composition of its net external liabilities (de Paula, Fritz, and Prates 2020).

From this perspective, even though trade shocks and related phenomena such as the 'Dutch disease' still play an important role in commodity-exporting countries, the cushioning

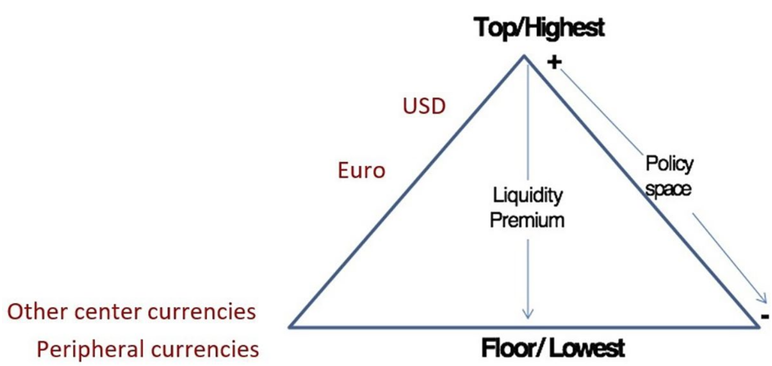

Figure 1. Currency hierarchy and macroeconomic policy space.

of boom–bust financial cycles turns a key and unavoidable element to increase domestic policy space for peripheral emerging economies. Achieving and maintaining a stable and competitive exchange rate is especially necessary – although not sufficient – for sustained growth.[9] Only then can countries gain policy space for changing their productive structure and pursuing inclusive policies. This requires restricting financial openness and imposing capital account regulations, defined as capital controls and prudential financial regulation that affects capital flows (see Gallagher, Griffith-Jones, and Ocampo 2012; Prates and Fritz 2016). Engaging in regional monetary and financial cooperation may help countries to cushion external financial shocks and reduce economic volatility (Fritz and Mühlich 2015). Avoiding an appreciation of the domestic currency beyond a level that allows at least for a balanced current account is required to prevent a surge in external vulnerability and its damaging effects for both macroeconomic variables and more long-term economic development.

In the next section, we will elaborate on the extent to which and how this exchange rate requirement is compatible with the common developmentalist aims of structural change with sustainable growth and redistribution, as well as the extent to which the dimension of ecological sustainability is included.

Challenges for developmentalism under global financial asymmetries

New developmentalism

Focus on exchange rate, but less on monetary and financial policies

The new developmentalist approach gives priority to an exchange rate that not only enhances international competitiveness for manufactured goods but also reduces the vulnerability to external shocks, even without referring directly to global monetary and financial asymmetries. However, for the risks associated with an appreciated exchange rate, no general case for a Dutch disease can be made for all peripheral emerging economies, given that not all emerging economies are commodities exporters. On the other hand, in the context of an exacerbated global financial asymmetry due to financial globalisation, all peripheral emerging economies suffer from the impact of high and volatile capital flows on their exchange rates.

A second point concerns the domestic interest rate: while new developmentalists also consider the relevance of a low interest rate, most attention is devoted to the exchange rate. We contend that the interest rate is also a key variable for an economic policy orientated towards economic growth and social inclusion for reasons other than simply reducing the interest rate differential. In a world of financial globalisation with open financial accounts, the interdependence between the interest rate and exchange rate has intensified, given the use of interest policies rates to mitigate sudden capital outflows and their effects on the exchange rate. Against this, maintaining a low interest rate would be a sine qua non condition for developing long-term financial relations in peripheral emerging economies to curb agents' short-termist behaviour. Accordingly, short-term interest rates influence long-term interest rates and are one of the main factors inhibiting the formation of a long-term domestic financial market (Mohanty 2012).

New developmentalism has no explicit policy concept related to financing, mostly long-term financing. Recent studies have highlighted that measures to stimulate the development of domestic financial markets by diversifying sources of financing firms can help to reduce the external vulnerability of a country, with Asian catch-up experiences being the most relevant case of reference (Burlamaqui, Sobreira, and Vianna 2015; see also Gerschenkron (1962), for a pioneering analysis of former late industrialisation's experiences). According to the new developmentalist strategy, financing issues seem be automatically 'solved' if a country is able to implement adequate macro prices. However, the dysfunctional way in which financial systems work especially in emerging economies may have unfavourable consequences for economic development, creating a strong degree of maturity and currency mismatches, and therefore high risk (Hermann and Paula 2014).

Third, the new developmentalism has a stronger focus on the boom periods of capital flows than on the volatility and cyclical movements of these flows and their macroeconomic consequences. In particular, for commodity-dependent economies, capital inflows may move pro-cyclically with commodity prices, aggravating external shocks, exchange rate volatility, and increasing vulnerability to global boom-bust cycles (Akyüz 2020).

Fourth, new developmentalism does not seem to have an explicit policy to deal with the problem of inflation, which holds genuine concern for a group of emerging peripheral economies. This approach criticises 'exchange rate populism' (Bresser-Pereira 2011, 115) as a strategy that allows the currency to appreciate due to market forces for price stabilisation purposes, although it is unclear what sort of policy should be implemented. For instance, it is not explained whether an inflation-targeting regime should be adopted, or whether it applies for a more flexible regime.

Growth without a functional role for redistribution

New developmentalism foresees that wages should grow in line with labour productivity to maintain a balance between profits and wages. This favours external competitiveness and a satisfactory industrial profit rate, understood as a precondition for a catch-up strategy of peripheral emerging economies. Therefore, personal income redistribution has no direct functional role for growth here. The idea is that a boost in productivity – pushed by net exports – should gradually shift functional income distribution in favour of wage earners, thanks to increased labour occupation and the relative increase of the wage share, while profit rates would remain stable (Bresser-Pereira 2018).

However, especially in cases of larger peripheral economies, where exports account for a relatively small share of the economy, it is difficult to implement export-led growth as it would require a much more open economy and a low wage rate. In this case, income redistribution might be too small and slow to create a significant impact. Although new developmentalism addresses social policies and progressive tax policies, they seem to be an addendum (Bresser-Pereira, Oreiro, and Marconi 2015).

Social developmentalism

Negligence towards macroeconomic consistency

As Carneiro (2012, 774) states, the reflections regarding the social-developmentalist approach appear to be rather fragmented, gaining major inspiration in political debates and public policies. The potential links between income redistribution, mass consumption, investment, productivity gains, net exports and growth are in fact well formulated. At the same time, the core of this literature (Bielschowsky 2012; Carneiro 2012; Bastos 2012) devotes little attention to formulating fiscal, monetary and exchange rate policies, especially in their interdependence with the goal of redistribution and structural aims.

While Bielschowsky omits these policy fields, Bastos (2012, 795) proceeds into a somewhat more detailed analysis of fiscal policy from a political economy perspective. He detects multiple pressures on the public budget stemming from the call for social spending as a tool to spur the demand for investment (public or private investment fostered by public incentives) to overcome structural bottlenecks in terms of infrastructure and spurring productivity. Accordingly, he rejects fiscal austerity as a tool. Carneiro (2012, 774) mentions the relevance of low interest rates in fostering investment, further supported by financial development for long-term financial contracts, as well as enhanced access to credit for consumers, besides highlighting the importance of wage increases above productivity gains to energise domestic mass consumption.

Among these authors, only Bastos (2012) occasionally mentions the issue of exchange rate policies. The topic of exchange rate policy only receives more systematic treatment in secondary literature on the concept of social developmentalism (eg Amado and Mollo 2015, 83). It is argued that the exchange rate should not suffer a strong devaluation for two reasons, namely to facilitate the import of capital goods – allowing the national capital to absorb technological progress – and to maintain wage earners' purchasing power due to reduced domestic prices for tradable goods.

To our knowledge, only Rossi (2014) has formulated a more explicit proposal for macroeconomic policies of the social-developmentalist approach. By proposing an active exchange rate policy aiming to curb appreciation (Rossi 2014, 206), he explicitly draws on Bresser-Pereira (2011). At first sight, the social developmentalism concept here thus seems to be very similar to new developmentalism, and compatible with the perspective of global asymmetries. At the same time, external constraints do not play a significant role in his analysis, only listing it as the final one among 12 'historical features on which economic development depends' (Rossi 2014, 199). More importantly, he excludes wage policies from his analysis. Therefore, from our perspective, even this most elaborate proposal offers no solution to a key aspect of macroeconomic policy coordination between wages and the exchange rate.

Neglected exchange rate policies limit redistribution effects

The absence of adequate policy coordination that prevents the use of the exchange rate as an instrument for inflation stabilisation inhibits key mechanisms that are assumed in this approach. The idea that the structural balance of payments constraint would be mitigated by export growth induced by scale effects in the domestic market would clearly depend on the incentives for domestic investment. Nonetheless, without a clear focus on achieving and maintaining a competitive exchange rate, the stimulus to domestic consumption and investment might quickly be diverted towards imported goods instead of creating new and diversified domestic production capacities.

The consequences of an appreciated exchange rate on the productive structure depend on the level and duration of currency appreciation above a competitive level, together with its volatility, the productive structure and the terms of trade of traditional export products, which significantly vary between countries and over time. Without a competitive exchange rate that counterbalances the wage increases above productivity increases, investment and thus employment in labour-intensive sectors with high productivity may suffer a serious backlash, in the worst case creating incentives for a process of premature de-industrialisation in a peripheral emerging economy (Frenkel 2008; Palma 2005; Ros 2015).

This unbalanced growth of the non-tradable sector is magnified when domestic demand is supported by monetised or 'commodified' social policies. Both conditional cash transfers, especially when generous in level and broadly distributed, and wider access to consumer credit proceed in the same direction. In particular, increasing consumer credit may place poorer households at risk of over-indebtedness, depending on their growth trajectory and the terms of such financial arrangements.

The papers on social developmentalism also offer no solution concerning how to achieve inflation stabilisation, with monetary policy focussing on multiple goals, while increased demand for non-tradable goods may push inflation, with fiscal policy tending towards a deficit. This implies that – combined with the repeatedly declared fear of the negative redistributive effects of a devaluation – the position of this approach towards the exchange rate remains ambiguous at the least. Finally, social developmentalism assigns high priority to long-term finance, giving state-owned banks a key role (see also Calixtre, Biancarelli, and Cintra 2014). However, it is unclear how these mechanisms can be complemented by private finance, or how the government should stimulate them.

The concept of *buen vivir* – in its state-led variant as classified above (Ecuador SENPLADES 2013, part 2.2) – is very similar to social developmentalism in its macroeconomic approach. Pushed by the increase of lower wages – and especially by social spending public investment – domestic demand should at the same time push domestic demand and redistribute income. We thus assume that this variant of *buen vivir* suffers from the same flaws in terms of economic sustainability that we identified with social developmentalism. However, it still brings the advantage – contrary to both social and new developmentalism – that it recognises the need to link economic restructuring to the goal of ecological sustainability. Table 2 summarises the limits of social and new developmentalism approaches discussed in this section.

Concluding remarks

Our analysis of the most relevant developmentalist approaches shows that today, economic and social development comprises a complex and multifaceted process. All of the recent approaches analysed here, even if they all come under the label of developmentalism, focus

Table 2. The limits of social and new developmentalism. ER: exchange rate.

	Social developmentalism	New developmentalism
Balance of payments dominance	Negligent Ambiguity of ER: reluctant to devalue to protect real wages Rather expansive monetary and fiscal policies, wage increases -> Appreciated ER for price stability	Fully addressed regarding ER Less attention to monetary policies and financial development
Redistribution	Link from domestic market growth to net exports to jobs interrupted by negligence of competitive ER	Not functional, but included as additional aspect; core of the concept is ER policy
Structural change	Negligence of competitive ER -> Industrial policies less effective -> Re-commodification	Competitive ER necessary but not sufficient
Financing of development	Fully addressed, but limited role for private financing	Not directly addressed

Source: Authors' elaboration.

on specific dimensions at the cost of others. While most of the literature has a primary focus on the problem of renewed dependence on commodity exports in connection with redistributive policies, our contribution has been to analyse to what extent different concepts of developmentalism deal with the problems arising from global financial asymmetries. We scrutinised two concepts more closely, social and new developmentalism, and interpreted a third concept, '*buen vivir*', as a variant of the social-developmentalist approach.

From this comparative perspective, the new developmentalist approach has a clear and well-developed strategy with a focus on shielding the economy from external shocks. Nonetheless, a competitive exchange rate – although necessary in a long-run strategy of growth – may be insufficient to initiate a virtuous circle for sustainable growth with sufficient inclusion in the labour market. As the concept essentially assumes that employment creation will occur via net exports, with wages growing along with productivity gains, progressive fiscal and social policies appear to be more of an addendum.

The social-developmentalist strategy makes redistribution the centrepiece of its definition of a virtuous growth cycle. A jump in domestic mass consumption is expected to push investment in the industrial sector. However, the idea to compensate the temporary increase of net imports by financing with traditional commodity exports certainly disregards issues of ecological sustainability. The issue of macroeconomic consistency has received far too little attention until now. In particular, the social-developmentalist's ambiguous position towards the role of the exchange rate calls into question the ability to cope with financial and other global shocks. The lack of priority given to preventing an appreciated currency may foster exactly the pattern of boom–bust cycles led by unstable international capital flows and volatile commodity prices that perpetuates the status of peripheral economies and further limits the space to pursue active economic and social policies. We further identified the concept of *buen vivir* as another relevant approach with clear links to the recent developmentalist debate, with its social and macroeconomic approach being similar to social developmentalism, albeit the only one to consider the dimension of ecological sustainability.

The exercise of comparing these approaches makes it evident that developmentalist concepts today represent a highly differentiated field. Despite their common point of departure of rejecting orthodox economic recipes and of referring to the Latin American structuralist approach, each of them deals with rather specific problems that developing countries and emerging markets and societies face today. From this, it also becomes clear that it is anything but an easy task to successfully combine developmentalist policies aimed at reducing macroeconomic volatility with the major economic inclusion and structural change of production patterns, while additionally caring for ecological sustainability. In the remaining space, we briefly delineate the necessary conditions to combine these ambitious aims.

First, from our theoretical perspective of global asymmetries currently driven by the financial sphere, such a strategy must aim to achieve a stable and competitive exchange rate. This certainly requires regulating international capital flows through adequate capital account regulation. These need to be tailored to the institutional features of a country's financial markets (Prates and Fritz 2016) to reduce peripheral countries' external vulnerability to expand the domestic policy space. At the same time, this calls for the coordination of economic policies: industrial and technological policies and exchange rate policy 'should be seen as strategic complements, not substitutes, and they must go hand in hand, as New Structuralists have claimed, in the process of economic development' (Porcile 2021, 29).

Second, monetary policy should also give room for financial development to reduce the external vulnerability caused by foreign currency denominated debt. The challenge of financing economic development requires much more than entrepreneurial 'expertise' in choosing the best capital structure. It is necessary to establish and maintain a favourable environment for the formation of a diversified system of financial institutions and instruments that compete with and complement each other to offer alternative financing sources for the spending units (Hermann and Paula 2014). Public financial institutions – especially development banks – can play a complementary and structural role in fostering the development of financial markets in peripheral economies.

Third, policies towards cushioning external shocks and fostering structural change should be closely combined and intertwined with active welfare policies. Thus, social policies that mix income redistribution with automatic stabilisers to smoothen domestic demand over the cycle should move to the centre of attention. Even the International Monetary Fund (IMF 2014) – long seen as a bastion of fiscal austerity at the cost of equality – supports the idea that high income inequality can be detrimental to achieving macroeconomic stability and growth, and that fiscal policy plays a key role in redistributing income. In this vein, a progressive tax system with a key role for income taxes can contribute to maintaining part of domestic demand during downturns, and reducing them in upturns. A broader coverage and level of unemployment insurance works in the same direction, like temporary working-time reductions to maintain employment in crises, through distributing wage losses among workers, employers and the state (Herzog-Stein, Lindner, and Sturn 2018). Additionally, the provision of universal public goods such as health and education might shield the productive sector from uncertainty and the pressure to tackle individual risks of economic actors, thus supporting productivity (Lavinas and Simões 2015).

Finally, despite the consensus that commodity-based growth is environmentally highly damaging, industrialisation via manufactured exports also may come with ecological costs (ie Yan and Yang 2010). Therefore, public policies should also seek to foster productive transformation aligned not only with social but also with ecological sustainability, as ECLAC's neo-structuralism has been doing for decades. The formulation of necessary and sufficient conditions to achieve these multiple aims not only requires further careful research on the indicated aspects. Indeed, as the specific interdependence of policies and their outcomes is highly context sensitive, the design of such a strategy must also take into account the specific macroeconomic constellations and institutions of a country, as much as its socio-political preferences in key dimensions such as the degree of economic and social redistribution, the level of fair tax systems, and the environment.

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Notes

1. This article is based on a prior version published as a working paper (Fritz et al. 2017); the new version incorporates substantial amendments.
2. The Economic Commission for Latin America and the Caribbean (ECLAC; in Spanish CEPAL), headquartered in Santiago, Chile, is a regional commission of the United Nations founded in 1948. Under the leadership of Raul Prebisch, ECLAC developed what became known as Latin American structuralism, with its centre–periphery concept (see section 2.1).
3. We use this term to link the structuralist approach of a centre–periphery duality with our perspective of global monetary and financial asymmetries and the specific constraints imposed on peripheral economies, especially when they have integrated themselves into global financial markets, becoming emerging economies. At the same time, we will use the terms 'peripheral' and 'developing' as synonymous, and the terms 'central' and 'developed' as synonymous.
4. The document was signed by a wide array of economists including Amir Bhaduri, Ricardo Bielschowsky, Luiz Bresser-Pereira, Ha-Joon Chang, Victoria Chick, Paul Davidson, Gary Dymski, Gerald Epstein, Roberto Frenkel, James Galbraith, Robert Guttmann, Jan Kregel, Willian Lazonick, Jose-Antonio Ocampo, Thomas Palley, Gabriel Palma, Malcolm Sawyer, Osvaldo Sunkel, Lance Taylor, Robert Wade, Linda Weiss and Randall Wray. In addition, two authors of this paper participated in the workshop and signed the document. For more recent disagreements among developmentalists, see the debate between Medeiros (2020), Bresser-Pereira (2020) and Palley (2021).

5. Bresser-Pereira et al. (2015, 216) state that 'the initial effect of the exchange rate devaluation will be a reduction in real wages. […] As the economy reindustrializes and growth accelerates, employment and the growth rate of labour productivity increase, […] resulting from the increase in the investment rate. […] after some time, real wages will recover because now productivity, per capita income, and real wages will be growing faster than they would had the economy remained in a low growth trajectory'.
6. According to Frenkel (2006), the real exchange rate affects employment through three channels: (1) the macroeconomic channel, whereby a competitive real exchange rate leads to higher net exports and consequently to higher demand on local activities and higher output and employment levels; (2) the development channel, whereby the real exchange rate affects the employment growth rate in the long run due to its influence on the output growth rate through its incentives for investment in tradable activities, which accelerates productivity growth and generates positive externalities in other sectors; and (3) the labour intensity channel, through the positive effect of a competitive real exchange rate on the labour intensity of output, mainly in the tradable sector of countries where most capital goods are imported.
7. According to Oreiro (2012, 34), 'as far as fiscal policy is concerned, its role should be limited to stabilizing the level of economic activity, minimizing fluctuations in the rate of growth of the real product around the long-term sustainable level, which is defined by the long-term growth rate of exports …'.
8. This section draws on authors such as Riese (2004) and is based on Andrade and Prates (2013), Paula et al. (2017) and Fritz et al. (2018), who elaborated a theoretical framework based on Keynes' equation of an asset's own rate of interest.
9. The key relevance of an undervalued exchange rate for productive change and labour inclusion is highlighted by Rodrik (2008) and Guzman et al. (2018), among others.

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