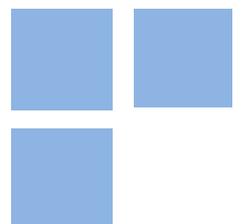




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Intellectual: The Multiple Faces  
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Thought

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### **Abstract:**

Luiz Carlos Bresser-Pereira is one of the most important Brazilian polymaths of the 20th century. His long career in government bureaucracy guarantees him a prominent place in Brazilian public debate. Although he is recognized for his work as a professor of economics, his work spans different sectors of the social sciences. From an academic standpoint, his main contributions to literature have been in the fields of (1) inertial inflation, (2) the theory of state managerial reform and the emergence of the managerial class, and (3) new developmentalism. This article summarizes and presents the latter two, drawing not only on his own work over the past 40 years, but also on that of other relevant researchers who have addressed these same topics.

**Keywords:** Bresser-Pereira, Economic and Social Thought, Bureaucracy, Developmentalism

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Ivan Colangelo Salomão<sup>1</sup> e Andre Roncaglia de Carvalho<sup>2</sup>

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## 1. Introduction

Analyzing a certain person's thoughts poses challenges beyond the inherent difficulties of reading, understanding, and interpreting his ideas on the most varied subjects he has dedicated himself to. In the specific case of Bresser-Pereira, there is a quantitative particularity to this circumstance: of all the public men who have occupied the Ministry of Finance since its creation, he was probably the most prolific of the ministers who bequeathed a written work, whose objects of study permeate various areas of the social sciences<sup>3</sup>.

Luiz Carlos Bresser Gonçalves Pereira was born in the city of São Paulo in 1934. The great-great-grandson of German engineer Karl Abraham Bresser – who was technically responsible for various works that made the capital's urban expansion possible in the 19th century<sup>4</sup> – Bresser-Pereira's family environment was the first stimulus for the intellectual path he later followed. His father, lawyer, teacher, and writer Sylvio Gonçalves Pereira (1911-1995), worked on the editorial staff of *Correio Paulistano* and, in 1951, founded and ran the daily newspaper *O Tempo* for four years. Between 1974 and 1994, he published six novels and two children's books. From his mother, the educator Clara Bresser Pereira, he received the first teachings in the early stages of his literacy.

Luiz Carlos followed the route common to a significant part of São Paulo's elite: he attended the Jesuit school in São Paulo (Colégio São Luís), participated in the Catholic University Youth, and graduated in law from the University of São Paulo (USP) in 1957. During this period, he had contact with *Cadernos do Nosso Tempo*, published between 1953 and 1955 by the Brazilian Institute of Economics, Sociology, and Politics (IBESP). Under the leadership of sociologists Hélio Jaguaribe and Alberto Guerreiro Ramos, the *think tank* – later transformed into the Instituto Superior de Estudos Brasileiros (ISEB) and incorporated into the structure of the Ministry of Education – was one of the main promoters of the

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<sup>3</sup> The *Complete Works of Rui Barbosa*, organized by the Casa de Rui Barbosa Foundation and published by the former Ministry of Education and Health in 1941, were put together in 50 volumes and 137 tomes. Although it is a large collection, a substantial part of his work includes the various speeches he made during his long career, an expedient that is more than appropriate for the politician that Rui Barbosa was.

<sup>4</sup> The patriarch of the family, who had arrived in the country in 1838, had served in the army of his native country as a surveyor (Unzelte, 2003). In Campos' work (1997), Karl Bresser is described as a "civil engineer," an occupational designation he adopted until the end of his life in Brazil

national-developmental ideology, advocating a class coalition that brought together industrial entrepreneurs, urban workers, and the public bureaucracy. Reading this material inaugurated the self-education that would mark his education.

Bresser-Pereira began his teaching career at the Getúlio Vargas Foundation's São Paulo School of Business Administration (EAESP/FGV) in 1959, where he still works as a professor and researcher. Having already started studying organizational and economic issues, he spent two years at Michigan State University (USA), where he completed his MBA in 1961. There, he studied in depth two German theorists who would directly influence the development of his ideas: Max Weber and Joseph Schumpeter. Back in Brazil, he dedicated himself to writing *Development and Crisis in Brazil* (1968), his first published book, which has had five updated editions, the latest of which was published in 2003<sup>5</sup>.

In 1972, he received his PhD in economics from USP, during which time he studied the works of Karl Marx and John M. Keynes. Although these authors guided the development of his analysis of the Brazilian economy and politics, it was from that moment on that Bresser-Pereira invested in one of his distinctive characteristics: his commitment to developing new theories, such as the emergence of the managerial or technobureaucratic class, the fall in the rate of profit, inertial inflation, and the new developmentalist theory.

In the early 1970s, he began to study the emergence of a new social class, the technobureaucratic or managerial class. As a result of this research, the 1981 collection *A Sociedade Estatal e a Tecnoburocracia (The State Society and Technobureaucracy)* brings together the various works he wrote on the subject. In 1984, he was awarded the title of Livre-Docente by the same institution with his thesis *Profit, Accumulation, and Crisis*, in which he analyzed the phases of capitalist development in the light of the Marxist thesis of the tendency for the rate of profit to fall. Later published as a book, this study became a reference in the analysis of capitalist development and the distribution of profits and wages.

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<sup>5</sup> From then on, he stopped updating this book – until then his most complete analysis of the Brazilian economy – and devoted himself to a more complete and expanded work, *The Political Construction of Brazil* (2014), the fourth edition of which was published in 2021.

His understanding of the national reality was also honed by his long experience both in private administration – as vice president of Pão de Açúcar – and in public management, whose debut was when he took over the presidency of the then Banco do Estado de São Paulo (Banespa) in 1983. During the same term as André Franco Montoro, the first democratically elected governor of São Paulo after the end of the military dictatorship, he was Secretary of the Civil House (1985-1986).

In April 1987, in the midst of the serious crisis of legitimacy affecting President José Sarney, Bresser-Pereira was invited to take over the Ministry of Finance. Faced with the economic chaos resulting from the collapse of the Cruzado Plan and the foreign debt moratorium decreed by his predecessor, the new minister was tasked with not exactly trivial responsibilities: controlling rampant inflation and renegotiating the payment of debts with international creditors. Without the political support to carry out a rigorous and necessary fiscal adjustment, the first challenge was not met.

With regard to the foreign debt crisis, it can be said that the aphorism attributed to La Rochefoucauld has gained a new understanding in the world of high finance. Inexorably, although obligatorily delayed, history paid tribute to the virtue<sup>6</sup>: months later, the proposal formulated by Bresser-Pereira, initially rejected by the US negotiators, was adopted by the US Secretary of the Treasury, who, without attributing the merits of the initiative to him, even lent the name to what became known as the Brady Plan.

During the Fernando Henrique Cardoso administration, he took over the newly created Ministry of Federal Administration and State Reform (1995-1998), from where he developed the theory of managerial state reform on which he based the administrative reform in Brazil. During FHC's second term, he was Minister of Science and Technology for a brief period, when he laid the foundations for the institutionalization of sectoral funds related to the area. Dedicated exclusively to academia since 1999, Bresser-Pereira continues to teach undergraduate and

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<sup>6</sup> The 17th-century French thinker François de La Rochefoucauld (1613-1680) was famous for his pessimistic maxims, which are still celebrated today. In addition to the aforementioned "Hypocrisy is a tribute that vice pays to virtue," another of his adages is the no less well-known "True courage lies in doing without a witness what we would be capable of doing in front of everyone".

postgraduate courses at FGV-SP and edits the *Revista de Economia Política* (renamed the *Brazilian Journal of Political Economy*), a journal founded in 1981 and today considered one of the most influential among Brazilian economists and researchers.

The eclecticism of his academic background (and possibly the magnitude of his experience in public management) is directly reflected in the theoretical-methodological plurality characteristic of his research. In addition to the first two authors mentioned above, the aforementioned Marx and Keynes were two decisive references in his intellectual trajectory – that of a heterodox economist, naturally.

His foray into the national debate came with the publication of a text in 1970 in the now defunct magazine *Visão*. In the article "Dividir ou multiplicar? In "A distribuição da renda e a recuperação da economia brasileira" (Income distribution and the recovery of the Brazilian economy), Bresser-Pereira argued that, contrary to what Celso Furtado had predicted, the concentration of income in favor of the middle classes conditioned the resumption of growth at the end of the 1960s, a period later nicknamed the "economic miracle"<sup>7</sup>. The argument was taken up again in 1973 with the publication of "Novo modelo brasileiro de desenvolvimento" (New Brazilian Development Model) in the journal *Dados*, in which he once again pointed to the challenges that income inequality posed to sustained economic growth. Although he was still a "classic developmentalist," Bresser-Pereira was already concerned with issues that went beyond those traditionally dealt with by this group of economists, such as the concentration of income, a subject he analyzed in his book *Estado e Subdesenvolvimento Industrializado* (*State and Industrialized Underdevelopment*) (1977).

From the early 1980s onwards, Bresser-Pereira dedicated himself to understanding the Brazilian inflationary phenomenon. His first theoretical contribution to the subject was precisely through the discovery of the mechanism underlying the relentless general increase in prices: inertial inflation. In partnership with his former student and FGV-SP professor Yoshiaki Nakano,

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<sup>7</sup> The same argument was amplified by the well-known work of Maria da Conceição Tavares and José Serra ("Além da Estagnação: Uma Discussão sobre o estilo de desenvolvimento recente do Brasil"), published in 1972, almost two years after the publication of their article.

Bresser presented the article "Factores aceleradores, mantenedores e sanacionadores da inflação" (Accelerating, maintaining, and sanctioning factors of inflation) at the 11th meeting of the National Association of Graduate Centers in Economics (ANPEC), held in December 1983 in Belém, which is considered to be the cornerstone of the theory of inertial inflation<sup>8</sup>. It laid the foundations for the policy that would control Brazil's explosive inflation a decade later. In 1984, together with Nakano, he published the book *Teoria da Inflação Inercial (Theory of Inertial Inflation)*. And in 1992, based on his experience in the Ministry of Finance, he organized a collection of his works on the fiscal crisis of the Brazilian state, *A Crise do Estado*, which won the Jabuti Prize. The following year, he published *Economic Reforms in New Democracies* (1993), together with Polish political scientist Adam Przeworski and Spanish sociologist José María Maravall.

The reference to just a few of his most important studies is justified not only by the deference immanent to seminal works of this nature, but above all by the impossibility of listing and analyzing his entire oeuvre<sup>9</sup>. The author of more than 30 books and hundreds of articles published in Brazilian and foreign journals, his academic fecundity would be noteworthy *in itself*. As well as being productive, he leads the way for a whole current of developmental economists, a position that earns him the distinction of being one of the most respected Brazilian social scientists today.

A restless intellectual, Luiz Carlos Bresser-Pereira maintains an intense routine of activities at the age of 85 – from granting interviews to publishing texts in the main Brazilian newspapers, from coordinating events to organizing research groups – all of which contribute to shaping and influencing the debate on the direction of the country.

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<sup>8</sup> Although Bresser-Pereira has combined elements to present a somewhat unprecedented explanation, the previous contributions of various economists, such as Simonsen (1970) and Pazos (1972), and especially those of Arida and Resende (1984) and Lopes (1984), the authors responsible for the political application of the theory, both in the Cruzado Plan (1986) and the Real (1994), cannot be minimized.

<sup>9</sup> For an exhaustive list of activities carried out, positions held, and awards received, see his own CV available at <http://www.bresserpereira.org.br/documentos/91>.

## **2. Bureaucracy, privatization, and state reform**

The eclecticism of Bresser-Pereira's intellectual background has contributed to his ideas being discussed and used in various areas of the social sciences. It was in the debate about the reforms of the post-developmental state that, in the light of his Weberian influences, the political scientist Bresser-Pereira was able to make his most decisive contribution (theoretically and politically) from the end of the 1980s onwards.

The crisis of the post-Bretton Woods economic paradigm resulted in the channeling of political forces in favor of pro-market reforms. The controversies concerning the defense of a state-coordinated economy and that of a market-oriented system became, from then on, ancillary and anachronistic. At that time, it was no longer a question of whether, but rather how and to what degree, a new form of state action in the economic sphere would be appropriate in order to induce fiscally responsible and dynamically sustained development.

Five decades on from the Great Depression of the 1930s – when the need to expand state intervention in the economy was brought to the fore – the "new world order" had also overtaken the recipe for the minimal state, which had been promoted since the 1980s. In the twilight of the 20th century, the aim was to overcome the quantitative dimension of state activities in favor of more qualitative action. In other words, the question of the "essence" was abandoned in favor of the "degree" to which state intervention should be present. Thus, it was necessary to reassess "how," "how much," and "where" the state should participate in economic life in a new environment of shrinking trade borders and intense technological development. It was in this context of reviewing the functions of the state that Bresser-Pereira took on yet another challenge as a public manager: managing the delicate reform of the Brazilian state bureaucracy in the first FHC government (1995-1998).

Starting from the premise that, from a fiscal point of view, the national states could not maintain the economic performance of yesteryear, but that, unaccompanied, the markets would not allocate the available resources in such a way as to meet social needs, the aim was to rebuild and remodel state activity. To this end, under the bureaucratic leadership of the Ministry of Administration and

State Reform, the government launched a vast program of structural reforms, ranging from the still timid privatization plan to the legal institutionalization of fiscal adjustment.

Minister Bresser-Pereira's diagnosis (1998) pointed to two challenges facing the state in this new reality. The first, the middle objective, demanded flexibility from the state in the task of guiding and encouraging accumulation in sectors that operated on the frontier of technology in order to make them "more efficient in carrying out their tasks and relieve the costs on national companies that compete internationally" (Bresser-Pereira, 1998, p. 56). The second, final aim was to guarantee protection for the socially vulnerable population, historically cut off from the accumulation process boosted by technological development, which widened the income gap between countries.

According to the classification offered by the author himself, the functions of the state are characterized by (1) exclusive state activities, (2) the state's social and scientific services, and (3) the production of goods and services for the market. In this sense, it would not only be appropriate but also necessary to build a new relationship between the state and civil society, deepening the process of deregulating markets and removing the public sector from the business sector.

The pragmatism of his project could be summarized as strict and systematic adherence to basic macroeconomic fundamentals – i.e., fiscal adjustment, realistic exchange rates, and moderate interest rates – and market-oriented reforms, which he considered "necessary to correct the distortions caused by the excessive growth of the state and arbitrary interference in the definition of relative prices" (Bresser-Pereira, 1998, p. 58). Put another way, the author argued that it was a question of "moving from a state that directly promotes economic and social development to a state that acts as a regulator and facilitator or outright financier of this development." Thus, the public entity would be responsible for

to protect social rights and promote economic development (...) by using market controls more and administrative controls less, because it will carry out its social and scientific services mainly through competitive non-state public organizations, because it will make labor markets more flexible, and because it will promote the training of its human resources and its companies for

innovation and international competition (Bresser Pereira, 1998, p. 59).

To this end, the effective reconstruction of the state should rest on three conditions: (1) recovery of public savings and overcoming the fiscal crisis; (2) redefinition of the forms of state intervention in the economic and social spheres by contracting non-state public organizations to carry out basic services such as education, health, and culture; and (3) reform of the public administration with the implementation of a managerial administration. The adoption of these measures was expected to increase governance and improve governability. It was also envisioned that a new intermediary space would emerge called the *quasi-market*, in which there would be a clear separation between the formulation (state) and execution (non-state public organizations) of public policies.

The first function is responsible for the activities immanent to the state, such as the legislative and penal processes, conducting fiscal and monetary policies, guaranteeing social security, defending the environment, protecting cultural heritage, and encouraging the arts. In other words, the state is understood as "the bureaucratic organization that, through transfers, complements the market in coordinating the economy: while the market operates through the exchange of equivalents, the state does so through transfers financed by taxes" (Bresser-Pereira, 1998, p. 63). As far as social and scientific services are concerned, it would be up to the state to make their financing possible, as long as their execution was delegated to the non-state public sector, the so-called non-profit non-governmental organizations – the *quasi-market* already mentioned. Finally, with regard to the production of goods and services for the market, Bresser-Pereira (1998, p. 66) argues that

Business activity does not belong to the state, since it can be much better and more efficiently controlled by the market than by the [public] administration. In addition to state control being inefficient when compared to the market, state control also has the problem of subjecting the operation of companies to often unacceptable political criteria and confusing the function of the company, which is to be competitive and make a profit, with that of the state, which in the economic area can be to distribute income (Bresser-Pereira, 1998, p. 65).

The author therefore ratifies the understanding that privatization was necessary not only because of the fiscal crisis, but above all because of greater efficiency and less subordination of private companies to political factors.

In short, only those activities that are exclusive to the state should be incorporated into the state apparatus. Activities in sectors whose nature obeys a hybrid principle between public and private (*quasi-markets*) should be shared with the latter, while state tasks that comply with market principles should be privatized, taking into account the inherent entrepreneurial incapacity of the state entity.

The formulation of this structural reform program later helped to shape Bresser-Pereira's most important contribution to economic theory: new developmentalism.

### **3. Development in the 21st century: the new-developmentism**

It is in the 21st century, however, that Bresser-Pereira has been developing<sup>10</sup> his methodological critique of neoclassical or orthodox economics and his new developmentalist theory. His two decades of experience teaching Scientific Methodology for Economists resulted in the publication of two articles on the subject: "The two methods and the hard core of economics" (2009b) and "Historical models and economic syllogisms" (2017b). In both works, the author argues that neoclassical economic theory is essentially mistaken because it uses the hypothetical-deductive method, which is appropriate for methodological sciences such as mathematics and statistics. For the substantive and social sciences, such as economic theory, the correct method is the historical-deductive or empirical-deductive method, which looks for regularities and trends observed in reality.

Although it is the fruit of a recognized collective effort of intellectual maturation, it was from a work published in 2006 – "O "novo-desenvolvimentismo e a ortodoxia convencional" (*São Paulo em Perspectiva*, 2006b) – that the author

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<sup>10</sup> The gerund is justified insofar as, according to the author himself, this is a new theory and is therefore in a natural process of construction.

became convinced that he was facing a new theoretical framework. The following year, based on the assumption that economic theory must be "historical" – it must be grounded in the reality of ever-changing economic systems – Bresser-Pereira published a book entirely dedicated to Brazil's macroeconomics, *Macroeconomia da Estagnação* (2007). And the following year, the book *Globalization and Competition* (2009), originally published in French, which brings together his main articles on the new-developmental theory. More recently, he has published two new *papers* on the subject: "From classical developmentalism and post-Keynesian macroeconomics to new developmentalism" (2019), an article that summarizes the evolution of the theory since the 2010s, especially in its macroeconomic and political economy perspectives, and "New developmentalism: a development macroeconomics for middle-income countries" (*Cambridge Journal of Economics*, 2020a).

The economic policy and political economy of the 1990s represented, if not a rupture, at least the end of a hegemonic paradigm in Latin America. The collapse of the developmentalist model and the consequent rise of neoliberalism can be seen in the measures carried out by various governments in the region, such as opening up the capital account, financial deregulation, trade liberalization, privatizations, and actions aimed at limiting state action.

Despite the adoption of economic policies aimed at stabilizing prices and promoting institutional reforms in the light of orthodox precepts, the debate on the creation of an alternative development agenda gained momentum as these policies did not result in the expected economic growth<sup>11</sup>.

The very rise of governments whose electoral platforms departed from the so-called Washington Consensus reinforced the aura of not only ideological change but, above all, economic policy change that surrounded the South American subcontinent. In the case of Brazil specifically, the parsimony with which the government that took office in 2003 implemented changes led to frustration on the part of agents who had hoped for a major turnaround. Adherence to a program

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<sup>11</sup> Although it focuses specifically on the Brazilian reality, the work organized by Bielschowsky and Mussi (2002), published by ECLAC, portrays, for example, the revival of the theme in Latin American intellectual circles.

that was not in line with the progressive *zeitgeist* at the time led authors, such as Paulani (2003), to decree the "death of macroeconomics," in the sense that only the stabilizing agenda was viable, and not the one that induced income and jobs.

Morais and Saad-Filho (2011) suggest that "macroeconomic continuity" has resulted in the production of a vast literature critical of the economic policy choices made since 2003. For the authors, there were two distinct objectives in this critical literature. Firstly, the need to demarcate the theoretical fields, in other words, to present the limits and contradictions of the continuity of economic policies in the face of heterodox perspectives. The second objective was derived from this: by limiting the hopes of continuity, it was necessary to point out the prospects and paths for a shift from "economic policy" to "political economy."

It was in this political-ideological context that new developmentalism emerged, an epithet initially coined by Bresser-Pereira (2003a)<sup>12</sup>. The theoretical model was later elaborated by the author in two different works. In *Macroeconomia do Brasil pós-1994* (2003b), Bresser-Pereira outlined some of the initial ideas that would form his framework when criticizing the policies adopted after the implementation of the Real Plan. Conditioned by today's context, there was a need to devise a "national development strategy appropriate to our times"; it was therefore a question of updating the original development project. At the time, although there was the possibility of formulating an updated developmentalist model for the new globalizing context of the modern economy, it focused more on theoretical formulations than on a proposal *for* economic policy. In this sense, the emergence of this current was based on a normative discourse, i.e., it sought to offer both an ideology and an agenda, pointing out a guide to action with a view to economic development<sup>13</sup>. From this perspective, we can see the need for rhetorical

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<sup>12</sup> The first time the author used the term "new developmentalism" was in the fifth edition of the book *Desenvolvimento e crise* (2003a). The following year, Bresser-Pereira published an article in the *Folha de São Paulo* newspaper entitled "O novo desenvolvimentismo" (The new developmentalism) (September 19, 2004). Nevertheless, the "pre-history" of the theory is already appreciated, albeit in an unconnected way, in previous works, such as those published by Bresser-Pereira in co-authorship with Yoshiaki Nakano: *Uma estratégia de desenvolvimento com estabilidade* (2002) and *Crescimento econômico com poupança externa?* (2003).

<sup>13</sup> Once it was established as a research program, researchers in the field tried to draw up a taxonomy of the intellectual revival of the phenomenon. Mattei (2013), for example, identifies three main groups: (1) the one linked to the Getúlio Vargas Foundation in São Paulo (EAESP/FGV) and led by Luiz Carlos Bresser-Pereira; (2) the one made up of professors from the Institute of Economics at the Federal

elements in the reading of the theoretical heritage in order, in Arida's (2003) terms, to form the consensus needed to convince. Thus, the "developmentalist strategy" would gradually take shape, moving from the theoretical field to that of economic policy formulation.

### 3.1 The new developmentalism in ten measures

The synthesis document written under the coordination of Luiz Carlos Bresser-Pereira (2012b) presents the lines that characterize the new-developmental theory<sup>14</sup>. It consists of 10 interrelated measures that revive the structuralist influence while updating theoretical and economic policy elements in light of the reality of the 21st century.

The first thesis refers to (1) the *conception of economic development as a phenomenon of structural change*, characterized, therefore, by the full use of the economy's domestic resources. Although at first the concern was with the maximum use of the labor factor, Bresser-Pereira (2010b) points to the need to transfer workers to more sophisticated sectors. A clear structuralist root can be identified here, since the aim is to encourage "innovation in sectors that have already been exploited and the transfer of labor to sectors with higher added value *per capita* and increasingly higher average wages" (Bresser-Pereira & Gala, 2010, p. 685).

If the phenomenon of economic development requires a specific environment, new development ratifies the primacy of the market as (2) the *locus of the development process*. Nevertheless, the state has a strategic role to play in sustaining this structural process. From a new-developmental perspective, the state is seen as an agent that plays a necessary, albeit complementary, role in economic growth. Thus, understanding its importance in the role of formulating a strategy does not, however, presuppose the supremacy of this entity over others.

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University of Rio de Janeiro (IE/UFRJ), forged in a post-Keynesian tradition; and (3) the one made up of certain economists from the Institute of Applied Economic Research (IPEA), who entered the debate after 2006.

<sup>14</sup> The document was presented on May 24 and 25, 2010, in São Paulo. Financed by the Ford Foundation, the project was signed by 86 Brazilian and foreign economists and later published abroad under the title *Ten Theses On New Development* (2012b).

In reality, there is a complementary sense between the state and the market, which rejects both the minimal state and excessive state intervention.

In any case, new developmentalism advocates the state and the market as strong and complementary institutions for the proper functioning and stability of capitalism. Thus, it advocates both market-oriented reforms and social programs aimed at reducing social inequality and integrating excluded populations into the labor market. It is in this sense that the institutional reforms referred to by Bresser-Pereira (2004, p. 627) are necessary, "provided that their fundamental concern is not simply to reduce the size of the state, but to give it the conditions to play its role."

In this way, development can only be achieved when institutions do not overlap. And it is because of this harmonious interaction between institutions and social forces that (3) *economic development requires a national development strategy*. A phenomenon that is necessarily institutional in nature, development is characterized as a historical process that combines the actions of the state and the market. In the terms used by Bresser-Pereira (2006a), the aim is to orchestrate the interests of various sectors of society, aligning institutions and the resources at their disposal towards a single goal: raising the standard of living of the community.

In order to refute the criticism of the supposedly immoderate intervention of the public entity in the economic domain, one of the cardinal points of new developmentalism concerns precisely the parsimony with which the state should act. In the words of Sicsú *et al.* (2007, p. 8), "It is a question of adopting a form of management that brings the practices of public managers closer to those of private ones, while at the same time making them more autonomous and accountable to society." Ultimately, new developmentalism restricts the state's role to providing it with the necessary instruments to regulate economic activities, because only in this way will it guarantee investment opportunities and reduce social inequalities.

Although it is recognized that in modern societies, the coordination of the actions of economic agents is better conducted by a price system than by the state, Bresser-Pereira (2017a) maintains that there is a substantial space, especially in non-competitive sectors, where the state's action is paramount. This is the

microeconomic principle of subsidiarity: in non-oligopolized sectors, where the market manages to allocate resources in the most efficient way, the state refrains from interfering.

At the macroeconomic level, the new-developmental justification for state action concerns the inability of the market to maintain the five main macroeconomic prices in their respective states of equilibrium, namely profit, interest, exchange, wage, and inflation rates. To this end, public sector intervention at the heart of macroeconomic policy is essential (Bresser-Pereira, 2016a).

### **3.2 The macroeconomics of development**

The macroeconomics of development<sup>15</sup> was formulated to adapt to the reality of certain Latin American countries that are no longer at the same level of isolation and insertion into international trade as at the time when the original structuralism was formulated. This is one of the cases of "updating" the new developmentalism for the current context.

In a clear evolution of what was previously defended, new developmentalism believes that economies that have already overcome the initial stage of industrialization in the past decades needed a different approach to inducing the process of economic development so that the conduct of public policy in these countries should obey different logics; in addition to the industrial policy already defended by classical developmentalism, it would be necessary to maintain macroeconomic prices at adequate levels, especially the exchange rate, as well as the balance of the current account of the balance of payments. Hence the need for a national strategy suited to the specificities of their economies, as well as a macroeconomy adjusted to the patterns and pitfalls imposed on middle-income countries.

In summary, Oreiro (2016) defines developmental economic policy as that which uses exchange rate, fiscal, wage, and monetary policies to define the long-

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<sup>15</sup> In its original version, the theory was published under the name "Macroeconomia estruturalista do desenvolvimento" (Structuralist Macroeconomics of Development), exactly the title of the article by Bresser-Pereira and Gala (2010). Later convinced by the editor responsible for the international dissemination of the project, Bresser-Pereira (2016b, p. 240) accepted that "economists in rich countries hardly understand the term 'structuralism.'" It was therefore decided to delete the term "structuralist," leaving developmental macroeconomics in the end.

term growth trajectory of industrialized but undeveloped capitalist economies. A fundamental feature of the development macroeconomics framework is that it is based on a Keynesian perspective, i.e., it accepts the hypothesis that macroeconomic policy influences the pace of economic development. This outlines the fourth thesis of the current: (4) *The biggest bottlenecks to growth are to be found on the demand side*. This assumption highlights the rejection of Say's Law by accepting that demand conditions will have an impact on both short-term fluctuations and the pace of long-term economic growth.

From this understanding emerges the notion that economic policy must be active, directing the public budget towards the expensive causes legitimately established by society. From the inability of the policies implemented from the 1990s onwards to result in economic growth comes the fifth new development thesis: (5) *economic policy must pursue full employment*. To this end, in addition to the policies mentioned above, it is necessary for the state to act in an anti-cyclical way as a means of maintaining aggregate demand in situations of recession, for example.

Even so, the zeal for fiscal responsibility is present – if not the protagonist – in the new developmentalist theory. This is precisely because of the economic policy mistakes made from the 1980s onwards, which, among other reasons, led to the crisis of the original developmentalism. In this sense, the sixth thesis emphasizes (6) *fiscal and exchange rate responsibility*. The recklessness with which classic developmentalism dealt with the issue of the public deficit led to the updating of the new model's fiscal principles. For the new developmentalists, the public deficit drives inflation and results in a reduction in the effectiveness of public policies, so that current surpluses should be pursued so that, in temporary situations of insufficient effective demand, the fiscal budget can temporarily allow for short-term deficits, as Keynes had advocated since the 1930s.

In this sense, the solvency of the state is fundamental to guaranteeing it the necessary conditions and the appropriate instruments for national collective action. In the light of the so-called "fiscal populism" to which Bresser-Pereira refers, the chronic deficits observed during the PSI contributed to the unfeasibility of the state as an inducer of development:

If the state is so strategic, its apparatus needs to be strong, solid, and large; and, for that very reason, its finances need to be balanced. What's more, its debt must be small and have a long maturity. The worst thing that can happen to a state as an organization is to become a slave to creditors, whether internal or external (Bresser-Pereira, 2010b, p. 24).

In line with this condition, the seventh pillar of development macroeconomics reinforces the idea that the conduct of new development economic policy should not be restricted to the pursuit of price stability, but rather (7) *macroeconomic stability*. In this sense, Oreiro and Paula (2012, p. 69) argue that the underlying objectives of development macroeconomics would be to "reduce uncertainties regarding future demand, which are inherent to the business of the economy." Macroeconomic stability is therefore understood as a situation in which not only inflation control is guaranteed, but also product growth.

From the point of view of the external sector, new developmentalism assumes that the appreciation of the exchange rate comes from the inflow of foreign capital – loans, direct investments, and financial investments – resulting from the strategy of growth with external savings. This understanding gives rise to the eighth new-developmental thesis: (8) *the primacy of domestic savings*. In general, the use of external savings as a way for countries to deal with a situation of external deficit, reflecting a lack of domestic savings, is seen as undesirable insofar as it can lead to a crisis in the balance of payments. From this perspective, foreign savings cause consumption and foreign debt to increase, but not investment, a key variable in Keynesian macroeconomics. Thus, in a situation where the economy has free movement of capital, the exchange rate becomes the endogenous variable, determined by the inflow of foreign savings, so that the greater the inflow of capital, the greater the appreciation of the exchange rate.

As a result, there is a downward pressure on the profits of national entrepreneurs, which occurs through two vectors: (a) the increase in real wages and salaries, considering that the rate of profit is inverse to the rate of wages; and (b) with the appreciation of the exchange rate, the profit expectations of export-oriented investments are reduced, and, therefore, companies invest less (Bresser-Pereira, 2012a).

If the economy runs repeated current account deficits, the country's external situation becomes weaker, and, ultimately, there is a balance of payments crisis. By replacing domestic savings with foreign savings, the artificial increase in real wages resulting from exchange rate appreciation and the high marginal propensity to consume helps to reduce domestic savings. On the other hand, exchange rate appreciation reduces profitable investments, and, as a result, export-oriented investments also fall, further reducing domestic savings. For these reasons, foreign savings do not add to domestic savings but replace them.

### 3.3 Exchange rate, Dutch disease, and deindustrialization

The macroeconomic dimension of his theory was consolidated with the publication in 2008 of his groundbreaking article on the Dutch disease ("The Dutch disease and its neutralization, a Ricardian approach"). The failure to neutralize this market failure, together with the strategy of growth with external indebtedness (external savings), are the main causes of the (9) tendency towards overvaluation of the exchange rate observed in developing countries. New developmentalism is the first economic theory to give the exchange rate a central role in the theory of economic development, since the investment rate depends on it. According to the author, "it is the exchange rate that gives or denies access to existing demand both domestically and abroad," so that if it remains appreciated for too long, "companies make their calculations in the long period in which the national currency remains appreciated and do not invest"<sup>16</sup>. (Bresser-Pereira, 2016b, p. 155).

Managing the exchange rate at a level of international competitiveness boosts two vectors of aggregate demand. Firstly, *ceteris paribus*, by encouraging *export-led growth*. In addition, the increase in the sale of goods abroad in turn stimulates investment and technological innovation, two of the main pillars that make sustained economic growth possible. To achieve this, it is necessary to ensure certain conditions, such as a "real interest rate significantly lower than the

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<sup>16</sup> The analogy used by Bresser-Pereira and Theuer (2012) refers to the competitive exchange rate as a light switch that connects or disconnects companies – both technologically and administratively – to global markets, as it stimulates investments, especially those aimed at exports, as well as increasing domestic savings.

rate of return on capital, a cyclically adjusted public deficit (as a proportion of GDP) close to zero, and real wage growth at approximately the same rate as the pace of growth in labor productivity" (Oreiro, 2016, p. 138).

It is therefore important to define what this "competitive" exchange rate would be. According to Bresser-Pereira (2012a), it is not simply a "devalued" exchange rate but a balanced rate, which he calls *industrial equilibrium*. This is the rate that allows national companies operating on the technological frontier to become competitive on the international market.

It is, therefore, the exchange rate needed to neutralize the so-called (10) *Dutch disease*, which is considered a flaw of the free market and can therefore only be rectified by adopting an active exchange rate policy. Also known as the "curse of natural resources," the Dutch disease can be defined as "the chronic or permanent overvaluation of a country's exchange rate caused by Ricardian rents from abundant and cheap resources whose production is compatible with a *current equilibrium* exchange rate<sup>17</sup> that is clearly more appreciated than the *industrial equilibrium* exchange rate" (Bresser-Pereira, 2012a, p. 12, emphasis in original).

According to the author, Brazil was only able to achieve high growth rates and carry out its industrial revolution when it managed to neutralize the Dutch disease. As he argued in "Neutralizing the Dutch Disease" (2020b), this goal was achieved through the use of high tariffs on the import of manufactured goods, which neutralized the disease in the domestic market, and from 1967 onwards, through subsidies on the export of manufactured goods. Since the beginning of the 1990s, however, the opening up of trade and finance has undermined this neutralization, so that industrial companies located in Brazil now face a major competitive disadvantage, which is the underlying reason for the deindustrialization that has plagued the country ever since (Bresser-Pereira *et al.*, 2020).

In other words, it is the loss of competitiveness of national industry due to exchange rate appreciation, which in turn results from the relative abundance of a

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<sup>17</sup> The *current equilibrium* exchange rate is the one at which the country's current account rate is in intertemporal equilibrium. Dutch disease is the difference between the industrial equilibrium and the current equilibrium.

given natural resource<sup>18</sup>. Its main consequence is the Ricardian specialization associated with the "reprimarization" of exports, or the production of labor-intensive industrial goods, resulting in constant trade deficits in industry and trade surpluses in other sectors. Recognized as "negative or early deindustrialization" – since "the process begins before a certain level of *per capita* income is reached – economies that suffer from undue exchange rate appreciation do not exhaust all the possibilities for development arising from the industrialization process.

Despite the centrality of the new-developmental theory in his mature economic thought its "late" elaboration did not come to guide the economic policy adopted by *policymaker* Bresser-Pereira during his short stint in the Ministry of Finance in the José Sarney government.

#### **4. Final considerations**

The prodigality and breadth of Bresser-Pereira's writings impose on the researcher tasked with scrutinizing his work the non-trivial goal of sticking to the specific object under analysis. A multifaceted polymath, the author has already eternalized his name in the pantheon of the most productive and purposeful social scientists in the country's contemporary history.

The sinuosity of his academic and professional career has certainly contributed to the originality that marks his ideas. From his legal training to his time in the private sector, from his experience in various public positions to his decades in the classroom, his experience in different *places* and at different times in the country's history guarantees him a privileged position from which to observe, analyze, and interpret Brazilian development. It would be no exaggeration to say that today – August 2020 – Bresser-Pereira is one of the five most important eyewitnesses to the last six decades of Brazil's political and economic history; more than that, he is one of its greatest connoisseurs, because his fingerprints are all over it.

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<sup>18</sup> The concept of Dutch disease was later expanded to include a second cause. The relative abundance of human resources could also result in excessive appreciation of the real exchange rate, as it would lead the economy to specialize in the production of labor-intensive manufactured *tradables*.

From his recognized theoretical contributions to the intense political debate in which he has participated since the 1970s, Bresser-Pereira will be remembered for many reasons. The three contributions highlighted in this chapter, however, will stand out. *Avant la lettre*, the contribution to inertial inflation was not only because it was avant-garde (and perhaps the only economic theory internationally recognized as Brazilian) but because it was the basis for the set of policies responsible for taming Brazilian inflation. The theory and the bureaucratic reform for inaugurating, albeit in an incipient way, the era of reforms in the Brazilian state. New developmentalism, for becoming the most complete and robust alternative economic theory for certain developing countries.

The tone of these epilogues could not be less laudatory. Despite the mistakes he may – or certainly did – make in his career as an economist, Bresser-Pereira, bold and proactive, personifies the intellectual that is dear to any society that thinks continuously and periodically, especially those that boast Olympian socio-economic indices that cannot be boasted of. This is the unfortunate case of Brazil.

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