

## **Celso Furtado and Development: a brief outline (1950-2004)**

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The main purpose of the following text is to attempt to give a brief review or outline of the works and ideas of Celso Furtado in relation to development. In order to limit the work to a reasonable length, I have sought to emphasize only those moments I believe were crucial in his thought process, in the hope that Anglo-Saxon readers will appreciate the importance of his ideas related to the “development” of Latin America during the 1960s and 1970s, and perhaps deem them appropriate again for the future of the region.

I have started by drawing a rough sketch of the prevailing conditions that made the rise of developmental economics possible (“The political, economic and cultural ecology of the postwar period”), and followed this up by presenting some pertinent aspects of the economic discipline that were confronted head-on, and then transformed by this notable Brazilian economist (“The economic science: its glory days and its shortcomings”).

I then continue with a description of his first period as a theoretician of development, that is, as a “reform monger” (O. A. Hirschman 1963), or “man of faith” (G. Harbeler)<sup>1</sup> (“The armed crusader: 1949-1964”), following up with a description of his period in exile (“Rethinking capitalism and the industrialization process, 1964-1975”), and conclude with a discussion on some of his work produced upon his return to Brazil (“The prophet returns: 1975-2004”).

Celso Furtado’s recent death and the recognition of the importance of his work might be a suitable occasion on which to reiterate certain aspects of “development” and “growth”, which have been lost to younger generations by

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<sup>1</sup> Furtado, 1985: 124; from a conversation between G. Harbeler and E. Gudin.

the hegemonic position of neo-liberal discourse all over the world. This perspective basically believes that the "market", if left to its own devices will produce the momentum and the force necessary for the transformation of societies into more equal and just entities.

Although Furtado's name might be a misnomer to many, the economic vision nearest to his concept of "structuralism" could be described as "old institutionalism" (Veblen, Mitchell, Commons, Ayres amongst others). If their respective ideas could be welded together today, they would not simply be a counter-position to revive the "State" vis-à-vis the "Market" debate, but rather they would offer us the means to argue that the dichotomy itself is unfounded. Furtado's structuralism shares with the classical institutionalist view, the idea that the "market" is a specific set of social relationships, which have specific conditions of existence pertaining to the power mechanisms of the agents in question ("embeddedness" was Polanyi's term), and which need to be understood in order to construct the pertinent economic strategies to disentangle and liberate their action for a "better", equal and just society. Although these two views are not specific themes of this paper, nor is there sufficient space to argue in favor of their similitude, in spite of Furtado having disowned any parallel between his structuralism and institutionalism,<sup>2</sup> I have tried to show in Mallorquin 2006b the feasibility of a theoretical marriage between them.

### **The political, economic and cultural ecology of the postwar period**

Today, it is easy to skip past the political and intellectual undercurrents that drove the power centers of the world after the Second World War. A "multiple" power system is without a doubt very different to the face-to-face confrontation that seemed imminent between the United States and the Soviet Union.

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<sup>2</sup> Furtado (1961: 8), when once again incorporating his history of economic thought in 1954, said that he did not include the "North-American institutionalists, (...) for the simple reason that they did not offer a systematic interpretation of the process of growth."

The context of the Cold War after the Second World War, and the post-colonial movements of liberation led to the emergence of a host of voices from third world countries looking to make themselves heard on the international stage, especially at the United Nations.

The new power center and guardian of the capitalist world, the United States of America, which had arisen from the demise of Great Britain, sought new forms with which to organize the world economy. First came the founding of new rules for the flow of trade in general. Retrospectively, the Bretton Woods System on the one hand, and the Marshall Plan for Europe on the other, which was intended as the basis for the reconstruction of a war-devastated Europe, were part of the same process. If great efforts could be undertaken to “promote higher living standards”, as the UN declared, why not develop specific means to undertake its implementation? This view led to the setting up of the Economic Commission for Europe and for Asia; and it was only a matter of time before other regions started creating similar demands and projects. (Toye J. y Toye R., 2004).

Within this scenario, a well organized group of men in Latin America, talented and confident in their specific fields and backed by their respective governments, managed to present a project for the creation of an Economic Commission for Latin America and the Caribbean, or ECLAC (Comisión Económica para América Latina - CEPAL). Their diplomatic lobbying, with the help of some of their western European counterparts was very successful indeed, given the clear opposition to it by the United States government that had other plans: an organization, headed by it within the Organization of American States (OAS) (Santa Cruz, 1984; Pollock D., 1984, Magariños M., 1991; Furtado C., 1985). Thus, by 1947, ECLAC had come to life for a trial period of three years, starting as from 1948.

Although Raul Prebisch was not its Secretary General until 1949, his important role in its recognition and creation, a product of his work style and passion which he instilled at the ECLAC, can never be exaggerated (Hodara, 1987). In terms of his ideas on economic development, speaking in theoretical terms, he

can truly be considered a pioneer and progenitor of a long lasting tradition in this field in Latin America, if not in most “Third World” countries. Part of his legacy relates to his belief and struggle for the creation of an institution representing those countries that had come to specialize in the production of primary or raw materials in general, worldwide and/or particularly in Latin America, which could promote and monitor their development. His share of élan in the fulfillment of the ECLAC project could be seen once again during the 1960s, when he left the organization to become Secretary General of the *UNCTAD* and subsequently head *The Latin American Institute of Social and Economic Planification* (ILPES), a project and proposal of his own making in 1962 whilst still at ECLAC.

### **Economic science: its glory days and its shortcomings**

By the second half of the 1940s, the preeminence of Keynes in the possibility of resolving the “cyclical” nature of capitalism through some kind of planning or demand management cannot be put into doubt; his name and his ideas were synonymous with a “revolution” in economic science at academic institutions all over the world. The fruitful results of his ideas over time and space, not really expected by their progenitor, were soon to be discovered by many and especially those working within Latin America. With some degree of adaptation, the Keynesian categories could easily become a powerful tool to initiate a description and explanation of the economic history of Latin America. This task was soon undertaken by R. Prebisch, J. F. Noyola, V. Urquidi, R. Boti, A. Pinto, O. Sunkel, D. Seers, Furtado C., to name but a few.

For some, the “Keynesian revolution” meant that the theoretical importance accorded to its ideas were part of a much broader mutation in economic science itself and accordingly, sooner or later they would be uprooted in much the same way as they had once displaced some of the “neoclassical” postulates, which, as we now clearly know, were not after all banished to the rubbish or trash heap of history.

The role of the “multiplier” and the “accelerator” were crucial to many of the calculations that would be undertaken to postulate specific rates of growth. The recommendations towards a full employment policy admitted that the economic system could not be seen as a self-regulatory entity. Fiscal policies and management of interest rates as well as budgetary deficits were part of a process aimed at maintaining a certain level of employment and income. What came to be known as demand-managed economies gave clear indications of the results which could be accomplished through the promotion of economic “growth”, well above the expectations of “market forces”, in spite of the downward slopes and “cyclical” nature of capitalism.

On the other hand, “economic science” could not go further than reiterate its new fangled categories when thinking of the periphery or the “backward countries”. There was a brutal silence, and absence of a specific theoretical discourse in reference to countries that were plainly not “industrialized” (Arndt H., 1987, Heilbroner R., 1964, Love J., 1996). The emergence of the notion of “underdeveloped economies”, following the Second World War, which singled out late-comers to the growing industrialization process or raw material producer countries, was the product of a crucial theoretical and political battle fought by institutions like the ECLAC to push forward the process of their industrialization and “development”.

Prebisch’s ideas, and later those of Furtado, opened up a vast uncharted theoretical landscape, which henceforth would be mapped by means of a new vocabulary which would incorporate planning as one of the means to induce a programmed process of development. Since the thirties, Prebisch had been experimenting, with great difficulty and not much success, with various explanations to account for Argentina’s topsy-turvy economic development, including those that took their starting point from conventional economic categories: the cyclical notions of capitalism and the “Gold Standard”, were parameters that left much to be desired, and could only be fitted to Argentina’s experience through an unquenchable violation of the facts (Prebisch, 1944, Mallorquin, 2005; 2006a).

By 1948, Prebisch had initiated a theoretical perspective that would culminate in a specific discourse in reference to the so called "primary goods producer" countries or the Periphery of capitalism. In other words, he thought that what was needed to address the "periphery's" problems, could not be deduced from Keynesian and/or neoclassical models of development. It was therefore paramount to differentiate the raw material producing countries (the periphery) *vis-à-vis* the "center" or industrialized nations. He was arguing against the plainly "false" claims of "universality" of the economic discourse that was hegemonic at that time, which in the last instance assumed that the countries of the periphery should undergo similar structural transformations during their development process as those that the industrialized countries had undergone in the past, adjusting themselves to world economic forces; a concept of history which L. Althusser (1969), in a polite and paradoxical manner has termed as the "future anterior".

Under this scheme of things, the "backward economies" had to adapt themselves to an international trading system that blessed its relative abundance of factors of production. There arose a version of an international trade system, which reinforced the hitherto international division of labor: the periphery had to specialize in the production of raw and primary products, and the center concentrate on the production of manufactured products.

These countries were suppose to utilize those "factors of production" which were in relative abundance, and thus cheaper, to produce specific goods. Accordingly there was a "comparative advantage" (no doubt in static terms) that favored some countries to concentrate on the production of certain products that required diverse intensities of capital and/or labor. The surplus production would form part of the trade pattern that would maximize the overall growth and earnings of their respective economies.

Prebisch (and H. Singer) showed that those countries that actually followed this path, and accordingly adjusted their economies to the cyclical growth process of capitalism, found themselves in the long run, in a worsening spiral situation. If, as he argued, the diffusion of the fruits of technological progress should

have favored the periphery, given its lower productive or technological capacity/intensity, so it should have manifested itself in lower price levels for manufactured goods imported. But the international price index revealed otherwise; this by itself did not prove, nor explain what came to be known as the Prebisch/Singer thesis of the “deterioration terms of trade” of the periphery *vis-à-vis* the industrialized centers. What was claimed was that after the repetitive cycles, the periphery, besides not being able to hold on to its own “fruits of technological progress”, also lost them through the downward pressure that was exerted on the prices of its goods.

The periphery’s deterioration of its terms of trade *vis-à-vis* the industrial nations, was due to the existence of systematic asymmetric elasticity price demand for their respective products. Furthermore, the Centers managed to preserve their price and cost levels, even, and despite the downswing in the cyclical process. It is true, as Prebisch argued that the gains (prices) in primary products during the upswing rose at a much faster pace than their counterparts at the Centers, but it is also historically correct, that during the downswing, they declined and lost much more than they had gained previously.

To preserve the hitherto level of export earnings, the periphery had to increase the volume of its exports, intensifying its productive capacity, which in turn increased its demand for imported goods (semi-manufactured and manufactured), constraining the diversification of its economy. Thus every cycle saw the imposition of an iron law: the deterioration of the periphery’s terms of trade with all the subsequent negative consequences: a search for an “equilibrium”, which meant a lower rate of investment, higher levels of savings, and a reduced capacity to receive foreign credits and consequently overseas capital. This had to be resolved by attracting foreign capital through an internal deflationary process, all of which stalled economic growth.

The growth of income in the Center was not reflected in an equally proportionate increase in the demand for products or goods from the periphery; on the contrary, a whole series of substitutes and demand schedules appeared for other, and more elaborated types of goods, which for the periphery meant a

reduction in demand for its goods. The periphery's growth was therefore inhibited by internal and external imbalances given its lower capacity to import, which in turn explained its stop-go characteristics.

Thus all manifestations of the periphery's erratic growth process throughout the twentieth century, largely based on the external demand for its goods, pointed towards the need for a policy that sponsored a process of internal diversification, which in the last instance meant the industrialization of these peripheral countries (Prebisch, 1949).

In Prebisch's proposal, having a "programmed" process of industrialization would in turn allow for the absorption of labor dismissed from less productive sectors, employing it in the secondary and tertiary sectors and securing a higher level of employment, which would in turn destroy the forces keeping wages down and giving life to old quasi feudalistic relations in agriculture, with low costs and extensive typologies of production of raw or primary products. The industrialization process would substitute some imports, changing its *composition*, and creating a mechanism to hold on to some of the fruits of the technological progress. A more diversified economy presumes higher factory prices, which in the long run could be the basis for the export of industrial manufactured goods.

Prebisch, also sponsored a broader common market arrangement, similar to today's regional agreements in Latin America, which would facilitate the lowering of costs and the use of ample economies of scale for new industrial sectors. Initially, some industries would produce some goods at higher prices than those in international markets, but in the long run that could be a favorable element in the trade-off between having labor employed or cheaper imports. Besides creating a more homogeneous economic base, the substitution of imports with local production -industrialization-, would also make it easier to control the economy during cyclical downturns. In this sense, programming the rate of growth and industrialization was seen as a way to help "market forces", not stifle them, as most neoclassical or neo-liberal misinterpretations of Prebisch claimed.

Simultaneously, during the 1940s and 1950s, Brazil, under the sway of strong nationalist social forces, became everything that the so called "ideology of developmentalism" represented. The political forces headed by Getulio Vargas and a large number of institutions like the Superior Institute of Brazilian Studies (ISEB) included the industrialization process in most of the plans they had a chance to come up with, culminating with Kubitschek's ("Targets Plan") economic plans.

After the war, the National Bank of Economic Development (B.N.D.E.) was founded and soon made agreements with the ECLAC to work hand in hand in many development projects. The Joint ECLAC-B.N.D.E. Group, which was formed in 1953 to study the Brazilian economy with particular emphasis on planning techniques, had Furtado as its Director. Brazil became, in the first half of the fifties, a theoretical paradise for discussing and experimenting on the theme of "development". Most of the leading exponents, and critics of a full-speed-ahead-towards-industrialization policy visited the country during that time and discussed the topic: G. Myrdal, and R. Nurkse (1953), with whom Furtado (1952) was to establish a specific debate on the issue of the size or otherwise of the market as a limit to the capitalization and development process, and *last but not least*, the "structuralists" terror, J. Viner and L. Robbins. One should also bear in mind that it was Vargas' ultimate push that finally made it possible to set up ECLAC, contrary to the wishes of the United States, after a trial period of three years (Santa Cruz, 1984; Magariños M., 1991; Furtado, 1985).

### **The armed crusader: 1949-1964**

Two aspects dominated and predetermined Furtado's theoretical and practical interests during these years. On the one hand, we had his examination of the evolution and transformation of the Brazilian "economy" from its inception as a colonial entity, with particular attention given to the post-slavery period (1889); and on the other, we had him accounting for and interpreting the rise and

history of economic ideas as the royal road to knowledge of the periphery and the process of development.<sup>3</sup> He clearly wanted to follow the critique of economic theory which Prebisch had initiated, to its radical roots. Given the generality of conventional discourse he sought a more specific theoretical vocabulary.

Having taken up a post at ECLAC in 1949, Furtado worked on a whole series of projects that kept him in close contact with Brazil and the growth of the Latin American economies. Perhaps for the very first time in Latin America at the organization mentioned above, there arose a profound consciousness of the possibility to contribute, theoretically and practically, to the solution and advancement of economic science but with a view more geared towards Latin America. New data and statistical series were elaborated, with specific objectives in mind; such as updated methods for measuring the “deterioration of terms of trade”.

Furtado’s first published book: *The Brazilian Economy: a Contribution to the Analysis of its Development* (1954)<sup>4</sup> had two quite distinct characteristics. On the one hand, it was comprised of a historical description of Brazil’s “economy” from its colonization up till the 1950’s, and on the other, we had one of the first documented histories of economic thought whose preoccupation was with the “underdeveloped economy”. Hitherto, histories of economic thought had focused on the problems of “backward” economies,<sup>5</sup> and their explanations demonstrated that their concepts were negative at best and worthless to think along the lines of the specificities of an “underdeveloped economy”.<sup>6</sup>

The concept of an underdeveloped economy as a distinct entity with its own logic and structure was already being processed conceptually, culminating in fully fledged discourse during the years between 1958 and 1962, displacing the

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<sup>3</sup> For details see: Mallorquin, 1998; 2005.

<sup>4</sup> It’s ironic that the book was dedicated to R. Prebisch, since it caused him many problems at the ECLAC and his views there were used to put pressure on Prebisch and the Organization. It should also be said that it was in great part at odds with the economic views then dominant, including those of Prebisch himself.

<sup>5</sup> The closest to this type of examination was carried out by Meier, G. M.; Baldwin (1957).

<sup>6</sup> For details see: Mallorquín, 1999.

teleological and evolutionary notions implicit and explicit in conventional economic discourse, Keynesian included. To start with, the notion of an “underdeveloped economy” already began to dislodge the hitherto category of a “colonial economy” dominant in much of the text. By 1958, Furtado was convinced, although not yet completely theoretically armed, that the Latin American economies were specific historical entities that could not be explained through the traditional vocabulary of mainstream economics.

Paradoxically, Prebisch, having seen the route Furtado’s ideas were taking, did not acknowledge *The Brazilian Economy...* (1954), which in turn made Furtado think that he should leave ECLAC. We could even speculate that to keep him away from the center of attention he was regularly invited to participate in various economic reports and commissions, starting in the Joint ECLAC-B.N.D.E. Group and later, through his sudden trips to prepare reports in Venezuela and Mexico. He did finally leave ECLAC and returned to Brazil.

After 1954, Furtado’s (1950) cyclical notions of capitalism started disappearing; theoretically, Furtado started thinking more in “structural” terms, “obstacles” or “structural transformations”; the productive agents in these concepts were thought of in terms of the social relations in which they were embedded as well as their historical context, thus negating the pertinence of the maximizing entities which the neoclassical discourse presupposed.

It follows that a theoretical reconstruction was in order, and accordingly, “underdevelopment” could not and should not be thought of as a historical phase to be overcome, but rather that it was the outcome of the existence of a specific articulation of certain social relations which produced many of the imbalances whose effects were once thought of as cyclical phenomena.

Thus, a specific body of conceptual tools had to be constructed and it was precisely this that occupied Furtado between 1958 and 1962. This process and its evolution did not appear in “one fell swoop”, as it were. In fact, it was painfully achieved during a period when he was fighting crucial political battles

to transform the Northeast, first as its Superintendent (1959c),<sup>7</sup> and secondly, as the Minister for Planning (1962b).<sup>8</sup>

By 1957 Furtado had left ECLAC. After spending a short period at Cambridge University, England, he returned to Brazil where he took up the post of Director for the Northeast section at the National Bank of Economic Development (B.N.D.E.). He would later head projects to develop the Northeast. It was during this period that he published *The Economic Formation of Brazil* (1959a),<sup>9</sup> a text that incorporated most of the historical sections of the previously mentioned book: *The Brazilian Economy...*(1954). However, this latter version came out with all the appropriate reformulations so as to give it a distinctly “structural” flavor.

Between the appearance of this book and the period of 1964 when he was forced to leave Brazil by the Military regime, Furtado fought on many a battlefield. He produced books and articles with distinct political and/or academic texts, and even some of a controversial nature. The latter can be exemplified by the text entitled: *The Brazilian Pre-revolution* (1962),<sup>10</sup> a recompilation of a series of articles with the one used for its title being the most politically explosive; a good example of the former can be seen in *Development and Underdevelopment* (1961) also a regrouping of some of the material found in *The Brazilian Economy...*(1954), similarly appropriately reformulated, and also containing new material from 1958 and 1959b.

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<sup>7</sup> There he published: *An Economic Development Policy for the Northeast* (1959c), perhaps one of the first books to have used the thesis of the deterioration of terms of trade within different regions (Northeast and Center-south) of a single country. See details, Mallorquin 1996 and Love 1996.

<sup>8</sup> The government's three-year plan - *Plano Trienal de desenvolvimento econômico e social* (1963-1965), elaborated by Furtado, was attacked by social forces from all sides.

<sup>9</sup> Mallorquin (2005) offers a detailed follow up of the conceptual changes in the theoretical vocabulary of this book in relation to its original version: *The Brazilian Economy...* (1954). *The Economic Formation of Brazil*, my translation of the title of book, which contradicts the English version which was: *The Economic Growth of Brazil, a survey from colonial to modern Times*, University of California, Berkeley, 1963. The point is that the translation of the book title loses much that can be gained if it were to highlight its “structuralist” vocabulary that emerged in that book and clearly distinguished “development” from “growth”.

<sup>10</sup> *Diagnosis of the Brazilian Crisis* (1965) - the English version of *The Dialectics of Development* (1964) can also be put in this group. It was a better and very well developed case for the unification of political forces against the regressive social forces of the right foreseeing a Military takeover, which unfortunately turned out to be true.

Furtado said (1967: 81):

Economic structuralism (a school of thought that arose in the first half of the 1960s amongst Latin American economists) has as its principal objective to take into consideration the importance of the 'non-economic parameters' contained in macroeconomic models. Given that the behavior of these economic variables depends mostly on these parameters they have to be the object of meticulous study.

Thus the emergence of economic plans, for example, implied "land reforms" (Furtado: 1969,chapter: XXIII), so that the "structural picture" could be modified and the social agents in question be freed to take up a better remunerated positions within the division of labor, which in turn would presumably favor a better distribution of incomes and resources. The structuralist perspective also included certain "knowledge of real structures, which in many instances demanded the supersession of conventional economic analysis" (1969: 297]. Furtado insisted that his perspective had "no direct relationship with the French structuralist school, whose main orientation was to give importance to the synchronic axis of social analysis and establish the 'syntaxes' of the disparities in social organizations" (Furtado 1967: 80-81).

Traditional conventional economics cannot take account of nor explain the existence of "structural obstacles" or "heterogeneous agents". There are no "homogeneous factors with the same technological time horizon", (Furtado 1969: 102). The problems of underdevelopment need to incorporate notions of a non-unified labor market and the simultaneity of diverse production functions, depending on the "surface of the economic structure in which the productive agent is inserted" [ibid., 102]. The theoretical emphasis therefore tries to systematically destroy the traditional appearance of these problems within separate compartments, be they "economics" or "history".

In a sense, Furtado rebuilt and transcended a theoretical notion put forward by Perroux, for whom it appeared as an obstacle or ephemeral phenomena which needed to be reformed:

“Structural inflation has adulterated the very notions of our science; that is to say, it has warped or broken the modern instruments which are necessary not only for the diagnosis, but also for the treatment or operations that are indispensable for its cure” (Perroux, 1957:263).

Furtado’s conclusions were theoretical transformations of Perroux’s idea that specific and distinct economic units have differing “levels”, necessarily confronting each other, and that the so called “equilibrium” or “relative peace” only takes place when a certain unit manages to establish dominion over a respective economic space and thus over the other economic units. (Perroux, 1950a; 1950b).

At this stage, his theoretical wonderings took him explicitly beyond the confines of simple economics; his whole vision seemed to have no boundaries; it took turns to wonder along the paths of “sociology” and “politics” and even veered towards “anthropology”. In order to contemplate social changes or supersede the “structural obstacles” in underdeveloped countries, Furtado had to dispose of traditional academic boundaries. In other words, Furtado took on a daunting and/or heroic task: he attempted to “bridge” the divide between sociology and economics.

It was also during these years that his political ideas became more radicalized; he discovered that he wasn’t just another “technician” giving “free value” advice. During this period, Furtado also resumed his rapprochement with Marx, which helped to dignify him further; he discussed and criticized him, and although discarding his theory of value, he assimilated his notions of social classes and the State, exemplifying just how enigmatic and profound the turn of events in 1963-4 must have been to Furtado.

### **Rethinking capitalism and the industrialization process, 1964-1975**

Furtado left Brazil and passed through Chile on his way to the United States of America. In Santiago, at the offices of the ILPES, Furtado discussed the

material that would become part of his next book, *Underdevelopment and Stagnation in Latin America* (1965). Among those assisting, were the names of those so often mentioned as the theorists of “dependency theory”: Fernando H. Cardoso and E. Faletto.

In the book, Furtado presented the first “structuralist” model of stagnation; but the book in its entirety presented all of the conceptual characteristics that would later appear in the writings of those that were to adopt or follow the above-mentioned denomination. It clearly highlighted the social-political forces that are the basis of “internal” or “external” dislocations of an economy and that tend to reproduce the conditions that make underdevelopment possible, so Furtado argued, notwithstanding the industrial base of some of the economies in question.

The text was the culmination of what was to be Furtado’s specific “structuralism”. Although in this book Furtado exhibited a very pessimistic view of Latin American economies’ future rate of growth and industrialization, we now know that what he was actually criticizing and disapproving of, and thus confusing with an inherent “stagnation” tendency, was the systematic and intrinsic mechanism of capitalism that excludes the majority from the fruits of its technical progress. For the first time he undertook an analysis, with a very nationalistic overtone, of the role of foreign capital in the conformation of the debt pattern and its productive role in Latin America. This was a theme that would never again become peripheral to his intellectual and political activities.

ECLAC always viewed foreign capital as merely a transitional phenomenon in Latin American economies, required merely to undertake the initial process of capitalization. Furtado felt betrayed by the United States’ promises and policies of the Alliance of Progress during his time at the forefront of development of the Northeast, which in part also explains his pessimistic tone after the Brazilian Military Coup.

Furtado started with an examination of the “external” factors that he believed crippled Latin American economies (U.S. policy), and then moved on to describe

the "internal" limits of the industrialization process within Latin America. In this aspect, he argued that once the easy phase of the industrialization process was over, in other words the phase aimed at substituting certain imports through local production, which actually incorporated a broader number of the population in the growth of the economy, during the next phase, the process was bound to collapse. Furtado considered that the substitution of capital goods imports with local production required an overly intensive capital function, which in turn required a higher level of imports. It also absorbed a relatively low level of the labor force from the "backward" sectors of the economy. Aside from the fact that the capital intensive function assumed a much higher level of savings, which the upper classes did not and could not supply given their traditional historical behavior, the reduced market for its goods limited the benefits of fully fledged economies of scale.

As a result, everything seemed to work towards lowering the productivity level of the economy as a whole - not just the capital intensive sectors - thus ensuring the stagnation process of the Latin American economies.

If Furtado was belied by the so called "Brazilian miracle", with rates of growth in the manufacturing sectors reaching up to 10 and 12 percent annually, he soon incorporated these new aspects into his future analyses of the Brazilian "model" of development. From this book onwards, Furtado would emphasize the historical aspects and role of the social classes leading the development process. Thus Furtado was able to provide reasons to explain the ("unexpected") growth pattern of the economy in question.

In the *Analysis of the Brazilian 'Model'* (1972), Furtado started by explaining the conformation of the Brazilian State with Vargas, and went on to illustrate that the growth pattern of the "Brazilian 'miracle' ". The model of growth was based on the incommensurable concentration of wealth amongst a reduced minority, which was the only way to keep the intensity of the growth momentum and of the industrialization process via the production of durable consumer goods.

This economic policy required and was implemented through the "concentration" of income in few hands, not through its spread across a wider strata of the population. State intervention in the economy, offering lower interest rates to businessmen and to potential consumers of the upper strata, enabled and induced a consumption pattern similar to that which existed in the industrial centers, but without the corresponding savings levels. It was this policy that drove Brazil's deficit on its external accounts sky-high during the eighties and which generated an un-payable foreign debt.

The economy was composed of two unrelated markets,<sup>11</sup> a massive consumer sector, with a very low productivity turn out, due in part to the State's policy of maintaining salaries low; and the market that produced durable goods for a modern life-style copied from the industrial centers. Furtado claimed that there existed a very "specific demand", for a very particular structure of production, hence we had high levels of growth and simultaneously, a growing labour majority untouched by the fruits of technological progress.

From this point on, it was easy for Furtado to leap towards a "cultural" theory of dependency; again his sociological theorization of the agents of production explaining their behavior. Unfortunately, the "modernization" process was anything but a universal phenomenon. Its effect only reached and extended itself to a minority, which managed to impose a developmental pattern and values that were nevertheless unfelt by the majority of the population. It is obvious that Furtado here used the notion of "modernization" in a plainly sarcastic tone, since the so called "structural functionalist" theory of modernization assumed it to be an irreversible and universal force once it got under way. We cannot but mention the obvious metaphoric similarities to today's discussion on "globalization".

By now, the economist ingredients and the iron law of "stagnation", proposed by Furtado in *Underdevelopment and Stagnation...* (1965), had withered away in his historical and sociological explanations. There was no automatic

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<sup>11</sup> This is clearly the theme in *Economic Development: a Myth* (1974).

reproduction of any “tendency” in the economy, or hidden hand guiding it, but rather it was plain that it required a clear intervention by the State to give it some direction. But, the social political forces that controlled the State in Brazil during the 1980s left social reforms aside and failed to implement some form of planning of the activities of state enterprises.

On the one hand, Furtado’s analysis of Multinational Corporations (MC) took on a greater significance in his studies of capitalism after 1964, but his perspective and intention to reduce their behavior, and explain it under an all-encompassing logic swayed by US’s global policies, threatened, on the other hand, at the very least to undermine the specific structuralist accounts that he had been distinguished for. His insistence during the seventies, that a world capitalist superstructure was under construction, lead by the US but on some occasions and in some versions in combination with the EEC (European Economic Community), - to control disturbances of capitalism like the petroleum shocks in 1973, or the regulation on the use of certain raw materials-, puts his analysis extremely close to those “structuralist functionalist” and teleological accounts of capitalism of which he so rightly made fun of on other occasions.

During the 1980s, this problem became more complex in his writings because his own descriptions of the USA’s commercial and industrial decline, vis-à-vis Japan and the EEC, dictated a new notion to explain heterogeneous forces and politics of the MC and States in question. Thus, from a “multipolar” notion of political and economic power at a world level, we could end up, under this logic, in a “unipolar” world after the demise of the Soviet Union, which could hardly be the case in economic terms given Japan and the EEC’s rapacious nature.

All this was pointing towards a theorization that Furtado was trying to undertake at a much more general level, which explains his onslaught, once again, on economic (positive) science, found in *Economic Development: a Myth* (1974). Furtado was thus preparing new theoretical ground, which take us to the next stage.

## **The prophet returns: 1975-2004**

In *Preface to a New Political Economy* (1976),<sup>12</sup> Furtado made desolating claims: “structuralism” had made an important and heroic assault on the fortress of conventional economics. The absence of its categories in the fifties and sixties would have been catastrophic for Latin America, but it had served its purpose and had entered a process of “diminishing returns”. In isolation, such pronouncements might have seemed too many as the end of a long theoretical tradition in Latin America. However, for Furtado it was a period of theoretical experimentation, proposing nothing other than a complete overhaul of conventional and structuralist economics. What was needed, so Furtado went on to argue, was not so much an interdisciplinary approach or method to study Latin America’s problems, which were to be his claim in his next book, *Accumulation and Development* (1983), but a new “general theory of social formations”.

To undertake this theoretical reconstruction, Furtado rescued a forgotten view from his younger days: the notion of the surplus product. With it he explained the rise and fall of empires, nations and the “industrial civilization”. He pointed to the way it was generated and the mechanisms of its expropriation (“authoritarian” and “commercial”) by specific social classes, as well as the manner in which it was distributed. Whereas in *Preface to a New...* (1976) Furtado posed these questions in terms of a “Preface” of a book yet unwritten, his future texts maintained the new theoretical vocabulary emanated therein, which by his 1980 book: *A Brief Introduction to Development- an Interdisciplinary Approach* (1980), comfortably intermingled with his “old” version of “structuralism”.

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<sup>12</sup> Is interesting to note that during these years Prebisch was also rethinking the periphery through the notion of the surplus: his articles appearing in the Review of the ECLAC from 1975 onwards were included in his book *Peripheral Capitalism* (1981), just plane coincidence: see Furtado 1998b in Mallorquin 1998.

Furtado turned to the Physiocrats, much more than to classical political economics, to reconstruct social theory through a new perspective on the role of accumulation but with special reference to underdeveloped countries. What was required was a new theory of accumulation, rescuing those elements which were omitted by classical and modern economics alike. In this sense, although Furtado didn't acknowledge it, he moved closer to the ideas of Marx. Furtado showed that modern economics, especially since Keynes, saw the process of accumulation as a corporeal form of reservoir, which was represented in the account books, and thus freely utilized. Furtado explicitly ridiculed the notion that digging holes to fill them up again or constructing China's Wall could be considered as "productive".

Up to this point, it would be difficult to question Furtado without also bringing down with him a long established tradition in modern and classical economics. But the theoretical status of his postulates changed when he brought in a distinction between the "accumulation" that takes place in the industrialized countries and the apparently similar process in underdeveloped countries. Furtado argued that in the latter case, a certain "accumulation" was not "productive", because it took place "outside" the productive process. Here he seemed to be pointing to a whole series of uses of the "surplus" to produce luxury goods which don't intensify the productive capacity of an economy. But even if this interpretation of Furtado were adequate, it was still not very clear which of the production processes were "productive" and which were not, in terms of the existence or otherwise of a "surplus".<sup>13</sup> In other words, if the "expropriation" of the surplus is realized through the process of production, which of these units or sectors lack the generating capacity of a "surplus"?

With the democratic movement in progress in Brazil, Furtado returned to his country and formed part of a political group built around the former Brazilian Democratic Movement (MDB) that along with the participation of other political groups led to the creation of the Party of the Brazilian Democratic Movement

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<sup>13</sup> Prebisch (1981) also had a series of similar problems to differentiate between "productive" and "unproductive" investments.

(PMDB). In fact Furtado maintained close contact with the PMDB, taking on an advisory role on economic matters during the five first years of 1980s. During these years, he decided to concentrate on his theoretical-political work.

The notions of accumulation inside and outside of the productive system, and that of the surplus that we saw in his previous books, remained in the background or they were conflated with the more orthodox meanings of the declining "capital-product ratio" for the economy. Aside from his return to Brazil, his advisory role, and later incorporation into Sarney's government, he was obliged to write and reformulate answers relating to his participation in past economic policies.

The books that Furtado wrote during this period showed him to be "putting history in order", clarifying and establishing responsibilities. As a public figure, Furtado underwent important changes. In 1985, he was named Ambassador to the European Economic Community, and shortly later Minister of Culture, a post from which he resigned at the end of July of 1988.

During this period, in contrast with his immediate past, his writings suggested an eminently "political" strategy and formed part of his commitment to a democratic regime which had to take the path of more just social economic development.

These years saw the publication of three almost autobiographical texts: *The Fantasy Organised* (1985), which told of his activities prior to and during his period at ECLAC, the fight for its creation, and covered to a large extent the nineteen-fifties; *The Wrecked Fantasy* (1989), which dealt with the period in which he headed certain governmental departments (1958-64) until he became Superintendent of the SUDENE, and Minister of Planning. These two books, by way of retrospective, described his intellectual formation and insertion into the administrative apparatus of the Brazilian State. Finally, the third: *The Winds of the Change* (1991), concentrated its deliberations around an endless number of thematic theoretical-political discussions, as well as his experiences as an "exile" in different countries between the sixties and eighties. Special reference

was given to his visits to various universities and international institutions. It also included part of an unpublished text from the past (censored by the military regime) and its reflection on some particular countries. These texts, to reiterate, have to be seen in terms of the "the responsibility" that befitted him as an intellectual and State policy designer.

In similar fashion, the 1987 article ("Underdevelopment: To Conform or Reform"), describes what he considers are the crucial moments of his theoretical evolution. The autobiographical books (the two "fantasies" (1989), (1985) and *The Winds of the Change* (1991), as well as *Brazil After the "Miracle"* (1981), were written from the start with the same intent. On the other hand, the previous book, *The New Dependence...* (1982) revolved around two central chapters, and its format and vocabulary were largely aimed at the academic establishment.

In contrast to the latter books, we see *No To Recession* (1983), and *Culture and Development* (1984), integrated in their greater part by relatively dispersed themes, initially in the form of journalistic articles, writings appealing to the reader in general. In the former book, Furtado's position is spelled out with respect to the problem of external debt, a thesis that was practically adopted by the Government of Sarney when Furtado was in charge of the Ministry of Culture. The latter, through the thematic progress of its chapters, denotes clearly the exercise of the role and responsibilities assumed under Sarney's government.

On the other hand, almost all the texts produced during this decade showed his approach towards "culture" in Brazil and the participation of the different regions in the constitution of the "nation," as well as their latent fragility given the incommensurable inequalities between and within them. Furtado also therefore presented the need for a new federalism, which he viewed as vital to integrate the great masses that had remained unprotected by the "bad" development of the Brazil under military rule. In *Culture...* (1984), we see a chapter dealing with the notion of an "endogenous development". Likewise he spoke about the functions of universities, and especially those located in the

Northeast, where the role of a simple instrumental rationality, if not questioned, could only but delay the enormous projects of research still needed to be developed.

Here once again the discussion of the notion of the "creativity" of man that appeared in previous books, and the fundamental importance of a clear political will to enable his visions and projects to materialize, came back to the fore. Retrospectively, he told us that the existence of greater quantities of information to face the crises that afflicted the country, made it feasible to surpass the role of "spectators of history" (*Culture...1984*: 33), and become its true agents. By then, notwithstanding Furtado's conceptualization of the world economy and his verdict on the state of the Brazilian economy, a project with clear "endogenous development" could break the chains of the transnational capitalist model. In fact, we had to wait many years to hear him propose concrete approaches and measures around the "self-transformation" of Brazil, a problem that recalled his perspective of the first years of the 1960s.

Furtado's discourse on national sovereignty, the way to treat the problem of external debt, and how to attack social inequalities, exhibited an eminently political diagnosis. At the same time, the detailed analysis of the Brazilian situation and how to defeat adversities and promote its development under the logic of an "auto-centric" mechanism within capitalism, reflected the return of his "structuralism" as a central guide, with its emphasis on internal and external structural factors.

We could also note that he incorporated the theoretical vocabulary present in the texts of the recent past in reference to the conformation of a new "capitalist world totality". The analysis of the configuration of world capitalism under the leadership of the MC, a totality under the protection of the United States, did not seem to give rise to a "political superstructure" that could organize the new emerging totality. On certain occasions this was advanced like a process still in the making; on other occasions, the power of the United States was simply assumed as the organizing umbilical center of the whole.

Furtado not only emphasized the almost improbable growth rate of the Brazilian economy, but the fact that it materialized through its domestic market, not forgetting its highly exclusionary effects. He held that the future of Brazilian capitalist industrialization, supported by its own domestic market, would suffer serious traumas if deep "structural transformations" were not carried out.

The description of the "economic miracle" underlined its more aberrant consequences: vast inequalities at the level of personal incomes as well as intra and inter-regional distortions. It was by no means an apologetic description of the growth of capitalism; the description of its economic history was overturned to emphasize that the "miracle" created debt and dismantled the economy. Under the weight of a sizable foreign debt burden, correlated to the pattern of industrialization adopted during the 1970s, the economy began to lose control of its "coordinating centers", and Furtado now presented their recovery as one of the first tasks to carry out; the economy had entered total financial disorder as a consequence of its internationalization and the form in which many pompous projects were financed.

The State's participation in economic infrastructure and productive sectors was carried out without any type of planning or control. *Brazil After...*(1981) and *The New Dependence...*(1982) showed the vital need to transform Brazil's industrial pattern. The central theme of *No To Recession...* (1983) was therefore already implicit in the afore-mentioned texts. The type of industrialization that was generated in Brazil, with highly intensive capital production functions, required a high degree of saving. The government opted to index savings invested in domestic bonds to the foreign exchange rate, which led to the conversion of the dollar into a currency of "first" importance and the cruzeiro, the national currency at the time, into one of "minor" importance. In addition, the Treasury paid interest according to international rates and lent in local currency at almost negative rates of interest.

Public sector companies ("hypertrophied"), lacking in control or any kind of planning, simply fell heavily into debt with the elation of the Brazilian "miracle", even though they were created primarily with the intention of raising exports

and acquiring foreign currencies. Inflationary "pressures" (Furtado, *No To Recession...*1983), were essentially the consequence of low productivity levels and the disarticulation of economic sectors. It was more than obvious that they required restructuring.

Subsequently, when Brazil came close to moratorium and was forced to renegotiate its debts with the IMF, the strategy promoted by this institution implied repaying the debt and simultaneously dismantling large parts of its industry, as had been previously experienced in Argentina and Chile.

But, the inflationary phenomena could not be resolved by the application of the monetarist medicine because two very different variables were in play: on the one hand, the control of the financial apparatus and its articulation within the Brazilian economic structure, which was the origin of the "propagation" of the inflationary "pressures";<sup>14</sup> and on the other, a restoration of the industrial apparatus (origin of the "pressures") was needed.

Furtado maintained that a greater integration into the global market through the export of manufactured goods was necessary and unavoidable, but argued that given the technological surpluses of industry and the circumstances of the "world economy" by that time (mid-1980s), discrimination should be made in favor of some of its branches and sectors and efforts concentrated on those.

If the economy, and especially public sector industries had been held on some kind of leash, they would not have been able to get into the disastrous debt situation that they did, and their goods would have been incorporated quickly into the productive circuits, reducing the demand that they themselves procreated. They therefore would have been able to reduce much of the inflationary "pressures", and "propagation" forces that ensued.

The problem resided in raising domestic productivity so that it could cope with enormous existing demand. According to Furtado, the pre-eminence of the neo-liberal discourse on the market, viewed as the savior of the situation,

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<sup>14</sup> These concepts first appeared in Furtado 1954, and become the basis for the "structuralist theory of inflation", which subsequently appeared in the classic texts of Noyola (1956) and Sunkel (1958); see Danby (2005) and in Rafael Sanchez Torres and C. Mallorquin Coord, 2006.

complicated matters because what was in fact needed was the establishment of an domestic globally planned strategy and a consensus among the diverse social and economic forces, so that a fair distribution of the sacrifices among them could be constructed.

Rising prices are little more than a sign that social groups being sacrificed are trying to defend themselves. In an analysis of a serious inflationary situation afflicting a Brazilian company for example, is necessary to distinguish the basic causes -the generating foci of pressures- of the propagating mechanism of these price pressures. The expansion of the means of payment and monetary correction are some such mechanisms of propagation (Furtado, 1982: 45).

In Furtado's view, freely escalating wages by themselves do not generate inflation, but they do enable its "propagation", that is to say, they enable the materialization of inflationary "pressures" to succeed. Wage compression breaks the process of propagation and complies with its assignment to concentrate income. Inflation does not end through institutional setting; its not sufficient to change the statutes of the central bank (or fiscal reforms, etc. ,).

It is

...necessary that a consensus ensue at the level of those who make decisions with respect to the environment of action of the government and with regard to the priorities which the action of the state should obey. In modern pluralist societies that consensus is obtained, with the mediation of the political class, through the representative organs of popular will [ibid., : 46].

The root of inflationary pressure stems from incentives given to the private sector and excessive public sector spending. To eliminate these roots, relative prices should be restructured, to maintain levels of exports without subsidies, and to adapt global expenditure of the State to its effective capacity for collecting real resources (instead of bonds articulated to a rate of interest established externally), without reducing the private sector's productivity and therefore reduce generating social tensions.

The illusion of the "miracle" was empowered and deepened in the Brazilian economy through the country's external indebtedness. It was believed that the economy was at its full height when the circumstances of world trade were not promising. With the oil "shock" of 1973, came the need for extensive structural transformation, and another form of economic development was announced that was less reliant on the consumption of the oil. In fact, external debt as a momentary "solution" obstructed viewing that the trade balance was no longer favorable, and that an intense restructuring of the whole economy was required. The capital account showed a surplus due to the ridiculous conditions that were imposed on capital entering or leaving the country; at the same time, both the form in which domestic bonds were indexed to external rates of interest as well as the fluidity of debt, procreated the idea of an endless economic "boom".

Nevertheless, Furtado argued that the strategies to face the problem of external debt and its repayment required that its "solution" should be seen as part of a policy "problem". In the first instance, the payment of interest on the debt should not sacrifice growth, which should necessarily be the basis for the continuance of such repayments; that means that it should not be restricted to an economic policy that obeys the view of opening up the economy without discrimination. The insertion into the international marketplace should be promoted in those branches and sectors whose possibilities of adaptation and survival are better. Nevertheless, the reports of the IMF policies prompted the adoption on the part of Brazil of an internal/external policy that produced dollars, which invariably meant reducing domestic social expenditure, assuring the free incorporation of international segments into the national economy and the dismantling of the national productive apparatus. Through "recession" and the decrease in public expenditure, imports vital for continuing the process of industrialization were reduced considerably, which implied elevating the cost of the process.

Subsequently, Furtado did radicalized his position on the debt of Third World Countries, and argued that "moratorium", the "smaller of all evils", (Furtado,

1999) should be founded on the basis of the eleventh chapter of the Code of Bankruptcy of the United States of North America.

On the other hand, the context of the political struggle for the reconstruction of democracy in Brazil at the beginning of the eighties, and the structural instability of its economy, cannot explain the theoretical passion with which he returned to the issue of the Brazilian Northeast. The question of the "Northeast" was always one of his crucial life existence themes, both in personal and political terms, whilst the interpretation of the industrialization process was the other.

One should therefore examine the evolution of the Northeast in the later years to 1964 and their effects on the views of this "Northeastern" economist. Almost two decades after the *coup d'etat*, he proposed again that the SUDENE acquire independent functions of direction over the future of the region, this because, after the military coup, the SUDENE had lost its executive capacities in exchange for a more deliberative participation. Because it was an important advisory entity to the Executive it was integrated, like other entities, into the Ministry of the Interior.

Without a doubt, important changes in Furtado's perspectives were clearly visible here. In the first place he gave a high priority to the promotion of self-administration of the Northeast on the part of its population so that it could solve "its own" problems. The thesis that was also repeated was that a new model of development would have to be invented by the people of the Northeast themselves. The importance was fundamental and thus invited the need to constitute "cooperatives" and land reform to release the "creative capacity" of the local population.

Its leading discursive element was its "anti-technocratic" stance and the demystification of the role of the "Prince" as a supreme guiding center of the process, which went a long way to criticize his own previous conceptions and policies. Overall, the industrial structure had not undergone great mutations in the Northeast; the industrial sector did not elevate its relative participation in a

resounding way, and the agricultural sector maintained its relative regional importance. The absence of interregional industrial links can be explained by the predominance of "the dynamic" industries, highly dependent on resources and products originating from the Mid-South. Thus Moreira (1976) concluded that it is easier to explain the situation of the Northeast as part of a centripetal mechanism of the expansion of capitalism, than as regional problem in itself.

Furtado's, more pragmatic vision underlines the issue that the fundamental problem is not one of eradicating inequalities, which exist everywhere. Although eliminating inequalities is important, what is needed is rather the:

transformation of society in Brazil's northeast in order to enable development to effectively benefit the mass of the population. If the standard of living of the northeastern rural man is not raised deliberately, if he continues to be subjected to hunger and ignorance, the social structure of the whole country will tend to remain semi-immobilized, reproducing and worsening the extreme inequalities that characterize it at the present moment. The strategic target should be to open up space so that those that are really at the bottom of the social scale can become active agents of development. That first impulse, tending to break the structures that imprison those that are at lower levels, will only be produced as a consequence of a decided political will (Furtado, 1981: 121].

During the nineties, Furtado reiterated the need for reforms and ways to sponsor a policy which could break the stronghold of the exclusionary and copycat- nature and pattern of Brazil's development: *Global Capitalism* (1999) and *Looking for a New Model* (2002). In terms of these ideas, many "dependentistas", and critics of Furtado in his younger days, became part of his entourage and came under his sway. Wherever he could, he offered his intellectual support, especially to the "movimento sem terra", (Landless movement), as well as to President Lula, on whom he lavished plenty of elegant phrases hoping that he would have the "courage" to undertake the reforms so vital to kick-starting the social changes Brazil needed. He struggled for social equality until his very last days through an endless array of proposals and proclamations.

Celso Furtado died two days after the Lula Administration deposed his *protegé*, Carlos Lessa, from the presidency of the *Banco Nacional de Desenvolvimento Economico* (BNDES – The National Bank for Economic and Social Development). At his death, he had become a world-renown personality, and various universities had acknowledged his considerably abilities and achievements by awarding him honorary doctorates. In 2003 a movement grew within Brazil, which put him forward as a candidate for the Nobel Prize for Economics. In recent decades, few intellectuals in Latin America can be said to have kept the flag of democracy and development flying so long and as high as Furtado.

Long live Celso Furtado!

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