

# Furtado on the History and Theory of Economic Development

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## **Abstract:**

Celso Furtado (1920-2004) was one of the most influential Latin American economists of the 20<sup>th</sup> century. He was head of the development division of the United Nations Commission for Latin America in the 1950s, where he helped to formulate the structuralist approach to economics. His 1959 *Formação Econômica do Brasil* is the classic interpretation of the economic history of Brazil. In 1961 he published a collection of essays about the notion of underdevelopment and development as interdependent phenomena. Furtado's last contribution was his careful discussion in the 1970s of the concept of cultural and economic dependence in underdeveloped countries.

**Key words:** Celso Furtado, economic development, economic history

**JEL classification:** B30, N01, O10

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Celso Furtado was born on 26 July 1920 in Pombal (in the state of Paraíba, northeast of Brazil), and died on 20 November 2004 in Rio de Janeiro. Together with the Argentinean Raúl Prebisch, Furtado was the most widely read and influential Latin American economist of the second half of the 20<sup>th</sup> century. A prolific writer, he published more than 20 books on the economic history of Brazil and Latin America, and on the theory and policy of economic development, many of them translated into English, French and other languages.

He graduated at Universidade do Brasil (Rio) in 1944 and received his doctorate from the Sorbonne (Paris) in 1948; his thesis was about the Brazilian colonial economy. Maurice Byé was his supervisor, but it was François Perroux who impressed him most at the time. Upon his return to Brazil in that same year, Furtado was invited to join the staff of the new United Nations Economic Commission for Latin America (ECLA) in Santiago. From 1950 to 1957 he was head of the development division of ECLA. He then left Santiago to spend an academic year at Cambridge University working with Nicholas Kaldor and Joan Robinson with a Rockefeller Foundation scholarship. In 1958 he was appointed director of the Brazilian National Development Bank, where he conceived the project that led to the creation of SUDENE (Development Agency of the Northeast of Brazil) in 1959, of which Furtado was the first director. In 1962 he also became Brazil's first minister of planning, charged with drafting a national economic plan, a position he held until 1963. Deprived of his political rights following the military coup in 1964, he left Brazil to take up appointments at American and European universities. Furtado went back to Paris and became the first foreign professor to be appointed at the Sorbonne, where he taught development economics from 1965 to 1985. After Brazil returned to democracy he was appointed Minister of Culture (1986-88), and elected to the Brazilian Academy of Letters and to the Brazilian Academy of Sciences in 1997 and 2003 respectively. (Furtado's autobiography, originally published in 3 volumes between 1985 and 1991, was collected in 1997; the first volume, with recollections from the 1950s, his most productive period, was translated into French in 1987.)

## **Structuralism and economic history**

Together with Prebisch and other economists at ECLA in the 1950s, Furtado was one of the formulators of structuralism in Latin American economics. His main contributions can be found in two books, both available in English. In his 1961 volume on economic development, which collected essays written during the 1950s, Furtado provided the most elaborate exposition of the structuralist analysis in the literature at the time. In his 1959 classic *Formação Econômica do Brasil*, written in Cambridge in 1957-58 and based on Furtado (1950, 1954),

the structuralist approach was applied for the first time to the interpretation of the economic history of a Latin American country, an exercise Furtado would expand to the whole region in his 1969 book. Furtado's methodological innovation was the use of historical investigation to identify factors that are specific to each structure through time: "bring history near to economic analysis, get from the latter precise questions and find answers in history" (1997, volume 1, p. 205). In *Formação* he pioneered the use of modern income analysis to deal with historical phenomena by introducing macroeconomic models into the analysis of each phase of Brazilian economic development from the 16<sup>th</sup> century to the 1950s (see also Furtado 1963 for a brief account). Furtado's role in the historiography of the industrialization process of Brazil in particular and Latin American in general may be compared to Alexander Gerschenkron's well-known interpretation (1952) of the late industrialization of Russia and other continental countries. Like Gerschenkron, Furtado examined industrialization from the point of view of history. Both rejected Walt Rostow's (1960) view that the economic development of different countries goes through a succession of phases to which a single analytical framework can be applied.

The main feature of the 1959 book is the argument that the economic history of Brazil (and other Latin American countries as well) must be based on an open growth model with international trade treated as an endogenous variable, since these countries' economies evolved as suppliers of raw materials to the world market. Furthermore, the income-distribution profile is a main determinant of the economic growth process through its effect on the level and structure of domestic demand in different historical phases. Furtado shows that throughout the four centuries from 1530 to 1930 the Brazilian economy depended on external demand to provide stimulus to higher productivity without previous capital accumulation, with three long-period cycles – sugar exports (1530-1650), gold mining (1700-1780) and the expansion of the world market for coffee (1840-1930) – and intervening periods of relative stagnation. That phase came to an end in the economic crisis of 1929, when the collapse of export-commodity prices cut the country's import-purchasing power in half. According to Furtado, the policy adopted by the Brazilian government at the time to maintain the coffee price namely buying the unmarketable coffee and burning it had the effect of an unwitting "Keynesian" anti-cyclical deficit-financing policy. This contributed to maintaining domestic demand and, together with the diminished capacity to import, pushed up domestic prices of imported goods and stimulated investments in import-substituting industrial consumer goods. That process marked the beginning of a new phase in the development of Brazil, based on internal demand and import-substituting industrialization. Brazilian late industrialization – as compared with that of the United States – is explained in part by the differences between the productive structure of Brazil's

export agriculture and the small agricultural properties in the English colonies of North America. The Brazilian internal market was much thinner due to the concentration of income and property, which served to maintain its stagnant colonial structure. Moreover, whereas the United States participated in the first wave of the industrial revolution as exporter of a key raw material (cotton), the main cause of the relative backwardness of the Brazilian economy in the first half of the 19<sup>th</sup> century, according to Furtado, was the damming up of its exports and the increase of the subsistence sector with lower productivity. Also in contrast with the late industrialization of continental European countries in the second half of the 19<sup>th</sup> century studied by Gerschenkron, the import-substitution process in Latin America did not lead to an intensive development of producer goods industries or changes in international trade (exports of manufactured goods and imports of raw materials). The evolution of trade patterns in Latin American countries during their industrialization after 1930 was quite the opposite: exports were still based on a few commodities and imports concentrated on goods whose production required huge investment and/or advanced technology.

## **The concept of economic underdevelopment**

It was in attempting to explain the backwardness of Brazil that Furtado hit upon the idea that underdevelopment and development are two interdependent phenomena which appear simultaneously as part of the evolution of industrial capitalism. The theme was elaborated in his 1961 book, where Furtado put forward concepts of economic underdevelopment and development that have been largely accepted in the literature. An underdeveloped structure is one in which “full utilization of available capital is not a sufficient condition to complete absorption of the working force at a level of productivity corresponding to the technology prevailing in the dynamic sector of the economy” (1961b, p. 141). Underdeveloped economies (as distinct from simply backward ones) are hybrid structures characterized by technological heterogeneity of the various sectors. This comes from the historical fact that the import-substituting industrialization process in those economies led entrepreneurs to adopt a technology compatible with a cost and price structure similar to that prevailing abroad. Technology becomes, therefore, an independent variable in economies where industrialization is induced from outside. Whereas industrialization in underdeveloped economies was determined by demand, the formation process of capitalist European economies in the 18<sup>th</sup> and 19<sup>th</sup> centuries was dominated by supply factors, which led Furtado to define economic development as the introduction of new combinations of production factors which increase labor productivity. Underdevelopment is regarded as a permanent feature of the

centre-periphery system, not as a stage on the road to development. Those ideas originally appeared in an essay written as the first critical comment on Ragnar Nurkse's notion of "balanced growth" (advanced in Nurkse's 1950 Rio lectures), where Furtado pointed out that the dynamics of demand (internal and external) in underdeveloped economies should be studied in tandem with the process of accumulation. According to Furtado, underdeveloped countries lack incentives to save (because of the consumer habits of higher income groups), not to invest. The accumulation process should be examined from the point of view of changes in the process of generation, utilization and appropriation of the economic surplus, especially as affected by foreign trade. Furtado first developed these ideas in an essay originally written in Portuguese in 1955 (two years before Paul Baran made the concept of surplus a central notion of his own approach to development) and further elaborated it as part of a comment on Paul Rosenstein-Rodan's theory of "big push", made at the International Economic Association conference on economic development held in Rio in 1957, and in his 1967 and 1980 textbooks.

## **Foreign trade and dependency**

One of the main aspects of the industrialization process of Latin American countries, as discussed by Furtado in 1958 and 1960, is the persistent tendency towards balance of payment crises and inflationary pressures. Anticipating some elements of the two-gap model later developed by Chenery and Bruno (1962), Furtado showed in a two-sector model featuring a modern and a backward sector how balance of payment disequilibrium could constraint the economic growth process under the assumption that the coefficient of imports in the investment sector is larger than in the consumption sector, as is typically the case in underdeveloped countries. Such chronic disequilibrium has structural (not monetary) causes and may lead to the "strangulation" of economic growth. Another obstacle to growth is that, after the end of the "easy" phase of the substitution of imported consumer goods, as industrialization advances to the production of intermediate and capital goods, the rate of profit falls because of the higher capital output ratio accompanied by increasing income concentration and lower aggregate demand. This was an essential element of Furtado's (1965, 1970) interpretation of the slowdown of economic growth in Latin America in the early 1960s, but, as the Brazilian economy recovered in the late 1960s and early 1970s, Furtado's stagnationist argument was criticized by economists in Brazil (see Tavares and Serra 1973). Furtado (1972, 1974, 1978) eventually concluded that, after the two earlier periods of economic growth – determined respectively by comparative advantages and import-substitution – the Latin American economy had entered a new dynamic path in which consumption

demand by high income groups could under certain conditions become the leading factor of the system. This led him to explore in detail a theme that had often come up in his writings in the 1950s: dependency theory.

Furtado argued that underdeveloped economies feature cultural dependence, that is, consumption patterns are historically transplanted from developed countries by the upper strata of the underdeveloped areas as a result of their appropriation of the economic surplus generated through comparative advantages in foreign trade. Such modernized component of consumption brings dependence into the technological sphere by making it part of the production structure. Dependent structures are also dualistic systems with unlimited supply of labor at a subsistence wage, as first described by Furtado (1950) in his investigation of the dynamics of the labor market in Brazilian economic history. This is close to Arthur Lewis's (1954) classic model, but, in contrast with Lewis, Furtado's conclusion is that industrialization within a dualist dependent structure reproduces this dualism and does not bring about a homogeneous system with real wages increasing in tandem with the average productivity of the economy. The relationship between the centre and the periphery in the world economy is defined not just by the unequal sharing of the benefits of development and technical progress (as in Prebisch's terms-of-trade argument), but by dependence involving domination and control of access to modern technology by transnational corporations. In Furtado's view, economic growth does not entail economic development in dependent and reflex economies, since it implies an aggravation of both external and internal exploitation, and thereby tends to make underdevelopment even more acute.

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