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## **RÉSUMÉ**

### **Le projet de développement national dans la pensée de Celso Furtado**

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*L'article analyse les idées principales de Celso Furtado sur la nécessité de développer et mettre en pratique une stratégie de développement comme alternative au néo-libéralisme en Amérique Latine, afin que les pays de la région puissent relever les défis de la globalisation. Trois thèmes, qui sont les pivots du travail de Furtado et qui offrent une alternative au néo-libéralisme, sont examinés: la concentration du revenu et son impact sur l'évolution dynamique du capitalisme au Brésil et en Amérique Latine, la tendance à un endettement extérieur excessif, et le rôle des politiques monétaires et des taux d'échange dans le processus de développement.*

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## **The National Development Project in Celso Furtado's Thinking**

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*Today I can say that I was unorthodox. And add that both unorthodoxy and heresy play an important role in the history of men. When a society imposes a consensus on itself, it is because it is going through a stage that is not very creative. When distancing himself from the consensus, the young economist will perceive that the roads already repeatedly taken by others are of little value. He will immediately notice that imagination is a powerful tool and that it must be cultivated. In a short time, he will lose his reverence for what is established and gathered in compendiums. And to the extent that he thinks for himself, independently, he will achieve self-confidence and lose perplexity.*

– Celso Furtado (2002)

### **Introduction**

The aim of this article is to present and analyze the main ideas of Celso Furtado's concerning the need to build and carry out a strategy for development that can be an alternative to neo-liberalism

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in Latin America, a strategy that will allow the countries of the region to deal with the challenges of globalization. I shall examine three issues central to Furtado's work throughout his life and define his alternative proposal: the concentration of income and its impact on the dynamic of Brazilian and Latin American capitalism; the tendency towards excessive foreign indebtedness; and the role of monetary and exchange rate policies in the development process. Raúl Prebisch and Celso Furtado were the most important Latin American economists of the twentieth century because of the extraordinary nature of their ideas. Together they founded a theoretical current, Latin American structuralism, which occupies a central place in development theory and had a profound influence on Latin American thought. Their ideas permeated economic strategies of Latin American governments in the post-war period, during which the countries of the region achieved their greatest development and social progress in modern history. Clearly, ECLAC (Economic Commission for Latin America and the Caribbean, commonly known as CEPAL in Spanish) theory and dependency theory have been the most substantial theoretical contributions from peripheral countries, the originality of which added to the understanding of the dynamic of capitalism as a world system.

Prebisch (1948) was the founder of structuralism with his theory of the deterioration of the terms of exchange between primary and manufactured products and with the introduction of the categories of center and periphery in the study of underdevelopment. But, Furtado's contribution to the construction of the ECLAC theory of development and dependency was decisive. In his last work, Prebisch himself (1981) underlines Furtado's central role in this thinking when he writes:

This thinking has been developing from the earliest days of the ECLAC. I had the good fortune then to encounter young men with whom I could establish what was for me a very stimulating, fecund dialogue.... Above all, Celso Furtado. Celso had already fervently begun his tasks in ECLAC when he invited me to Santiago to write the introduction to the first Economic Study. I was very impressed by the extraordinary talent he already exuded even in his youth. His collaboration with me has been inestimable. We know very well what his great intellectual task means: no one has penetrated the

interpretation of development more profoundly. Always original and incisive, he has brought great prestige to his chair at the Sorbonne. Exile has its unexpected twists and turns!

Furtado's proposed alternative project to neo-liberalism cannot be fully understood unless it is associated with his concept of development. His analysis of underdevelopment would soon leave behind the analyses of the time that conceived of backwardness as a prior stage to development (Rostow, 1960) or those who confused growth with development, centering exclusively on the process of accumulation and its determinants, as Harrod and Domar did in their models. For him, underdevelopment was a specific structural condition, the result of the way in which capitalism evolved historically as a world system made up of centers and peripheries. The essential characteristics of underdeveloped countries, what defined them as such, were, in his view, external dependency and structural heterogeneity, which tend to perpetuate and reproduce themselves.

Furtado's definition of development is closer to that of French economist François Perroux (1984), who was his teacher in Paris.<sup>1</sup> For both of them, the categories of growth, development and social progress are different, albeit interdependent.

Accumulation and technical progress are integral parts of development from the moment that growth is its material base. But growth is only a prerequisite for development, not development as such. Furtado's study of the history of Brazil (1959) made it clear to him that growth was incapable of promoting development in economies in which an international division of labour condemns them to being producers of primary goods. In these economies, the modern exporting sector did not retain the fruit of its technical progress nor did it disseminate it to the rest of the productive system, made up of the subsistence "sector".

Development could not be the spontaneous result of the action of market laws, but rather was a process of transformation of structures, which implied the creation of a productive structure, meaning a productive system, that would ensure self-sustaining endogenous development. This meant the need to advance towards industrialization, guided deliberately by the state, not only through

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<sup>1</sup> About Perroux's concept of development, see Guillén (2004).

industrial policies, but also through the design and execution of development plans that would define the basic investments required in each stage. As he observed in his best known book, *Teoría y política del desarrollo económico* (*Theory and Politics of Economic Development* 1967: 244), “The main problem in underdevelopment countries is the selection of a strategy to change structures.”

Or, as he defined the concept of development more explicitly in his *Dialéctica del desarrollo* (*Dialectic of Development* 1964: 65):

Economic development, fundamentally a process of incorporation and propagation of new techniques, involves structural changes, both in the system of production and in income distribution. The way in which these changes become effective depends to a great extent on the degree of flexibility of the institutional framework within which the economy operates, a degree of flexibility which in turn involves the greater or lesser ability of the leading classes to overcome the natural limitations of their ideological horizon.

For Furtado, development was not an end in itself, but rather a means to achieving the economic, social and cultural betterment of the vast majority of the population. As an intellectual educated in the ideas of the Enlightenment, he thought that societies evolve toward progress. Development should mean the improvement for producers not only their means of production, but as subjects of history. The progress of the majority could not be achieved through the market, but only through the state’s implementation of policies to redistribute income, through the organization of the producers themselves, and through the creation and modification of institutions. For him, development was a social process of cultural change. It involved the change of economic structures, but also of social values. In his own words (1964: 39-40):

Economic development can be defined as *a process of social change wherein a growing number of human needs, whether pre-existing or created by change itself, are satisfied through the differentiation of a productive system generated by the introduction of technological innovations.*<sup>2</sup>

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<sup>2</sup> Furtado’s emphasis.

This is why, when in one of his last works he evaluated the Brazilian experience of the second half of the twentieth century in which in some periods, high growth rates were achieved, he said without hesitation (2002: 31):

Today, Brazil has ten times more income than it had when I began studying these problems, but it also has greater inequality and the poor continue to be just as poor. We should ask the question, then, if there has been development. No. Brazil did not develop; it modernized. Real development only happens when the entire population benefits.

In summary, Furtado's vision of development could not be automatically achieved through the market and the transfer of techniques and capital from the centers, but was rather the result of a social project that would allow for the structural transformation of the productive system through the preservation of the cultural identity of the peoples involved. Development was a multi-dimensional process that involved the economy, society, politics and culture.<sup>3</sup> It is understandable, then, that when Furtado observed how Brazil and Latin America passively became part of neo-liberal globalization in the 1980s through the implementation of *fundamentalist market policies*, he would insist on the urgency of changing that orientation and creating a new national project for development.

### **The Concentration of Income in the Dynamic of Latin American Capitalism**

Celso Furtado assigned a fundamental role to the concentration of income in his analysis of Latin American underdevelopment. In his opinion, it was a structural trait that tended to reproduce and perpetuate itself in the different development models that the Latin American economy had gone through.

The continued concentration of income in the hands of national elites determines the existence of luxury consumption patterns that

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<sup>3</sup> By the multidimensional nature of development, Furtado meant that a mere economic analysis of it was insufficient (1964: 77): "Nevertheless, it would be totally wrong to hope that economists, with the analytical tools of their discipline, could fully explore this field of research in which important aspects must be examined from the point of view of sociology and political science."

do not correspond to the degree of development reached by the productive forces; configures a functional productive system with those patterns;<sup>4</sup> implies re-channeling the economic surplus toward ends other than capital accumulation; and, by limiting the growth of workers' and the majority of the population's income, blocks the growth of the domestic market and makes the economy tend to stagnate.

The ultimate cause of the concentration of income is the existence of an unlimited supply of labour in the subsistence sector, which impedes an increase in real wages in the modern export sector. This idea was developed in his study about the Brazilian economy (1955).<sup>5</sup> In that work, he declared with great theoretical rigor that in the case of the Brazilian coffee economy — the predominant activity in the period of the primary-export model — most of the profits accrued by exporters during booms did not raise physical productivity on the plantations, but rather were transferred abroad through the deterioration of the terms of exchange or were frittered away in luxury consumption by the landowning oligarchy. By contrast during economic slowdowns, the drop in the coffee oligarchy's income caused an imbalance in the balance of payments that led to the devaluation of Brazil's currency. However, these devaluations protected the exporters relatively by increasing their income in national currency while transferring the adjustment to consumers by lowering the level of workers' real wages. In his own words (1957: 167):

The entrepreneur could retain the improvements in productivity achieved within the export economy itself since no pressure was created within the system that would force him to transfer them completely or partially to wage earners. We also pointed out that those increases in productivity of the export sector were purely economic and reflected changes in coffee prices. For

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<sup>4</sup> "The process of transferring consumption models from the dominant economies to the peripheral sub-systems plays a determinant role in the assignation of resources in the latter." (Furtado, 1967: 221).

<sup>5</sup> This idea is best known through the famous article by Arthur Lewis (1954) about the unlimited supply of labour. But as Furtado clarified in his autobiography (1985: 61), the first versions of his study of the Brazilian economy had already put forward the hypothesis: "At that point [I] introduced the idea that five years later Arthur Lewis would turn into the central element of his model of a totally elastic supply of labour as a causal factor of the inertia of wages in the phase of expansion."

there to have been an increase in physical productivity, whether of labour or of the land, it would have been necessary for the entrepreneur to perfect cultivation methods or intensify capitalization, that is to have applied more capital per unit of land or of labour.

Since there was no pressure from labour to increase wages, the entrepreneur had no interest in replacing labour with capital, that is, in increasing the amount of capital per unit of labour.

The import substitution model (ISM) did not solve the existence of an unlimited supply of labour nor did it eliminate the heterogeneity of the productive system and the social structure. The structural labour surplus continued to exist in rural areas at the same time that it spread to the large cities. However, for reasons that are beyond the scope of this article, despite its dynamism, industry was not able to absorb the vast contingents of labour now available in the big cities, giving rise to urban underemployment and new forms of marginalization. This inability of the ISM to absorb surplus labour was seen even in relatively more developed countries like Brazil, Mexico or Argentina. For this reason, in contrast with Lewis who thought that the unlimited supply of labour of the backward sector would run out once capital began to accumulate, Furtado thought that since ISM would not lead to the construction of a domestic endogenous basis for capital accumulation, it would reproduce underdevelopment in new forms, regardless of the growth rates achieved. For that reason, he wrote:

The underdeveloped economies can go through prolonged phases of growth of their overall and per capita output without reducing their external dependency and structural heterogeneity, **which are their essential characteristics** (1967: 176).<sup>6</sup>

The patterns of luxury consumption were reproduced during the period of the ISM now under the aegis of the multinational corporations that transferred to the periphery the norms of consumption that became massive at the centers during the post-war boom.

The reproduction of what Furtado called “the essential characteristics of underdevelopment” was due not only to economic but also political factors. Latin American industrialization, in

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<sup>6</sup> The emphasis is mine.



contrast with the classical European model, occurred without causing a break between the exporting oligarchy and the industrial bourgeoisie. Industrialization involved a recomposition of the dominant bloc, more than the displacement of the old elites.<sup>7</sup> A similar process of recomposition has occurred now with the neo-liberal model. The alliance between the landowning oligarchy and the industrial bourgeoisie greatly limited the viability of reforms widely recommended by ECLAC, like the agrarian reform and a redistributive fiscal reform, which has made for the perpetuation of abusive forms of concentration of income in the hands of internal elites. Despite the fact that the ISM improved real wages and created certain social progress in Mexico, Brazil and other countries, income was concentrated more in these countries than in others in the region.

With the transition from “easy” to “difficult” substitution of imports, the process of growth in Latin America lost dynamism, which led Furtado to postulate an endogenous tendency to economic stagnation. This hypothesis was first put forward in *Dialéctica del desarrollo (Dialectic of Development, 1964)* and restated in more detail in *Subdesarrollo y estancamiento en América Latina (Underdevelopment and Stagnation in Latin America, 1965)*. In the latter, he maintains that progress to a more advanced phase of industrialization involved the production of durable consumer goods, intermediate goods and capital goods, which necessitated the use of capital-intensive techniques. In the framework of stable real wages because of the existence of an unlimited supply of labour, the density of capital translated into an increase in the capital/output ratio, which, by definition, involved a decrease in the rate of profit. Therefore, maintaining the growth rate under these conditions demanded a growing rate of investment, which met with the limits imposed by the capacity to import, that is, with what we now call the *external restriction*. As he says in *Dialéctica* (1964: 115):

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<sup>7</sup> Perhaps the exception was Mexico, where the armed revolution threw the Porfirista landowning oligarchy out of power. But even in this country, an alliance was soon forged between a new agrarian bourgeoisie that came out of the revolutionary governments and a rising industrial and financial bourgeoisie. The reforms that reached their apogee during the Lázaro Cárdenas administration were abandoned at the end of World War II.

But, to the extent that the effective realization of investments depends on imports, the ability to import conditions the real performance of the investment rate. If the barriers to the capacity to import increase, savings efforts should also increase to accompany the rise in the relative prices of capital goods. Thus, conditions arise that tend to reduce the growth rate, which is an obstacle to the structural changes required for overcoming the very barrier to the ability to import.

I shall not attempt here to go deeply into the hypothesis of stagnation or into the debate that it caused, since that would go beyond the scope of this article. Suffice it to say that Furtado's hypothesis was questioned because it seemed to underestimate the Latin American economies' possibilities for growth. In what was perhaps the most profound critique of his work, Tavares and Serra (1970) maintained that Furtado underestimated the dominant groups' possibilities of accumulation and did not differentiate between their interests and the national interest. For Tavares and Serra, the main problem was not the difficulties for increasing productive capacity, "but rather the problems related to the structure of demand and financing" (Tavares and Serra, 1970: 584).

Regardless of whether Furtado underestimated Latin America's possibilities for growth during that phase of its development, what I am interested in salvaging from the hypothesis about the tendency to stagnation — which should also be used for the analysis of contemporary problems — are two central ideas he developed: one is the existence of a process of circular causation that sharpened both the concentration of income and the reproduction of structural heterogeneity; and the other concerned the limits of ISM for consolidating the endogenous basis for capital accumulation. In his own words (1965: 97):

In summary, everything happens as though the existence of a semi-feudal capitalist sector, together with an industrial sector that absorbs technology characterized by a rapidly growing capital coefficient, originated a pattern of income distribution that tends to orient the application of productive resources in a way that reduces their economic efficiency and concentrates income even more, in a process of circular causation. In the more general case, the decline in economic efficiency directly causes economic stagnation. In specific cases, the growing concentration of income and its counterpart, the underemployed

population that flows toward urban areas, create social tensions that in and of themselves are sufficient to make growth impossible.

In effect, Brazil, Mexico and other countries managed to maintain high economic growth rates in the 1960s and even in the full-blown crisis of the 1970s, which showed that, as Tavares understood quite well, the possibilities for accumulation by the dominant groups did indeed exist. In both cases, the basic formula was the insertion of Latin America into the economy of international indebtedness, fashioned by the creation of the Euro-dollar market. This, even though over-foreign-indebtedness, as Furtado had previously warned, would soon send the ISM into collapse and push us into the vortex of neo-liberalism.

### **The Neo-liberal Model: The Concentration of Income and Structural Heterogeneity**

The neo-liberal model and globalization reproduced the “essential characteristics of underdevelopment” (structural heterogeneity and external dependence), as well as the tendencies toward the concentration of income that Furtado alluded to. The implementation of the neo-liberal model after the 1982 foreign debt crisis, using the parameters of the Washington Consensus (which supposedly would create dynamism in the Latin American economies and would allow an improvement of the economic and social situation of the vast majority of the population), translated into mediocre results in matters of economic growth and employment and into a reinforcement of the tendencies toward concentration of income and social exclusion.

Although Furtado did not extensively research neo-liberal globalization and its effects on the Latin American economies, in his last books (1998 and 2002), with the profundity characteristic of him, he did analyze the implications of these new processes in the world economy. Furtado thought of globalization as an irreversible process fueled by “technological imperatives” which had negative repercussions on social equity.

The interconnection of markets and the subsequent weakening of current systems of state power that frame economic activities lead to important structural changes that translate into a

growing concentration of income and forms of social exclusion that arise in all countries....

The maladjustments caused by the social exclusion of larger and larger groups of the population tend to become the most serious problem both for rich and poor nations. These maladjustments arise not only in the orientation of technological progress, but also reflect the indirect incorporation of badly paid labour into the productive system of countries which industrialized late, first and foremost, the Asian countries (1998: 32 and 40).

Latin America's passive insertion into neo-liberal globalization made the structural heterogeneity of productive systems and the social structure more acute and complex, which worsened the already abysmal disparities in income. In a recent work (Guillén, 2004), I stated that in the case of Mexico (which I think can be extended to other Latin American countries taking into consideration national differences), the neo-liberal model has created a more unarticulated, vulnerable productive system than the one that existed during the period of the import substitution model. The export sector, the new model's dynamic axis, is separate from the rest of the productive system and is incapable of pulling the entire economy behind it in its wake. The economy lacks an internal driving force, an endogenous basis for capital accumulation, and therefore is incapable of absorbing technical progress and spreading it to the rest of the system.

Instead of abating, *structural heterogeneity* has broadly replicated itself, making relations between the "modern" and "backward" sectors more complex. Given the changes in the productive system, the social structure has become more heterogeneous and complex, and phenomena like the informal sector and migration to the United States (or Europe, as in the case of the Andean countries) have become unusually pronounced. Instead of the insertion in neo-liberal globalization creating "better quality" jobs, there has been an unprecedented expansion of the informal economy and a growing "informalization" of the formal sector. In addition, job creation has been very sluggish.

The weakness of the formal sector's labour market is linked to low investment levels and different factors that slow it down, among them: the export sector's inability to drag others behind it; the performance of foreign direct investment, where the purchase of

existing assets has predominated in the total flows instead of adding to productive capacity; the application of restrictive monetary and fiscal policies; the weight of foreign and internal indebtedness in public spending and investment; and the recurring crises linked to financial opening and deregulation.

The sluggishness of the labour market and the expansion of the informal economy have been elements of the first wave in the increase in poverty. The informal economy is the objective framework that determines the low levels of real wages. The accumulation of capital occurs without prompting an increase in real wages because of the existence of an unlimited supply of labour. The informal economy is not only the refuge of those who find no place in the formal economy, but it is also the lower limit of the value of labour power. The depressive effect on real wages of this enormous surplus of labour continues. This process of depressing wages is reinforced by institutional factors such as the existence of *wage ceilings*, lower levels of unionization and workers' organization and workers' reluctance to fight for better conditions given job insecurity and their fear of losing their employment.

### **Over-indebtedness as an Obstacle to Development**

The contradictions of the import substitution model in Latin America were counteracted by access to private sources of foreign indebtedness. This was the road chosen by Mexico, Brazil, Argentina and most of the Latin American countries to overcome the obstacles imposed by the ability to import and caused by external imbalances. When foreign indebtedness to multinational banks was just beginning to become pronounced, Furtado wrote that (1964: 113):

Today, investments destined to substitute imports are among the most difficult to get. They are all investments of high capital density and long periods of maturation. In this fashion, the capacity to import has become a true obstacle to development....The fight to overcome this difficulty led the country to growing foreign indebtedness. The effects of this indebtedness had to make themselves felt in the medium and long run and force a greater contraction of the ability to import in order to service a large debt, which generated a circular process of

accumulation in which the measures taken to overcome the obstacle of that capability tended to increase it.<sup>8</sup>

We all know the story. In the 1970s, in the framework of the *great crisis* that broke out in the main capitalist countries a few years before, Ponzi-type foreign indebtedness (merely speculative financing to refinance former debts) was carried to the extreme. In the 1980s, the toughening of U.S. monetary policy at the end of the Carter administration and deepened by the Reagan administration was enough for the house of cards of foreign indebtedness, built for more than a decade, to collapse. The over-indebtedness became clear. Mexico declared itself insolvent in 1982 and from then on, one by one, the dominoes of Latin America and the entire debt-ridden periphery toppled.

The 1980s were not only the “lost decade”, but also represented the end of national development projects and the transition toward neo-liberalism. The renegotiations with the International Monetary Fund, combined with the lack of access to a refinancing of the accumulated foreign debt, led to economic stagnation of the countries of the region without, on the other hand, the contractionist measures of aggregate demand incorporated into adjustment programs being effective in controlling inflation. The renegotiation of the foreign debt in the framework of the Brady Plan was only a temporary, insufficient relief of the onerous servicing of the debt. Meanwhile, the adjustment implemented by the IMF prepared the way for orienting the economies to the exterior and the entry into the structural reforms “a la the World Bank”.

As Gérard de Bernis said (2000), the debt crisis was one of the most important causes of financial globalization that would become especially strong at the end of the 1980s. The external opening of

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<sup>8</sup> Latin America’s foreign indebtedness during the period from 1960 to 1980 is not a new phenomenon in the history of Latin American capitalism. In the 1920s, before the outbreak of the Great Depression of the 1930s, the region was in deep debt and the service of that debt seriously limited governmental action. Referring to this period, Furtado himself observed that, “The service of the foreign debt dominated public finances and the behavior of the exchange rate became governments’ central problem. In the midst of the 1920s, one president, concerned about exchange rate performance, decreed a halt of all federal public works, convinced that national well-being depended more on the service of the foreign debt than on the employment rate of the country’s population” (Furtado, 1964: 106).

financial markets was necessary on the one hand to get the enormous mass of liquid assets that generated the growing deficit in the U.S. current account to circulate, and, on the other hand, to reactivate the debt-ridden economies through reopening their access to the international capital market, now in the form of securities (the so-called “securitization” of international capital markets).

In the framework of globalization, the misnamed emerging markets (among which are the most developed countries of the region, Argentina, Brazil and Mexico) began a new cycle of debt in the private capital markets. The neo-liberal administrations of Salinas de Gortari in Mexico, Carlos Menem in Argentina and Color de Mello and Cardoso in Brazil unilaterally opened up their capital accounts. Portfolio capital flowed quickly into these countries during the first half of the 1990s, which led to a short-lived, feeble economic reactivation. The key to capturing these resources was maintaining high real interest rates and over-valued currencies. This is the contribution that speculative finance capital demands for coming into our countries and making a higher profit margin than it does in the markets of the center! The *risk premium*, the neo-liberals would say.

Only a short time went by before the results of this new cycle of indebtedness could be observed. Mexico in 1994-1995, Brazil in 1999 and Argentina in 2001 all went through their respective crises, with their high economic and social costs, the brutal effects of the uncontrolled entry of foreign portfolio capital. Parallel to the taking on of foreign debt, an accentuated process of internal indebtedness developed, associated not only with the government issuing bonds, but also with costly bank bail-outs and failed privatizations.

The fact is that right now, the Latin American countries are facing high levels of external and internal debt. In financial circles, it is accepted that debt is high, but it is argued that it is manageable and that indebted countries can fulfill their payment commitments if they maintain healthy monetary and fiscal policies. What is not understood and is hidden is the highly negative impact that the scrupulous servicing of the debt and maintaining restrictive monetary and fiscal policies have on the indebted countries' social and economic development. Furtado was very aware that debt was one of the main obstacles to Brazil's economic development. In his last book, he wrote (2002: 33):

At this time, Brazil's main problem is the recession, which, to a great extent, is the result of its obligation to finance the servicing of a considerable foreign debt through sending resources abroad that should be invested in the country.

And in a message prepared a few months before his death, concerned about the continuity of neo-liberal economic policy in Lula's government, Furtado said without prevarication (2005):

Forcing a country that still has not satisfied its population's minimum needs to paralyze the most modern sectors of its economy, to freeze investment in basic sectors like health and education, in order to comply with the goals of adjusting the balance of payments imposed by the beneficiaries of high interest rates is something that goes beyond any limits of reason.

It is understandable that those beneficiaries defend their interests. What is not understandable is that we ourselves do not defend just as vigorously the right to develop the country. If the point of view of those who defend the recession, who put the interests of our creditors before any other consideration in the formulation of economic policy continues to prevail, we must prepare ourselves for a prolonged period of economic contraction that will lead to dismantling a large part of what was built up in the past. Experience clearly shows us that if the fundamental problems are not attacked head on, accumulation efforts tend to reproduce and aggravate bad development. By contrast, if we manage to satisfy that basic condition that is recovering the right to a development policy, the hour of truth will have arrived for all of us.

### **The Role of Monetary and Exchange Rate Policy in Development**

Furtado's historic study of the Brazilian economy is nourished by insightful reflections about the role played by monetary and exchange rate policy in its development process. In *Formación económica del Brasil (The Economic Growth of Brazil, 1959)* and in *Dialéctica del desarrollo (Dialectic of Development, 1964)*, he emphasizes the importance that the depreciation of the Brazilian currency had, as well as government subsidies to this sector in the context of the depression of the 1930s, in defense of the coffee



economy, the central nucleus of the productive system of the time, and in the encouragement of import substitution industrialization.

The devaluation of the currency following the depression of the 1930s cushioned the effects of the deterioration of the terms of exchange and the plunge in international demand for coffee. In effect, when the Brazilian government of the time decided to accompany the devaluation with direct subsidies to coffee producers (through the purchase of inventories, for example), it protected exporters' income in national currency and maintained the sector's productive capacity. According to Furtado (1964: 10):

To the extent that the government purchased coffee to create inventories or destroy output and inflated monetary income, Brazil's currency depreciated abroad, which also favored coffee growers since the price of coffee rose in depreciated local currency, regardless of the fact that its international price was dropping.

On the other hand, the devaluation encouraged industrialization because it fostered import substitution. Although the government policy was "a policy inspired by coffee interests or granted to mollify those interests", it also favored the industrial bourgeoisie by changing the structure of relative prices in favor of domestic production and to the detriment of imports (depressed by the drop in the capacity to import).

By maintaining the level of monetary income inside the country while the capacity to import declined, the policy favoring the coffee sector was, in the last analysis, an industrialization policy. The swift decline in the value of the currency increased the relative prices of imported goods, creating extremely favorable conditions for domestic production.

Furtado's work and ECLAC thinking in general also contain many references to the positive role of inflation in import substitution industrialization during its first stages or about the favorable effect of currency stabilization in a more advanced stage of import substitution by virtue of its stimulation of the demand for intermediate and capital goods.

All of this is relevant because of the importance in the context of the current trade and financial opening of monetary and exchange rate policies, as instruments that favor the interests of

international financial capital and the concentration of income in the hands of a few national and foreign rentiers. Given that these policies are part of the prescriptions of the Washington Consensus, they have been widely implemented in Latin America. Under the guise of the fight against inflation, real interest rates that are much higher than those of the countries at the centre and over-valued exchange rates are permanently maintained in emerging countries.

Current monetary and exchange rate policies are pro-cyclical. That is to say, the interest rate and the exchange rate rise during recessive phases of the economic cycle in order to avert, in a world of globalized finances, capital flight from the countries of the periphery and stimulate the export of capital from the centers. In “boom” phases, although nominal interest rates drop, real rates remain high, higher than the prevailing rates in the countries at the centre. It is clear that a situation like this injures capital operating in the productive sphere and is in contradiction with any attempt to strengthen the domestic market.

For that reason, I think the elements examined in this article about Furtado’s thinking are central to any construction of an alternative development strategy *vis-à-vis* the neo-liberal model. Concentration of income, external and internal over-indebtedness, restrictive monetary, exchange rate and fiscal policies, which inevitably lead to increased stagnation and social exclusion in Latin America, are all inherent to the neo-liberal model and are therefore the main obstacles to be eliminated in a national development project.

### **The Content of an Alternative Strategy in Furtado’s Thinking**

Neo-liberal globalization has not resolved Latin America’s development problems. The predominance of market fundamentalist economic policy foci and the passive, subordinate insertion in integration schemes have translated into processes of slow growth, scant job creation in the formal sector of the economy, the disarticulation of productive and financial systems, greater external vulnerability and an increase in poverty and social exclusion. The opposite could be argued by the defenders of neo-liberalism, saying that Chile has had positive results from its insertion into globalization as a consequence of the application of correct economic policies. What they forget, however, is that Chile

is a relatively small country and its model has moved away from the extreme forms of neo-liberalism in several ways (Cypher, 2005).

Furtado's concept of development always excluded any possibility of achieving it in a *laissez faire* framework. As we have already noted, for him, development implied "a strategy of changing structures", a social and cultural national project capable of achieving that change in a planned way and of reversing the tendencies of income concentration and social exclusion.

At the end of the 1960s, Furtado was aware of the limits of "developmentalism", as well as the changes Latin America needed to advance. In his opinion, the projects for structural change required large-scale political transformation. In *La economía latinoamericana (The Latin American Economy, 1969: 351)*, he wrote:

The common denominator seems to be the awareness that in the framework of development, *laissez faire* necessarily leads to a sharpening of social disparities, and that the work of structural reconstruction implies a much more arduous political effort than had previously been thought. Facile optimism that in the 1950s had led to developmentalism was followed by the apprehensions, impatience and frustrations of the following decade.

The need for a national project for profound social transformation grew with neo-liberal globalization. Furtado thought that globalization would continue to impose itself throughout the world because it was the result of "technological imperatives", which reduced national states' room for maneuver and left the strategic accumulation decisions in the hands of multinational corporations. These structural changes in the world economy "translated into a growing concentration of income and forms of social exclusion that are manifested in all countries" (1998: 32).

The new challenges are fundamentally social and political more than economic. Today, according to Furtado, the national development project has to change its axis from the logic of the *means*, from the logic of capital accumulation, to the logic of the *ends*.

What is needed, then, is to formulate a development policy based on a clear manifestation of the ends we are attempting to achieve, not based on the logic of the means imposed by the process of accumulation led by multinational corporations.

Overcoming the impasse we are facing requires that development policy lead to growing homogeneity in our society and open up a space for realizing the potential of our culture (2002: 47).

The move from a development strategy based on the logic of capital accumulation to one based on the ends and the satisfaction of social needs will be anything but easy. For a long time perhaps, two contradictory logics will co-exist: the logic of accumulation and profit together and face to face with the logic of national development and social needs (Aguilar, 1999). The success of the national development project, then, will require the construction of an advanced democracy, of a political system in which the people participate actively in decisions and which is not reduced to mere elections, an “empty shell”, as Borón correctly calls it (2005), dominated by the wealthy. As Furtado says in his last book (2002: 47):

[The] collective will requires political leaders to return to the permanent values of our culture. Therefore, the starting point of the process of reconstruction we have to undertake must be greater participation of the people in the system of decision-making. Without that, future development will not be fed by authentic creativity and will contribute little to satisfying the legitimate yearnings of the nation.

Furtado did not extensively develop an alternative strategy to neo-liberalism, nor could he have — nor could anyone else individually — since that strategy will be the result of a broad social and political struggle that puts social groups interested in change in power. However, he did note a series of valuable ideas about the directions of a new national development project. I will focus on four of them:<sup>9</sup>

- Recovering the domestic market as the dynamic center of the economy.
- Reversing the process of concentration of income and eliminating extreme poverty.
- Basing the financing of development on domestic savings and reducing the weight of servicing the foreign debt.

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<sup>9</sup> I have omitted sustainable development.

- Applying monetary, exchange rate and fiscal policies compatible with development.

With regard to the first point, Furtado seemed to be convinced that the neo-liberal model's unilateral export strategy could not lift Latin America out of underdevelopment because it did not give the entire economy dynamism; it dismantled productive systems and reproduced the concentration of income and social exclusion. For geographically large, highly structurally heterogeneous countries, there is no alternative but to turn the domestic market into the dynamic center of the productive system and the driving force of the economy:

Geographically large economic systems with marked regional and structural disparities, among them Brazil, China and India, will hardly be able to survive if they lose the cohesion derived from the expansion of the domestic market. In these cases, no matter how effective it is, international insertion is insufficient to ensure a dynamic economy. In a world dominated by large multinational corporations, these heterogeneous systems only survive and grow as a function of a political will supported by a project with deep historic roots (Furtado, 1998: 54).

This shrewd observation of Furtado's is valid, I think, not only for the countries he mentions, but also for other Latin American nations like Mexico, Argentina and perhaps several more (Colombia, Peru, Venezuela and others). By placing the domestic market at the center of development strategy, the idea is not to go backwards in time and re-experience the conditions that made the import substitution model possible — an impossible task, in any case. The idea is, rather, to apply a strategy that combines fostering exports and seeking out external markets with import substitution and the development of the domestic market. In the last analysis, the aim would be to create an endogenous base for capital accumulation, capable of stimulating the creation, assimilation and dissemination of technological advances. Fostering exports would be an aim subordinated to development policy. As Furtado said:

Deepening the external insertion of the economy would only be justified ... if that effort were made in the framework of an authentic economic and social development policy, something which does not occur when the increase in exports is accompanied by the contraction of the domestic market (1998: 50-51).

A strategy of this type does not imply turning our backs on or isolating ourselves from globalization. Actually, Latin America has always been situated in the framework of a world-system. The problem is not globalization in and of itself, but the way in which each country becomes part of it. As Ferrer says (2005: 647):

The result, from the perspective of each country, lies in the style of insertion in the global order, or, in other words, in the quality of the responses to the challenges and opportunities of globalization.

A strategy centered on the domestic market cannot rest on the spontaneous functioning of the market; rather, as Furtado always thought, it demands deliberate action by the state, the implementation of an active industrial policy and the use of economic planning techniques in order to concentrate actions in basic investments that would be priorities in each phase of the process.

The clear concentration of income in a few hands in most Latin American countries, but particularly in the largest (Brazil and Mexico), must be reversed; for economic reasons, to validate a development strategy centered on the domestic market, but also for social and political reasons because, as Furtado believed (1998: 40), the risks of ungovernability caused by social inequality are real. An agrarian reform that redistributes the land in countries like Brazil that has never had one, and a redistributive fiscal reform are urgent transformations on the Latin American agenda for change. The only effective way to redistribute income is through substantial, long-lasting growth of the investment rate that would gradually but steadily absorb the structural surplus labour that roams through large cities, which is the basis for low real wages and the resulting concentration of income.

Financing development must rest fundamentally on domestic savings (Bresser-Pereira, 2005). Latin America's high levels of both public and private foreign debt are an onerous burden because of the servicing it requires. As has already been mentioned, the problem is not whether the service to the debt can be paid and the principle refinanced in capital markets, but rather the impact of servicing the debt on governments' investment programs and social expenditures. The primary surpluses of public finances, which in Brazil's case reached 5 percent, are an unsustainable contribution

demanded by the IMF to guarantee the payment of the interest on the foreign debt. Furtado (1998: 34) thought that in the Brazilian case, it was necessary to “face a complete renegotiation of that debt”. Others, including this author, think that the only lasting solution for the countries in the periphery is the cancellation of the foreign debt. Economic development and the perpetuation of the debt are incompatible (De Bernis, 2000). In that sense, the cancellation of the foreign debt is a prerequisite for an alternative strategy.

It is correct to say that the cancellation of the foreign debt demands an international relationship of forces favorable to the periphery, something that does not exist today. What we cannot do is to underestimate the problem as some Latin American governments do, including some leftist governments, and avoid a profound review of the schemes for servicing the debt. Reality is the best advisor; no one can doubt that Argentina left economic paralysis and deflation behind when it unilaterally decided to suspend payment to its foreign, private creditors and abandon the asphyxiating straight-jacket of the currency board.<sup>10</sup>

It is equally urgent to change monetary and exchange rate policies at the root. Over-valuing national currencies (by 30 percent and 40 percent in the Mexican and Brazilian cases, respectively, today) and exorbitant real interest rates constitute a form of contribution to speculative financial capital unjustifiable in stagnant economies that urgently require getting back on the road to development. In addition, these restrictive, pro-cyclical policies are unsustainable because the history of Latin America shows us that continued over-valuation combined with high levels of foreign debt inevitably lead to a crisis of the external sector.

It is particularly important to recover monetary sovereignty. With the neo-liberal model and its resulting crises, financial systems have been handed over to foreign capital (Mexico is the extreme case in which 90 percent of commercial banking has been turned over to multinational banks). Perhaps the greatest danger is the supposed “independence” of the central banks. In some countries of the region, this counter-reform, which supposedly would give technical autonomy to the central bank to free it from any “undue use by political interests” and to avoid “populism”, has already led to constitutional reforms, while in others, bills of this kind have

been placed before the legislatures. When the central banks stopped being bodies of the executive branch, they in fact stopped being part of the national state and became extensions of the power of the Washington Consensus (which is nothing less than the power of the economic centers), exercised through multilateral agencies and the U.S. Treasury. Recovering state control of central banks is indispensable so that they can fulfill their function not only in achieving price stability, but also economic growth and increased employment. And, if we are interested in democracy, we should ask ourselves: who elects the governors of central banks? Because, for better or worse, populist or no, federal and local governments have to pass through the trial of the ballot box.

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