

**CELSO FURTADO AND THE MYTH OF ECONOMIC DEVELOPMENT:**

**RETHINKING DEVELOPMENT FROM EXILE**

Pedro Loureiro, University of Cambridge ([PML47@cam.ac.uk](mailto:PML47@cam.ac.uk))

Fernando Rugitsky, University of São Paulo ([rugitsky@usp.br](mailto:rugitsky@usp.br))

Alfredo Saad-Filho, King's College London ([alfredo.saad-filho@kcl.ac.uk](mailto:alfredo.saad-filho@kcl.ac.uk))

**Abstract:** This article introduces two previously unpublished working papers by the Brazilian economist Celso Furtado (1920-2004). Following a brief outline of his life and ideas, the arguments in the two papers are examined, taking into account their context and place in Furtado's evolving body of work. These two papers represent a crucial turning point in Furtado's thinking, highlighting his critical perspective on (under)development and laying the basis for four books that he would publish in rapid sequence. We stress Furtado's growing scepticism with the prospects for international development and global convergence, and his attempt to reimagine the meaning of development and the potential paths to development by peripheral countries. Furtado's approach to global capitalism in these two papers shed an even more critical light on the structure and evolution of global capitalism than his better-known works from the 1950s. Finally, the contemporary relevance of his ideas is illustrated by reference to their relationship with the current heterodox literature.

**Keywords:** Celso Furtado, development

**JEL codes:** B31, O10

## 1. INTRODUCTION

Celso Furtado (1920-2004) is one of the most remarkable Latin American economists of his generation, and his thought has influenced policymakers and social movements in the region since the 1950s. It is, however, the fate of ideas emerging in the periphery that they tend to remain outside the dominant academic circuits; Furtado would have been a household name if he had written exactly the same books from the comfort of a wealthy English-speaking country. Since he came from Paraíba, one of the poorest states in Brazil, and led a nomadic existence including many years in exile, his ideas have remained unjustly neglected. By making available for the first time two working papers (WPs) written by Furtado, this issue of ROPE celebrates the centenary of his birth and the originality of his thought, and offers a small contribution to the decolonisation of heterodox political economy.

Most introductions to Furtado's thought begin with his best-known book, *The Economic Growth of Brazil (Formação Econômica do Brasil*, originally published in 1959).<sup>1</sup> The two papers published in this issue of ROPE offer an alternative entry point for two closely related reasons. First, they represent a crucial step in Furtado's career. They came out of his reconsideration of the prospects for economic development in the periphery in the light of the setbacks imposed by the military coups of 1964 in Brazil, and 1973 in Chile; they also prepared the ground for a series of works published between the late 1970s and the early 1980s, when Furtado returned to Brazil after years in exile. Second, the critical perspective in these two WPs has withstood the test of time even better than his earlier writings. This article introduces both papers to the readers of ROPE, locates them within Furtado's thought, and places them in the context of key debates in development then and now. In the following section, Furtado's life and ideas are briefly summarized. Section 3 examines the key arguments in the two papers. Section 4 assesses their contemporary relevance, and section 5 concludes.

## 2. FURTADO: IDEAS AND SIGNIFICANCE OF HIS WORK

Celso Furtado played a key role in the rise of Latin American political economy in the 1950s. His work examines, from an interdisciplinary perspective, different aspects of the economy, society and politics in Latin America, with particular focus on Brazil.

Furtado originally trained as a lawyer, and he found employment in Brazil's rapidly expanding civil service. His interests gradually shifted towards economics and, following his military service during World War II, he obtained a PhD at the Sorbonne, in 1948.<sup>2</sup> Furtado spent the next decade in Chile, at the newly-formed United Nations Economic Commission for Latin America (ECLA, later ECLAC, with the inclusion of the Caribbean), working closely together with the Argentine economist Raúl Prebisch, who led the organisation from 1950 to 1963. Throughout his professional life, Furtado remained strongly committed to a national democratic project for Brazil and other peripheral countries, including industrialization, national autonomy, distribution of income and wealth (especially land), and regional development. He welcomed the emergence of trade unions and strongly supported progressive movements led by workers, the emerging middle classes, the youth, the Church, and in the Armed Forces. He would pay a heavy price for his ideals.

Furtado believed that the economic development of the periphery had been traditionally driven by external demand for primary commodities, but this modality of growth had adverse implications for their balance-of-payments constraint, long-term economic performance and political independence. The only way to tackle these limitations was through industrialization, which would turn the domestic market into the main driver of growth and, eventually, help to consolidate the nation itself. From this perspective, Furtado examined the economic history of Latin America, the accomplishments of import-substituting industrialization (ISI) since the late 19<sup>th</sup> Century, and the bottlenecks that limited the development of the region and that tended to channel the gains from industrialization towards the rich – in his own words, 'industrialization based on import substitution to the benefit of small minorities and on the exploitation of cheap labour in exporting industries' (WP-16:8).

This view of development lies at the cusp of two traditions. On the one hand, Brazilian modernism, a tendency emerging in the 1920s and affirming the value of national culture and the promise of progress, as opposed to the racist, colonial and agrarian mentality that had dominated the country since the 16<sup>th</sup> Century. On the other hand, structuralism, the ground-breaking strand of development economics that Furtado helped to elaborate at ECLA. Methodologically, Furtado's work draws upon historical analysis, observation, and the identification of empirical regularities. For him, this approach could offer both the key to an original interpretation of Brazilian society and the policy tools to enable its autonomous development.

Furtado's work was an integral part of the rise of development economics in the postwar era. He was influenced by the work of W. Arthur Lewis (1954), for whom developing countries have a large surplus of labour that can be attracted to high productivity urban sectors at the prevailing low wages. Structuralists claim that the surplus agricultural labour cannot be

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<sup>1</sup> For a recent assessment of the book, see Saes and Barbosa (2020)

<sup>2</sup> For details about his life, see d'Aguiar (2015), Bianconi (2014) and Furtado (1985, 1991, 2019). See also the chronology available in Tavares (2000: 155-160), and the entry on him in *The New Palgrave Dictionary of Economics* (Boianovsky, 2008).

fully absorbed by the urban sector, which depresses wages both in urban areas and in agriculture. In order to address these limitations, structuralists argued that it was essential to lift productivity and wages. In addition to these internal blockages to development, the periphery also suffered from a long-term tendency of deterioration of its terms of trade vis-à-vis the centre, which transferred its productivity gains to the industrialized countries (see Boianovsky and Solís 2014 and Saad-Filho 2005). To escape from this dilemma, developing countries should adopt bold state-driven policies to distribute income and wealth, industrialize, reduce regional inequalities, pursue national autonomy, and achieve self-sustaining growth.

Drawing upon this emerging approach, Furtado was the first economist to respond to Ragnar Nurkse's (1953) lectures on development (Boianovsky, 2010). Furtado (1952: 24-25) welcomed Nurkse's extension of Duesenberry's demonstration effect to international economic relations, referred to its affinities with the work of US economic sociologist Thorstein Veblen, and outlined one of his own key contributions: the study of the relationships between aggregate supply and demand in the process of development. In these debates, Furtado attempted to historicize what appeared to him as abstract formulations (Boianovsky, 2015: 429). That is the tone, for example, of his debate with Rosenstein-Rodan's (1963) notion of the 'Big Push' (Furtado, 1963). In a textbook that he wrote for his development economics course at the Sorbonne, in the 1970s, Furtado (1975: 279-280) claimed that the controversy about balanced versus unbalanced growth was misplaced, since each side was focusing on different phases of the trajectory of underdeveloped countries.

In 1957, Furtado accepted Kaldor's invitation to spend a year at the University of Cambridge – an invitation made after he told Kaldor that 'economic theory will not escape its current dead-end if there is no genuine breakthrough in the field of distribution' (Furtado, 1985: 196). There, Furtado wrote his most famous book, *The Economic Growth of Brazil*, which remains a key textbook in Brazilian universities.

On his return to Brazil, Furtado was invited to chair SUDENE, a government agency created in 1959 to promote the development of the country's poor Northeastern region, which included Furtado's birthplace. Between 1962 and 1963 he served as Minister of Planning in the government of President João Goulart (1961-1964), when he strongly advocated for democratic economic reforms. Goulart's government was overthrown by a military coup, and Furtado was on the first group of public figures to be persecuted. He left the country, and would spend several years in exile in Chile, the USA and, finally, in France.

The experience of defeat and exile drove Furtado to reformulate his views. In doing this, he was part of a larger trend noticed by Hirschman (1981: 20), for whom following the 'political disasters that struck a number of Third World countries from the sixties on', many progressive development economists reconsidered their theories:

Experiencing a double frustration, one over the appalling political events as such, and the other over their inability to comprehend them, a number of analysts and practitioners of economic development were moved to look at the economic performance itself with a more critical eye than before (Hirschman, 1981: 21).

Across Latin America, this reformulation involved a close engagement with Marxism, that would lead to different strands of dependency theory (Saad-Filho, 2005). In Brazil, the mid-1960 were a period of economic instability, high inflation, low growth rates and worsening political repression. In these adverse circumstances Furtado lost his earlier optimism, and his work increasingly stressed the stagnation tendencies in the economy (for an assessment, see Coutinho 2015, 2019). He also argued that ISI had been unable to address the economy's bottlenecks and that it had worsened Brazil's social problems. This led him to highlight the need for social policy and the distribution of income and land, both as necessary conditions for social justice and to permit a self-sustaining process of economic growth (Furtado, 1965; see also Medeiros Filho, 2020, Vieira, 2020).

Furtado's stagnationism was misplaced: between 1968 and 1973 Brazil experienced an unprecedented economic boom, the so-called 'Brazilian miracle'. The boom was driven by abundant external loans, the explosive growth of domestic credit and the concentration of income enforced by the military regime, which dramatically expanded consumption among the privileged strata of the population. Furtado reassessed his views again, famously clashed with other dissident economists,<sup>3</sup> and shifted his critique of Brazilian development away from narrow economic notions of stagnation driven by underinvestment and underconsumption and, increasingly, towards an interdisciplinary approach encompassing economic theory, politics, sociology and culture; he also stressed the imperative of distribution to achieve social integration and national autonomy.<sup>4</sup>

This was more than a symptom of Furtado's growing scepticism that industrialization might deliver the economic development of the periphery: it represented a break with mainstream notions of 'modernization' that drove the privileged in the periphery to replicate the culture and patterns of consumption prevailing in the centre. Furtado claimed that this was

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<sup>3</sup> The most famous debate on the 'Miracle' was initiated by Tavares and Serra's (1976) critique of Furtado stagnationist view. For a recent assessment, see Coutinho (2019); see also Cardoso and Faletto (1979) and Oliveira (1972).

<sup>4</sup> For example, in a debate in the late 1980s attended by one of the authors (ASF), Furtado argued strongly for interdisciplinary approaches in the social sciences, but cautioned that true interdisciplinarity cannot be achieved by working in large committees, but only through individual learning from different views, approaches, traditions and disciplines.

untenable, and that even the attempt to do so would bring potentially devastating social, economic, environmental, and cultural consequences.

Furtado's commitment to a national project and to a socially integrated and autonomous Brazilian nation became increasingly prominent as he aged. He returned to Brazil in the early 1980s, and immediately joined the national campaign for democracy, which finally succeeded in 1985. He served as Minister of Culture in the first democratic administration, held other prominent positions in government, and would continue to debate economic and development policy until his death in 2004. His reputation remains extremely strong across Latin America, where his work and his life continue to inspire heterodox economists of all ages.

### 3. THE TWO WORKING PAPERS

Furtado's two stints in Cambridge were major milestones in his career. In his words, 'the University of Cambridge ... has been for me, since the 1950s, a fundamental point of reference' (Furtado 1991: 190). In his first visit, in the late 1950s, Furtado had the goal of 'studying economic dynamics, with special emphasis on the theory of underdevelopment ... revisiting the classical, neoclassical and Keynesian approaches to production, distribution and international trade' (Furtado 1985: 197). At Cambridge, Furtado studied the economic development of Asia and the Americas, and contributed to debates with Joan Robinson, Nicholas Kaldor, Piero Sraffa, Amartya Sen and others. In his memoirs, Furtado noted that these exchanges 'helped to shield me from the insidious forms of monetarism that sterilise contemporary economic thought, draining it of all concern with social issues' (Furtado 1991: 190). Feeling enriched after his engagement with high theory, Furtado would come full circle. As he completed *The Economic Growth of Brazil*, he concluded that the country's economic development would require completing the process of industrialization and addressing the disparities within the country. His own priorities were clear, and he stated that 'this time, I returned to Brazil with a definite task' (Furtado 1985: 227): he would dedicate himself to the practical work of reducing regional inequalities. This was the prelude to his engagement with SUDENE, highlighting how Furtado was both a cosmopolitan intellectual and someone acutely aware of, and active upon, local issues (on this issue, see Paula 2019).

Furtado returned to Cambridge under very different circumstances in 1973-1974. The limitations of ISI in Latin America had become strikingly clear, and a cloud hung over him after the military coup that deposed Chilean President Salvador Allende, on 11 September 1973. During this stay, Furtado was the Simón Bolívar Professor at the Centre of Latin American Studies, the sixth person to occupy this chair that has been held by Guillermo O'Donnell and two Nobel laureates, Octavio Paz and Mario Vargas Llosa. The two WPs included in this issue of ROPE were written during this period, that Furtado generally called his 'rambling years' of exile. They are marked by a heavy pessimism, illustrated by the lament in his diary entry for 31 May 1974: 'All the myths in which I believed! Can one believe in anything beyond myths? And are they myths, once we believe them?' (Furtado 2019: 233).

Furtado was never was a narrow-minded economist, but the two WPs written at Cambridge became a milestone in his intellectual development, and they laid the basis for his work during the following decade. The WPs were originally published by the Centre of Latin American Studies, in a series that had a small print-only circulation, and was discontinued in the 1990s. They circulated only in a limited way, but strongly impacted those who read them. For example, Lall (1975: 805) based his critique of the concept of dependence on WP-17, writing that 'The best statement of the consumption-distorted pattern of dependent development is by Furtado [in WP-17]'. In turn, WP-16 was probably read in Mexico, since it is mentioned in Combe (1977). There are a few other references to the WPs (e.g. Cunha and Britto 2018), but they are rare. This is the first time that these important works of Celso Furtado are made available to a wider audience, making it possible to examine this key moment in the evolution of his thought.

Furtado's writings in the decade following his stint at Cambridge include four books that, while remaining anchored in political economy, sought to build a transdisciplinary approach to development incorporating – most innovatively – the cultural and environmental dimensions of (under)development (see his autobiographical note in Furtado 1991: 190). The book *The Myth of Economic Development (O Mito do Desenvolvimento Econômico)*, completed in 1974, is heavily indebted to the WPs. WP-16, which shares a similar title with the book, was substantially edited and spread throughout sections 1, 2 and 5 of chapter I (called 'Structural tendencies of the capitalist system in the stage of the predominance of large corporations'). Compare, for example, these two formulations:

Underdevelopment is certainly a very complex problem. But it has nothing to do with the fact that a country or a society is old or young. It can better be described as a series of imbalances caused by technological heterogeneity introduced by a certain type of external relation which always involves dependency (WP-16: 7).

Capturing the nature of underdevelopment is not an easy task: many are its dimensions and the most easily noticeable are not always the most relevant ones. But if we know something for sure it is that underdevelopment has got nothing to do with the age of a society or country. And we also know that the parameter to measure it is the degree of capital accumulation applied to productive processes and the access to the panoply of final consumption goods that characterises what came to be known as the modern lifestyle (Furtado 1974: 20).

WP-17 was re-worked into chapter II, which kept the original title. The book includes two further chapters, ‘The Brazilian model of underdevelopment’ and ‘Objectivity and illusionism in economics’. An abridged version of this book was published in Portuguese, including only chapter I (and, hence, having little connection with WP-17). This abridged version has been translated into English and published by Polity Press (Furtado 2020). The *Preface to a New Political Economy* (*Prefácio à Nova Economia Política*), published in 1976, and the *Brief Introduction to Development* (*Pequena Introdução ao Desenvolvimento*), from 1980, developed arguments advanced in the WPs. Finally, the cultural dynamics of reproduction and contestation of underdevelopment, that were also evident in the WPs, would flourish in his 1978 book, *Criatividade e Dependência na Civilização Industrial* (published in English as *Accumulation and Development: The Logic of Industrial Civilization*, although the closest translation would be Creativity and Dependence in Industrial Civilization).

Furtado stated in WP-17 that, in order to understand underdevelopment, one must focus on production as well as circulation, with the latter including the ‘adoption of new patterns of consumption copied from countries at higher levels of capital accumulation, which in its turn generates cultural dependence’ (WP-17: 4). Furtado’s focus on consumption and exchange would extend to his understanding of inequality, the definition of underdevelopment and the obstacles to development, which he revisited in the light of his earlier work. In doing this, Furtado vastly increased the scope of his reflections, indicating that ‘my objective was to develop a common language for the several branches of the social sciences, allowing development to be apprehended as the fulfilment of human potentialities’ (Furtado 1991: 192) – which invites a (so far under-examined) dialogue with Amartya Sen’s capabilities approach (see, e.g., Sen 1999).

In turn, Furtado welcomed the publication of the 1972 report to the Club of Rome, *The Limits to Growth*, and reproached the economic development literature for its disregard for ‘the long-term impact of economic decisions geared to private interest on the physical environment’ (WP-16: 1). He stressed that growing burden: the ‘acceleration of technical progress by itself will not make our civilization less predatory; indeed it could accelerate the tapping of non-renewable resources and the flow of polluting waste’ (WP-16: 6). However, Furtado also stated that the projections of resource use in *The Limits to Growth* were vastly over-estimated, because of the study’s mistaken reliance on the hypothesis of convergence, that is, that the underdeveloped countries will catch-up with the level of income, the structure of distribution, and the pattern of consumption in the USA. For Furtado, this hypothesis ‘reveals an absolute ignorance of what has been specific to the underdeveloped countries from the inception of the industrial revolution’ (WP-16: 7).

The WPs reveal Furtado’s growing scepticism about the possibility of overcoming underdevelopment, even though he did not completely jettison his earlier ambition to find pathways to development. To be sure, in his previous works Furtado had always highlighted the specificity of underdevelopment, which – along the lines of dependency theory, and in contrast with the mainstream – he did not consider a ‘stage’ prior to development. Instead, he underscored the interdependence between development and underdevelopment and the challenges that this relationship posed to attempts to escape underdevelopment. Nevertheless, Furtado had previously understood that development was *possible*, at least in principle, through industrialization, structural reforms and other socioeconomic policies and processes. His change in perspective, beginning with the WPs, and developed in the coming decades, is encapsulated in the title of WP-16, which suggests that economic development is a *myth*. In his words, the ‘myth’ refers to

the implicit idea that economic development, *such as has been practiced in the countries that led the industrial revolution*, can be universalized; more precisely: that the standards of consumption presently enjoyed by the population of the industrialized countries could be shared by the masses of population living and rapidly expanding in the Third World, *provided that they work hard and behave well* (WP-16: 1, emphases added).<sup>5</sup>

The notion of linear progress and the closely related myth of economic development provided a meta-narrative holding the capitalist system together ideologically, and anchoring economic thought. However, the idea that continuing progress might be achieved is fallacious, since it ‘has now been clearly established that the countries of the Third World will never be developed, *if we mean by this to have access to the standard of living of the developed countries of today*’ (WP-16: 16, emphasis added).<sup>6</sup> This does not mean that Furtado had abandoned the notion of development; instead, he had concluded that development had to be rethought *from the periphery* in order to become achievable. In this sense, the periphery had a historical role driving human emancipation since, through creativity and the struggle against underdevelopment, ‘one may expect that societies will emerge [in underdeveloped countries, that are] much more egalitarian than those now existing in the centre of the capitalist system’ (WP-16: 19).

By stressing in the WPs the agency of ‘the masses of the Third World’, Furtado counterbalanced his growing pessimism with an increasingly radical commitment to emancipation. He wrote in his diary on 31 May 1974: ‘How sick am I with politics, after all I have come to know about Chile ... To what extent did vanity play a role in all that Allende did?’ (Furtado

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<sup>5</sup> The striking sentence ‘provided that they work hard and behave well’ does not appear in the book.

<sup>6</sup> Arrighi (1990) would reach a similar conclusion. It is worth mentioning that in an unpublished early draft called ‘The Limits to Economic Growth’ (*Os Limites do Crescimento Econômico*), Furtado uses the term ‘myth’ only three times, all of which in the penultimate page. This suggests that, as Furtado deepened his critique of *The Limits to Growth*, he increasingly focused on the possibility of development and the corresponding challenges for underdeveloped countries, and came to the view that commonly-held notions of development were merely myths.

2019: 233-234). In turn, he stated in WP-16 (p.22): ‘For the masses of the Third World the predicament is to stay where they are, while small minorities in their respective countries share *les douceurs* of the modern way of life, *as long as they are not prepared to build for themselves a different destiny*’ (emphasis added).<sup>7</sup> Furtado thus recognised the mounting challenges faced by underdeveloped societies, but he did not surrender: instead; he changed his notion of development and identified the social agent – no longer the state or the investors – that could address that historical task.

This new perspective feeds a related set of changes in Furtado’s thought: it is well-known that Latin American structuralism eschews the critique of capitalism in the centre, except for the argument that the economic relations with the centre prevent the development of the periphery (see, for example, Oliveira 1972: 9). This implies, somewhat paradoxically, that the structuralists criticize the global capitalist system because it produces a centre and a periphery but, implicitly, they assume that this polarization would be eliminated if the periphery became ‘developed’. In his innovative critique of capitalism in the centre Furtado went a step beyond structuralism, and showed how the viewpoint *of the periphery* could expose the impossibility of development *for the entire system* – while, simultaneously, showing a way forward for the world (see also Albuquerque 2013).

This dramatic inversion of the terms of the development debate reveals the growing relevance of culture in Furtado’s work. Culture and cultural change have always played a role in development studies, ranging from crudely racist, orientalist and paternalistic views to more sophisticated examinations of the richness of the traditions from the periphery; however, Furtado adopted a different perspective (Cunha and Britto 2018, Lins 2014 and Paula 2019). First, he argued that underdevelopment was underpinned by, and reproduced through, cultural dependence, expressed in the mimicking of the consumption patterns of developed countries in the periphery, and the latter’s growing technological dependence. Second, he explored how the process of development established new forms of rationality, not only the instrumental rationality focusing on efficiency and accumulation but, also, the diffusion of new values. Third, and this is where the notion of ‘creativity’ operates as a counterpoint to the pessimistic turn in his analysis, the answer to economic, technological and cultural dependence should come through creative efforts taking place in the periphery. This implies that, for Furtado, the periphery must develop new forms of rationality, re-imagine social organisation and define its own goals in order to foster innovation, stimulate technological change and overcome underdevelopment. This conclusion illustrates the depth of Furtado’s mature work, in which development is inseparable from the realisation of human potentialities and, in order to become more than a myth, it must be creatively reimagined from the periphery.

One aspect of the WPs that cannot be reviewed in detail here for reasons of space is Furtado’s critique of the impact of multinational corporations (MNCs) on development. He examined this issue for the first time in the 1960s, after his spell in the USA, and wrote about it in his 1966 book *Underdevelopment and Stagnation (Subdesenvolvimento e Estagnação)*; see Boianovsky 2010, Coutinho 2015, 2019). He returned to this issue in the WPs and, even more strongly, in the 1974 book. They show Furtado’s concern with the changing institutional configuration of global capitalism and the closely related (re)distribution of power, leading him to point out, long before this became fashionable, that intra-firm transactions were driving international trade: ‘Transactions between branches and the headquarters of the multinational corporations are replacing or complementing the traditional forms of international trade, which enables the peripheral countries to pay for their increasing requirements of technology with cheap labour. The forms of the new type of underdeveloped economy, growing on the basis of exports of cheap labour embodied in industrial products produced by foreign firms for foreign markets, are still in the making’ (WP-17: 15).

Finally, it is worth pointing out two curious shortcomings of the WPs. First, perhaps as a sign of how much the world has changed in recent decades, Furtado suggested that ‘it seems unlikely that international mobility of labour will increase much more. Therefore, demographic pressure on local natural resources is not bound to provoke important international movements of population’ (WP-16: 11). He also overestimated the rigidity of the distribution of income stating, for example, that income had remained ‘as concentrated as it was a century ago when average productivity was much lower’ (WP-16: 8). These lapses reveal some pitfalls of generalising from past experience, but they do not compromise Furtado’s analytical framework.

What might invite a more substantive debate is the extent to which Furtado’s WPs can inform the analysis of the divergences between Latin America, Africa and East Asia. On the one hand, he still seems attached to the general scheme of industrialisation in Latin America:

The recent experience of countries like Brazil and Mexico has demonstrated that such a model of industrialization is far from being reproduced in the periphery of the capitalist world. Adoption of the life style of the rich countries by the ruling minorities of the peripheral countries requires so acute a concentration of income that the process of industrialization tends to be basically different. It takes the form of “import substitution” (WP-16: 9).

On the other hand, he also offers pointers to a better understanding of the diversity of experiences in the periphery. His analysis of the implications of MNCs for the possibility of development, his focus on technological dependence and the role of creativity in overcoming it, and, as discussed below, his attention to the complex interactions between the productive

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<sup>7</sup> This sentence in WP-16 is not present in the book.

structure, growth and distribution, can help to inform a sophisticated examination of the dynamics of development in the periphery.

#### 4. CONTEMPORARY RELEVANCE

Almost half a century after they were written, how relevant are these two WPs for our understanding of capitalism, both then and now? And, separately, how significant are they for our understanding of Celso Furtado's thought? In both senses, the WPs are the culmination of reflections that began in the mid-1960s (see, especially, Furtado 1965). At that time, focusing on what he called the tendency towards stagnation in the periphery, Furtado argued that the conventional models of development, for example Lewis (1954), disregarded the role of the patterns of consumption. For Lewis, development was mechanically reached through the transfer of labour from the subsistence sector to the urban capitalist sector, raising productivity and (given constant real wages) generating surpluses that would accelerate capital accumulation. Say's law is assumed to hold: whatever is produced in the capitalist sector will be sold. Furtado was not the first to question this claim; for example, Rosenstein-Rodan (1943) and Nurkse (1953) had already argued that, in the absence of a coordinated effort (the 'Big Push') to create a series of industries that would generate demand for each other's output, the growth of manufacturing production could be limited by the lack of demand.<sup>8</sup>

Furtado's approach was different. For him, it was essential to consider the dynamics of sectoral heterogeneity, since it played a key role in the reproduction of underdevelopment. Concretely, capital accumulation expanded the capitalist sector, altering its sectoral composition to reflect the pattern of consumption of the underdeveloped society. In the 1960s, a dualist market for consumption goods, characterized by the stagnant demand of the majority of the population and the rapidly diversifying and expanding demand of the rich minority, created incentives for the production of luxuries. Given the prevailing technologies this implied an increase in the economy's capital-output ratio which, in turn, would slow down the absorption of labour by the capitalist sector and reduce profitability. In other words, in attempting to explain the tendency towards stagnation, Furtado ended up suggesting a more general cumulative process: cultural dependence and the prevailing distribution of income determined the pattern of consumption, which impacted the sectoral composition of output and employment, which fed back into the distribution of income and the patterns of consumption; in other words, the structures of demand and supply are mutually determining. Furtado states that:

To grasp the origins of underdevelopment and to comprehend the process of reproduction of its structure, it is necessary to focus simultaneously on the process of production (reallocation of resources producing an additional surplus and the appropriation of such a surplus) and on the process of circulation (adoption of new patterns of consumption copied from countries at higher levels of capital accumulation, which in its turn generates cultural dependence) (WP-17: 4).

The implications of this argument should not be underestimated. The Lewis model indicated that the increase in inequality that accompanied development was temporary and would be reverted once the pool of surplus labour had been exhausted. Kuznets' (1955) description of the trajectory of inequality in the process of development of the centre – first increasing, then declining – was expected to hold in the periphery (even though Kuznets himself cautioned against this analogy). Furtado's approach offered an interpretation for the evident failure of this prediction: the interaction of the structures of supply and demand reproduced the pool of surplus labour and kept wages low, indefinitely postponing Lewis' turning point. A similar argument was made by Marxist critics of the Lewis model, which read Lewis' notion of unlimited supply of labour in the light of Marx's concept of the industrial reserve army (Arrighi 1970, Nun 1969, Oliveira 1972, Rugitsky 2020).

Interestingly, the cumulative process identified by Furtado was even more general than he had suggested. First, the Brazilian 'miracle' had shown that the stagnationist implications of Furtado's analysis were not necessary, which suggested a more complex relationship between sectoral dynamics and economic growth. For example, Taylor and Bacha (1976) formulated a model incorporating Furtado's cumulative process but leading to accelerating growth and rising inequality, which they called an 'unequalising spiral'. Second, De Janvry and Sadoulet (1983) proposed a model suggesting that the cumulative process could either increase or decrease inequality depending on the features of the economy; in their words, the model could lead either to 'social articulation' or 'social disarticulation'.

Furtado reviewed the case for the cumulative process in WP-17 in the light of the Brazilian 'miracle' and the critiques to his stagnationist views. In this new formulation, the impact of the cumulative process on the rate of economic growth is replaced by its impact on inequality. The growth spurt that took place in Brazil in the late 1960s had taught Furtado that the cumulative process may not block economic growth, but it would make it reliant on ever-increasing inequality in order to maintain the growth of the market for luxury goods: 'Higher rates of economic growth tend to imply aggravation of both

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<sup>8</sup> For them, the obstacle concerned the sectoral balances in the short-term, since they assumed that Say's law would hold in the aggregate: 'Although in backward areas Say's Law may be valid in the sense that there is generally no deflationary gap, it never is valid in the sense that the output of any single industry, newly set up with capital equipment, can create its own demand' (Nurkse, 1952: 571).

external dependence and internal exploitation. Therefore, higher rates of growth, far from reducing underdevelopment, tend to make it more acute, as it entails increasing social inequalities' (WP-17: 17). His argument about the myth of economic development could be, at least in part, informed by this shift in his position.

Current heterodox macroeconomic thinking can benefit from Furtado's insights on the cumulative process between the structures of supply and demand, for example by extending its models of growth and distribution to incorporate sectoral heterogeneity as an endogenous variable mediating the relationships between aggregate demand, capital accumulation, and income distribution (Rugitsky 2016; for a recent modelling attempt, see Brenck and Carvalho 2020). If demand regimes (that is, the causal structures between distribution and demand) are independent of sectoral dynamics, then distribution and productivity regimes (the causal structures between demand and distribution) depend on the sectoral features of the economy. Taylor and Ömer's (2020) work can be read as an attempt to bring sectoral heterogeneity back to the core of the theories of growth and distribution, for which Furtado's contribution was seminal.<sup>9</sup>

Interestingly, the cumulative process between supply and demand suggested by Furtado was influential not only within Latin American structuralism (e.g., through Pinto's (1976) notion of 'styles of development') but, also, on early heterodox models of growth and distribution; for example, Taylor (1983, 1989) attempted to recast that process in a Kaleckian model of growth and distribution. Nevertheless, this line of work has remained at the margins of the heterodox literature, perhaps because the rich economies tend to be sectorally more homogeneous, rendering single-commodity models intuitively plausible. Still, there is a growing recognition that the productive structure of the US economy is becoming increasingly dualistic, supporting research work at a more disaggregated level (Storm 2017, Taylor and Ömer 2020; see also Temin 2017). The centrality of sectoral dynamics, which is always evident in the periphery and was strongly emphasized by Furtado, also seems to be gaining recognition as it becomes more and more relevant for the centre. This is another instance in which analyses centred on the periphery can better explain the shortcomings of global capitalism.

Another topic that makes Furtado's thinking from the mid-1970s relevant for the present is his reconceptualization of development. By distinguishing 'development' from 'catching up with the standards of consumption in the centre', and reframing 'development' as the autonomous construction of their destiny by the masses in the Third World, Furtado broke away from the eurocentric and technocratic character of early development economics, and anticipated in important ways arguments that would be brought forward by the post-development literature two decades later.

In a recent assessment, Ziai (2017: 2547-2548) argues that the post-development literature articulated five criticisms of development: (i) that it is a Western ideology deployed in the Cold War to prevent countries from aligning with the USSR; (ii) that it is a failed project of universalising the way of life of the 'developed countries'; (iii) that it defines non-Western ways of life as 'inferior' and 'in need of development'; (iv) that it privileges activities earning money through the market at the expense of other forms of social existence; and (v) that it legitimates interventions in the periphery in the name of goals decided by people claiming 'expert knowledge'. These criticisms played a crucial role in pointing out the power struggles involved in the process of development, and the narrowness of the horizon of development economics. As Ziai (2017: 2548-2549) points out, however, if part of this literature adopts a 'constructivist concept of culture' leading to a 'radical democratic position', another part has 'reactionary consequences' due to its one-sided rejection of development, essentialist affirmation of traditional cultures and paternalistic approach to the poor.

Read in the light of the recent literature, Furtado's formulation of the myth of development is striking both because it anticipates contemporary criticisms of the development discourse, and because it avoids common pitfalls. Furtado rejects the notion that development means the universalization of the patterns of consumption of the centre on the grounds of viability and desirability, bringing to the fore the ideological nature of the literature that he had helped to establish. At the same time, Furtado refuses to replace the much-criticised concept of development with a new one; instead, he devolves its definition to the masses in the periphery. That is, instead of playing the vacuous role of opposition technocrat, Furtado chooses a deep notion of democracy as the starting point for the reorientation of the debate about development. He envisaged this shift as a consequence of the 'probable ... eruption [in the periphery] of a series of political upsurges aiming to cope with the alarming rise in social inequality'.

Large areas in the periphery would go through processes of democratization some years later, and these processes would push towards the redistribution of income and wealth. However, these processes coincided with the rise of neoliberalism, which would not only halt the reduction of inequalities but also hinder a democratic redefinition of development and lead to a deep crisis of democracy (the case of Brazil is reviewed in Saad-Filho and Morais, 2018). Decades into neoliberalism, economic policy has become increasingly insulated, entrenching the power of technocrats and blocking public debate on the economy. In addition, despite growing criticism, GDP growth remains the dominant measure of prosperity. A concept of development focusing on the autonomy of the masses rather than on technocratically-imposed aims seems even more relevant than it was half a century ago.

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<sup>9</sup> A similar reasoning has been applied to Argentina's and Brazil's recent combination of accelerating growth, structural regression, and falling inequality; see Rugitsky (2017, 2019) and Loureiro (2018, 2020).

A concept of development inspired by the work of Celso Furtado and other heterodox economists could help to inspire policy alternatives in Latin America and elsewhere. This task is urgent since, faced with the hegemony of neoliberalism, it has become common for heterodox economists to criticize the dominant policies and suggest alternatives without questioning the underlying narrowing of the terms of the debate. For example, although a critical standpoint about inequality is generally taken for granted by the heterodoxy, the cultural and environmental consequences of economic growth are rarely acknowledged, despite the excellent work of other social scientists (see, e.g. Gudyas 2016, Svampa 2015). Further, for most economists, it seems that there are only economic lessons to be learned from the shortcomings of ISI and the decline of structuralism. Furtado's work suggests otherwise: the limits of ECLA thought were closely related to its disregard for the social and political dynamics unleashed by the process of development in the region.

## 5. CONCLUSION

Critical thinking has much to gain from a closer engagement with Celso Furtado's contributions from the 1970s. This critical moment in the evolution of his thought allowed him to offer a deep and profoundly original interpretation of the accumulation of capital with, at its core, the hierarchical structure of the world economy and the sectoral dynamics that relate accumulation to the social structure and the distribution of income. This approach can contribute to the examination of the relationships between economic and political processes in development, through the interactions between capital accumulation and social structure. The political economy that Furtado developed in the 1970s offered a critique of capitalism from the vantage point of the periphery, which he combined with a reconceptualization of development grounded on his lifelong commitment to democracy. In an age when there is a search for new paradigms of development and alternatives to neoliberalism taking into account urgent concerns with national and global inequalities, racism and environmental and other concerns, these seminal works by Celso Furtado offer a refreshing contribution and illuminating insights.

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