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After structuralism, a development alternative for Latin America

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Abstract. The paper, first, summarizes Latin American structuralism, and offers reasons why it was so influential and durable in the region, as it attended to real demands, and was part of 1950s'mainstream economics. Second, says why, with 1980s'Great Crisis, structuralism eventually ended itself into crisis, as it was unable to keep pace with historical new facts, particularly with the industrial revolution or take-off, that made Latin American economies intermediary, still developing, but fully capitalist. Third, it lists the quasi-consensus or overlapping consensus that today exists on economic development. Forth, opposes 'official orthodoxy' to 'developmental populism', the former deriving from neoclassical economics, the later from structuralism, and offers, in relation to six strategic issues, a development alternative.

In the 1940s and 1950s, following the Great Depression, the moderate left in Latin America disposed of a consistent economic doctrine to chart economic development, and the conservatives, none. As a kind of trade-off, from mid 1980s to mid 1990s, the right counted with an apparently coherent proposal of economic reform, based on neoclassical economics, while the left was in disarray and the structuralist doctrine was transformed into developmental populism. Yet, while academic neoclassical doctrine was itself reduced to the Washington Consensus and or to 'official orthodoxy' by conservatives, and the old left remained stick to old ideas, my argument in this paper is that there is an 'unconventional alternative' that responds consistently to the stabilization, growth, and distribution challenges

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faced by intermediate developing countries in Latin America like Brazil.[1] Which development alternative is that? Does it combine a commitment to the poor with the logic of a global market? Will it be really able to promote economic growth with increasing social justice? How can it be compared with the structuralist and the orthodox doctrine? In this paper I will try to provide some answers for these questions.

Any development strategy is supposed to take into account economic constraints. Yet, the existence of constraints does not mean that there is no room for creative and progressive policymaking, as the globalist doctrine asserts.[2] On the other hand, the fact that there is some degree of freedom does not legitimize the opposite view: advocating a specific economic theory to deal with developing countries' economic specificities, as the structuralist doctrine once claimed. This may be true to countries that did not realize their industrial and capitalist revolution: it is not anymore to intermediate developing countries.[3]

Against the orthodox 'no-alternative' claim there are more relevant arguments than just to say the economic theory does not apply. First, economic policies have necessarily distributive implications. Thus interests and the correspondent ideological currents have a major play in defining policies. Class interests, group interests, and national interests obviously affect policymaking. If they did not, victory or defeat in elections of left, or right-wing political parties would not have any economic consequence – what is just nonsense.[4] Economic theory was able to identify the economic constraints and to achieve a reasonable degree of consensus on macro and microeconomic policies. But we are far from a non-alternative situation: political choice remains a decisive factor in economic development and in income distribution.

Besides interests, that remain decisive, it is important to consider a second factor: competence or incompetence in assessing economic problems and in taking policy decisions. Economic policies can be mistaken in moments when interests are neutralized and the policymaker is free to decide which is the best route to follow. If, as a consequence, negative outcomes

[1] - I call this alternative 'unconventional' because it does not follow either the orthodox or the developmentalist conventional wisdom. I could call it also 'pragmatic', but I don't believe that names make a difference on this subject.

[2] - Globalization is a real phenomenon, that should not be mixed up with "globalism", the ideology related to official orthodoxy asserting that national states lost relevance, and that there is no other alternative than to follow orthodox prescriptions. For a critique of this view see Wade (1996).

[3] - Many authors used to distinguish economic development from economic growth, and development economics from growth economics. I believe that today makes more sense to use both expressions interchangeably. Distinguishing them makes things rather more confusing than more simple. The reason for that view will become clearer while I develop my argument in this paper: the distinction makes sense when countries are yet supposed to change from pre-capitalist or mercantilist social formations to capitalist ones; within capitalism it ceases to be relevant.

[4] - Claims that there is not anymore difference between the left (or the 'liberals' in the US) and the right (or the ultra-liberal, or the conservatives) turn pathetic after George W. Bush assumed the American presidency in 2000 and adopted radical conservative policies.

follow, this is a signal that a wrong alternative was adopted. In this case, mistaken policy making does not have only origin in economic populism, as orthodox conventional wisdom claims, nor have origin in the interests of rich countries, or of the local capitalist class, as left-wing conventional wisdom asserts. Populist economic policies from the left and the right are indeed a major source of mistakes, and orthodox doctrine's conservative bias is undeniable, but this kind of mistake have behind interests, while the adoption of wrong policies when interests are neutralized derive either of policymakers' sheer ignorance, or of his or her arrogance, or fear.

Mistakes made by policymakers in developing countries may have a third origin, which involves both interests and competence. I refer to the policies that arise from a 'confidence building strategy': instead of deciding according to their own assessment of the economic problems, policymakers adopt automatically the policies recommended or positively viewed by economists in Washington and in the international financial institutions in order to build confidence. Economic theories and economic policies have always been imported and continue to be imported by Latin America. Most of what was imported was good, but, since often imports were made non-critically, they also turn into a major source of mistakes.

One should expect that the economic growth that took place in these countries in the twentieth century, and the development of graduate programs in economics in Latin American universities would have had as consequence an increased capacity of analyzing economic problems, and in defining more autonomously the required economic policies. The first assumption is right, the second, wrong. Why? One possible explanation is that while neoclassical doctrine defeated the Keynesian and the Marxist opponents in rich countries and continued to develop, recovering its mainstream capacity, structuralist doctrine, influenced by Keynes and Marx, fell into a severe crisis with the exhaustion of the Latin American import substitution strategy. An additional explanation is that, since the 1970s, imports of economic ideas and techniques were made through economists making their PhD abroad, principally in the United States. They returned controlling more skillfully economic theory and econometric tools, but, as a trade-off, their capacity to critically analyzing local problems was harmed.[5]

In this paper my focus will be in the developing countries, or in the intermediary economies, that should be distinguished from the poor or underdeveloped economies, where the industrial and capitalist revolutions did not yet occur. Thus, I am roughly classifying countries in three categories: developed, intermediary, and underdeveloped or poor. This is a classification where participation in categories is changing through. Several Latin American countries, that were underdeveloped, agrarian or mining based, economies in the first part of the twentieth century, are now intermediary economies. The same can be said of Asian and Easter European countries.

In the first session I will discuss the lost Latin American consensus on the structuralist doctrine. Why the structuralist ideas of the 50s and 60s achieved the dominance they did, how original they were, how they participated from mainstream economics at that moment, and also, why the new historical facts, that they were not able to tackle, led them to a deep crisis

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[5] - For a discussion of the incompetence factor in economic outcomes see Bresser-Pereira (1999a, 2000b). The first paper also discusses 'confidence building'.

and to their degradation to developmental populism. In the second session, we will see how the structuralist development economics came under attack by free trade sponsors, while a new neoclassical growth theory ignored it, and made relevant advances. In the third, I will shortly review the consensus or quasi-consensus that already exist in development economics. In the final session, taking for grant the quasi-consensus, I will offer an alternative to official orthodoxy and developmental populism in some strategic issues: reforms, balance of payments stabilization, development finance, trade, and distribution of income. Official orthodoxy and developmental populism are simplifications and radicalizations, one of neoclassical economics, the other of classical and Keynesian economics, the later usually invoking spuriously Keynes thought.[6] Although orthodox and developmental doctrines will be here presented in simplified way, I hope not to transform them into scarecrows, but to criticize them in a way that makes the unconventional alternative I will present meaningful.

The lost consensus: the structuralist approach

Between the 1950s and the 1970s there was a broad consensus in Latin America about the development strategy to be followed, based on the Latin American structuralist development economics, or, for short, structuralist doctrine. Its founding father was Raul Prebisch, and the initial document, the introduction he wrote for ECLA's *1948 Latin American Survey*, published in 1949.[7]

The large and long influence that the structuralist doctrine had in Latin America may be explained with three arguments. First, it was a theoretically well-founded doctrine. Second, it was consistent with mainstream development economics at that time. Third, it was a doctrine that responded to the existing demands and trends in the economies of the major Latin American countries, which were engaged in import substitution industrialization since the 1930s. I will shortly present these three factors, and, at the end of the section, I will show how, as time elapsed and historical conditions changed, the theory got distorted and turned into mere economic populism.

Structuralist doctrine was based on an original critique of classical comparative advantage theory's non-predicted consequences. 'Prebisch's thesis', as it came to be known, said that there was a major distortion in free international markets, that comparative advantages did not take into account: the tendency to the deterioration of terms of trade for primary products' exporters. This trend was the outcome of the capacity that manufacturing workers in the developed countries had of transforming productivity gains in wage increases due to their organization in unions, while workers in developing countries, working mostly in agriculture, were not able to do the same in relation to productivity increases in their countries. This thesis was confirmed by an obvious fact: developed countries were industrial countries; developing

[6] - For a defense of Keynes against populists see Bresser-Pereira and Dall' Acqua (1991).

[7] - Prebisch was the ECLA's Executive Secretary. Thus, this document was originally published without his name. The first publication under Prebisch's name was made in Portuguese. In the reference are the details (Prebisch, 1949). Among the co-founders I would list Celso Furtado, José Medina Echeverría, Juan Noyola, Aníbal Pinto, and Oswaldo Sunkel.

countries, primary goods exporters. The specific historical confirmation of the deterioration of terms of trade was not so clear, and several studies tried to challenge it, but, the 'best' data orthodox economists were able to pull off against Prebisch's thesis was that terms of trade among developed and developing countries would have been constant in the long run. Or, this was a confirmation of Prebisch's argument: given that productivity increases have been historically higher in manufacturing when compared with primary industries, comparative advantages theory would predict that terms of trade should improve for the primary goods exporters. As they did not, Prebisch's argument, that later Emmanuel translated to Marxist terms naming it 'the unequal exchange theory', was validated.[8] Specialization in low value added primary goods involved a value transfer from poor agricultural and mining countries to industrial ones. The argument in favor of industrialization was strong. Prebisch did not deny comparative advantages theory and the potential gains deriving from free trade. The argument, combined with the infant industry one, was in favor of temporary protection for getting industrialization started.

From this critique, structuralist doctrine was able to derive its two major development policies: industrialization, which was made synonymous of economic growth, and state intervention to achieve it.[9] And two specific strategies putting together the two ideas: protection of the new manufacturing industries – the import substitution strategy –, and creation of state-owned enterprises when the local industrialists had not the financial capacity to undertake some major projects, mostly infrastructure ones.[10]

To legitimize this development strategy structuralist doctrine looked for support from the new development economics that was being developed in the advanced countries, particularly in Britain, since the 1940s, and that may be called pioneers' or big-push development economics. Raúl Prebisch and Celso Furtado, who with Prebisch was the main responsible for the new ideas, were part of the group of economists that came to be called 'pioneers of development'[11]. Classical economists had been essentially development economists. The major contributions to development economics are still the ones of Smith, Ricardo, and Marx. After the neoclassical revolution, the major contribution came from Schumpeter, but his 1911 book, which significantly started by criticizing the neoclassical circular flow, remained for many years an isolated incident. The paper that reestablished development economics as a legitimate and major branch in economic theory was written by Rosenstein-Rodan on the big-push hypothesis, "Problems of Industrialization in Eastern Europe and South-Eastern

[8] - See Emmanuel (1969).

[9] - For an historical analysis of structuralist development economics and policy recommendations, see Rodriguez (1981) and Bielschowsky (1988).

[10] - For the major papers on ECLA's thought, see Bianchi, ed. (1969) and Bielschowsky, ed. (2000). The classical textbook in development economics produced by the structuralist doctrine was written by Oswaldo Sunkel and Pedro Paz (1970).

[11] - An early collection of papers of the pioneers in development economics is Agarwala and Singh, eds. (1958). A relatively more recent collection is Meyer and Seers, eds. (1984) and Meyer, ed. (1987). The Prebisch thesis is often also referred as the Prebisch-Singer thesis, to acknowledge Hans Singer's (1950) contribution to the theme. On the crucial contribution of Furtado, see Love (1996).

Europe".[12] As all relevant contributions to the field, it started with a critique of neoclassical general equilibrium assumption that free markets will automatically promote growth, using the concept of positive (pecuniary) externalities to legitimize state intervention – specifically the 'big push' idea. This article was followed by a series of major contributions by Nurkse, Lewis, Leibenstein, Myrdall, Perroux, Furtado, Hirschman, Chenery, Streeten, and others, in which Keynes' influence was also clear. Development economics, at that moment, was part of mainstream economics. Development economics played a complementary role to Keynes' macroeconomics: it represented a rupture with orthodox economics – with orthodoxy in its specifically Walrasian form, with constant returns of scale, no learning by doing, perfect information, insignificant transaction costs, and externalities. Although neoclassical economics remained essential to figure out how works a market economy, particularly how markets efficiently allocate resources, it was of little help in understanding underdevelopment and the policies to overcome it, as it was of limited usefulness to comprehend and tackle the macroeconomic business cycle. Since the Great Depression neoclassical views were in the defensive, while Keynesian macroeconomics, and big push development economics were in the offensive from the 1930s till the 1960s. The structuralist Latin American development economics was part of this movement. It was a branch of the big-push theories, to which it was added a Latin American perspective, a Marxist pitch for the long run, and a Keynesian one for short-run macroeconomics.

Third, structuralist doctrine was so influential in Latin America because it responded to the demands and justified trends already present in the major Latin American economies. Since the early 1930s Latin American countries were in various degrees involved in industrialization, which, in some cases, corresponded to a real take-off in Rostow's terms. Besides, the industrialization was of the import substitution kind. The Latin American economies profited from the natural protection that had been caused, first, by the fall in commodities' prices due to the Great Depression, and, second, by World War II. And, in the case of Brazil, it additionally profited from the Keynesian before Keynes economic policies adopted by government to protect the export sector, which eventually sustained aggregate demand.[13] Finally, in some countries new state-owned enterprises complemented or supported the new manufactures with their substantial investments. Thus, in the late 1940s and in the 1950s, when structuralist economists proposed the import substitution strategy of industrialization, and an active role for the state, they were just legitimizing a successful economic process. On the other hand, when they criticized orthodox doctrine for its radical *laissez-faire* bias, and spoke for a more balanced view, i.e., for mixed economies, they were just putting in words what was being done in the advanced capitalist economies.

These three factors explain why structuralist development economics was so influential in Latin America, but they are not a sufficient account of why it remained dominant in the region for so long, till late 1980s, and ended in such a distorted way. This was the outcome of the populist conversion that structuralist doctrine underwent under politicians and incompetent second hand disseminators.

[12] - See Rosenstein-Rodan (1943).
[13] - See Furtado (1959: chapter 31).

Three major distortions marked structuralist thought. First, protectionism turned into a long-term strategy, instead of being a provisional policy for the take-off. Since the 1960s the infant industry argument had lost explicative power, but continued to be used to justify import substitution strategy, leading to inefficiency and rent-seeking. It lost ground in the academic and in the policy realms because manufacturing in Latin America was turning mature, and, additionally, due to a theoretical argument developed by Bhagwati (1971): the 'principle of targeting', which justified economic policy to be interventionist at domestic level, while, at the same time, adopting a free trade strategy.[14] Second, the deterioration of terms of trade argument, that was a good argument to legitimate state intervention to promote industrialization, did not hold up export pessimism, nor contradicted the potential advantages of free trade.[15] Third, a classical sub-consumption theory, that had little to do with Keynesian macroeconomics but claimed to be based on 'effective demand theory', was adopted in order to justify chronic budget deficits, that ultimately gave rise to a fiscal crisis of the state in the early 1980s.[16] Forth, a strange 'economics without prices' (as strange as the opposite neo-liberal 'economics without government policies'), instead of viewing deviations from market resource allocation as relevant exceptions, understood them as justification for generalized state intervention.

Another way of explaining structuralist development economics' crisis is to say that most of us have been unable to understand the new historical facts and accordingly develop new theories. The 'new dependency theory', whose classical contributions remains Cardoso and Faletto's 1969 book, was an attempt in this direction, as it recognized new historical facts that required new policies – particularly the consolidation of the industrialization in the region with the active participation of multinational enterprises, that contradicted the structuralist assumption that central (imperialist) countries would represent an obstacle to the periphery's industrialization.[17] Yet, in the 1970s we were too much concerned with fighting the authoritarian regimes in the region, and with criticizing the income concentration consequences of the prevailing 'capitalist-technobureaucratic development model', and in the 1980s we have been constrained to focus our attention in stabilization policies, so that the required renovation of structuralist development economics did not occur.[18] Latin American

[14] - Bardhan (1993: 138) summarizes the general principle of targeting in these words: "departures from the usual marginal conditions of Pareto-efficiency are best tackled by using policy instruments that act most directly on the relevant margin".

[15] - See Bardhan (1988, 58).

[16] - For a defense of Keynes against populists, see Bresser-Pereira and Dall'Acqua (1991). For the "fiscal crisis of the state" in Latin America, Bresser-Pereira (1993).

[17] - See Cardoso e Faletto (1969). The "new historical facts" that required a new interpretation of Latin American economic development are already in third chapter of the first Brazilian edition of *Development and Crisis in Brazil* (1968), kept intact in the English edition.

[18] - I actively participated of the second generation of Latin American economists that developed the "new dependency theory" as a critique of "imperialist" theories, from which ECLA's original model was a moderate example. My analysis of the authoritarian political coalition in Latin America as involving "a technobureaucratic-capitalist model of development", involving the local capitalist class, the civil and military bureaucracy, and the central countries, specifically United States, is in Bresser Pereira (1973). Yet, although

structuralism became prisoner, as observed by Hirschman, of “a construct – the ‘typical underdeveloped country’–, which became increasingly unreal as development proceeded…”[19]

It is noteworthy, however, to underline that the fatal disease, that lead Latin America to the 1980s’ Great Crisis and eventually to the fall down of the structuralist doctrine, was originated in the perverse marriage of the dual gap theory, that viewed foreign exchange as the dominant constraint developing countries faced, with mainstream economic orthodoxy, that legitimated high foreign indebtedness in the 1970s. The dual gap theory was in the core of the structuralist approach, as it emphasized the relative income-inelasticity of imports of primary goods by developed countries, contrasted with the relative income-elasticity of imports of manufactured goods by developing countries. Thus, besides a domestic savings gap, there was a structural foreign exchange gap, that up to early 1970s, constrained economic development in Latin America. The export pessimism behind the dual gap theory, and the orthodox belief that markets rationally allocate borrowed resources were the two ‘good reasons’ for massive foreign borrowing that, ultimately, lead to the debt crisis in the 1980s.[20]

Summing up, the conditions that justified a protectionist import substitution strategy were not anymore present since the 1960s. On the other hand, if judicious state intervention remains necessary, the times of big-push and state-led industrialization were for long over. Third, export pessimism proved wrong in all cases in which countries got really committed to export-led growth. Yet, a deteriorated structuralist doctrine, turned into a mere developmental ideology, mixing up economic populism, old nationalism, and sheer economic incompetence, was unable to recognize these new historical facts, to develop new analysis, and to propose new policies. In the late 1980s a major policy change takes place, and necessary short-term fiscal adjustment and medium term market-oriented reforms are adopted. But, probably because developmental populism survived for so long, when it was abandoned, change involved excess: Latin American economies were subject to an 180 degrees turn – the ultra-liberal reforms – that, harmed by radicalism and improper knowledge of specific conditions, implied in new and serious economic distortions, and in major potential output losses.

Attack or oblivion

The 1980s’ Great Latin American Crisis made the ultra-liberal wave stronger in the region than in any other part of the world, while accelerated structuralist development economics’ collapse. Yet, before that structuralism and more generally big-push development economics were already under attack by some, while ignored by others. The attack came from the international economists, led by Bella Balassa, Jagdish Bhagwati, and Anne Krueger, who advocated trade liberalization and export orientation. In spite of the ideological elements

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concerned with the problem of deriving a new development strategy, we were unable, at that time, to derive from the new dependency theory a really new development economics and new policies. My personal attempt in this direction, *Estado e Subdesenvolvimento Industrializado* (1977) fell short of this objective.

[19] - See Hirschman (1981: 20).

[20] - I will return to this issue in the last session of this paper.

involved in the debate, the arguments presented by this group of economists proved persuasive, and, by late 1970s, it is reasonable to say that they had won the debate.[21]

Oblivion had a different source: the advent of a new neoclassical research program based on the mid 1950s Solow's model of economic growth. Based on the model and in the empirical analysis that the Cobb-Douglas function allowed, Solow, Denison, and Abramovitz disturbed, in a first moment, the belief that capital accumulation played a major role in economic development. Instead, what would explain economic growth was technological progress, which could be deduced from the large exogenous residuum (around 75 percent) left by the regression exercises.[22] From this moment on, neoclassical economics finally counted with a growth model that was consistent with the general equilibrium approach, but that had a paradoxical implication: savings and investment did not matter. Consequently, "most of the subsequent research effort in this field of growth was designed to reverse this conclusion, or rather to 'assign back' to the factors of production sources of growth".[23]

Obviously technical progress, although increasingly autonomous, was not at that time independent from capital accumulation, and still today it is not. On the other hand, there was a large room for research trying to disaggregate a too big residuum. Since Solow model was based on a simple mathematical tool – a production function – economists felt stimulated to engage into an endless game of defining 'growth models' involving small changes in the basic model, and submitting the new model to statistical test. Thus, almost in a reflex way, these economists forgot that the discipline was born to study growth in the poor and intermediary countries, and to show how these economies would converge for the levels of the developed ones, and changed most their attention to 'growth models': to the development of developed economies. The new 'endogenous models of growth', that appeared in the 1980s, were just an additional sophistication to this kind of formal modeling and empirical research.[24] As it had happened with the Keynesian Harrod-Domar model (the first formal model of growth to appear, i.e., based on a production function), the neoclassical formal models added little to what we already knew about the process of economic development.[25] More relevant to economic development theory – actually a major substantive contribution – was the human capital theory developed in the early 1960s by Schultz and Becker.[26]

Yet, mainstream development economics continue to progress. I may detect five significant areas or currents: (a) the growth models doctrine, that converged to the endogenous growth models; (b) the international economics theories, that fought for free trade and export-oriented strategies; (c) the New Keynesian and New Structuralist contributions, that concentrated its

[21] - For a remarkable although biased account of this change see Little (1982).
[22] - Robert Solow (1956, 1970), Denison (1962, 1964), Abramovitz (1962)..
[23] - Thirwall (1989): 73.
[24] - See Romer (1988) and Lucas (1988).
[25] - See Krugman (1992), Nelson (1997).
[26] - See Schultz (1961) and Becker (1964).

attention on market failures that legitimize state intervention;[27] (d) the New Institutional Economics, that explained development by good institutions, particularly by institutions guaranteeing property rights and low transaction costs, so that markets could work well;[28] and (e) the evolutionary development economics, inspired in Schumpeter's innovation theory.[29] Among these theories, the most interesting ones are related to North's research program on institutions. Although using a neoclassical rhetoric, North offers a historical and political analysis of economic development that, despite its rhetoric, has little to do with neoclassical orthodoxy: on the contrary, it is based on an overt criticism of all the neoclassical basic assumptions, that he borrows from the Neo-Schumpeterian Winter.[30]

With the exception of the human capital theory and North's analysis, theoretical and empirical progress in development economics was modest, although models and econometric tests were not in short supply. Most of the models limit to say that reforms building good institutions will guarantee market coordination, and will reduce rent-seeking and moral hazard, or to include in the mathematical and econometric exercises market failures, asymmetry of information, externalities, learning by doing, increasing returns, positive and negative externalities or spillovers. While development economics continued to be thrive in the advanced countries, economists in Latin America, since the 1980s, had little alternative but to leave it in second place: they were relatively few and had to concentrate their attention in macroeconomic stabilization, and in market-oriented reforms.

The present quasi-consensuses

Economic theory is made of consensus and debate. After the crisis and renewal of development economics, and specifically of the structuralist approach – where crisis was more salient than renewal – I believe that today some 'overlapping consensus' or quasi-consensus already exist on what depends growth.[31] Most of the ideas come from classical theory, some are more recent, but none has its validity depending on theoretical and ideological assumptions behind classical, Marxist, or neoclassical economics – they rather depend on the sensible economic thinking that is common to all these schools of economic thought, and on the empirical research and the historical observation done.

First, we know for long that economic development depends on savings and capital accumulation. Second, that knowledge, or technical progress, embodied in capital

[27] - The major contributions here were done by Stiglitz, in several papers, starting with Stiglitz (1974).

[28] - In development economics Mancur Olson (1982) and Douglas North (1990, 1991) are here the two major names.

[29] - See Nelson and Winter (1982).

[30] - See North (1990: 17-35).

[31] - 'Overlapping consensus' is an expression coined by John Ralls to understand how in democratic but pluralist societies it is possible to establish and preserve unity and stability (1993: 134-172).

accumulation, or disembodied, is increasingly important. Third, that education, or, more broadly, human capital, plays a major role in the game. Fourth, that the entrepreneurial drive to innovate is essential. Fifth, that the creation of 'positive' institutions guaranteeing property rights and free markets are as important as changing 'negative' institutions that, particularly in the initial phases, are obstacles to innovation and efficient resource allocation. Sixth, that in the initial stages of economic development the state plays a direct major role in promoting primitive accumulation and the take-off. Seventh, that market failures and state failures speak for mixed economies, never for just market controlled, nor for fully state coordinated economies.

Among the consensual knowledge on economic development I include this last one although knowing that the debate between market and state will probably continue for long, because the real question is only a question of grade, not of essence. Adopting a case by case method, specific circumstances will justify intervention in resource allocation, while better income distribution will require systematic state action. Developing countries have no reason for abstaining to practice an active trade policy that, although free trade oriented, implies a continuous effort to gain foreign markets, benefiting national business enterprises having potential international competitiveness with technological incentives, preferences in state purchasing, and even temporary subsidies.

Besides these seven stances, Latin American economists learned some lessons with the 1980s'Great Crisis, which led to new consensuses or quasi-consensuses. I would emphasize two. First, that there is no economic development without macroeconomic stability. Populist cycles were so harmful in the past, that turned unthinkable repeating Peron's or Alan Garcia's experiences – probably the most paradigmatic episodes of economic populism.[32] Yet, this does not mean that economic populism is dead. It is only more moderate, subtler. Neo-populism overvalues the currency, controls inflation, and raises real salaries and consumption, but does not lose control of state's expenditures. In the 1990s this sort of economic policy was present in the three major economies of the region.

The second consensus is the democratic one. We should know for long, but only in the twentieth century a consensus was achieved that democracy is the political regime that more effectively assures political order and macroeconomic stability. Or, we know that the more stable and predictable the economy and the political system, the higher will be the rate of growth. Democracy became the preferred political regime in developed countries in the first half of the twentieth century; in Latin America, in last quarter of this same century. In the 1940s and 1950s economic development came before democracy in the hearts and minds of Latin America structuralist doctrine. Yet, after the disaster that military rule represented to the region, democratic governance, since the early 1960s, gained a new status. The fact that the United States, in the late 1970s (Carter administration), stop supporting authoritarian bureaucratic-capitalist coalitions, was coupled with previous decision of the Brazilian bourgeois middle class to sever its political coalition with the military. This change in political commitments began already in the second part of the 1970, and allowed me to

[32] - On the populist cycle see Canitrot (1975) and Sachs (1989).

predict the coming transition to democracy.[33] When authoritarian regimes finally crumble down, Latin American countries obviously did not reach 'people's democracy', which is non-existent even in politically more advanced countries. But as capitalism and the appropriation of surplus through the market was now a definitive reality, democracy proved to be the political regime that more effectively secures order, avoids corruption, improves justice, and favors growth. Democracy is not a panacea in relation to any of these objectives, but it is a political regime that does not depend on enlightened princes, or on illuminated elites. As it advances, as it is advancing in Latin America, civil society's democracy or public opinion's democracy gradually replaces elites' democracy: public debate becomes generalized, debater began to understand that respect is the basic rule in public argument, public opinion starts to play a major role, democracy gets increasingly consolidated, local and foreign investors feel more secure in investing their money.[34]

The repetitive character of economic literature may reflect lack of creativity on the part of economists, but it is mainly due to the consensuses that have been achieved. In development economics I listed nine quasi-consensuses. In the next and last section I will discuss which are the strategic issues that need more debate before an eventual agreement.

Strategic issues

Debate rather than consensus is the general rule in social sciences and in public policy matters, and we should never forget that, before anything, economics is a social science. Thus, although I can list some overlapping consensuses, disagreement continues high in relation to development policy. Latin American structuralist development economics may have come to a crisis, but 'official' development strategy, the one usually adopted by World Bank and IMF, continues to be under attack coming from different sources. Most of this critique is against the standard 'policy recipe' multilateral institutions use independently of the specific conditions each country faces. I agree with this type of criticism. As a matter of fact, it makes little sense that one or two institutions have so much power over indebted developing countries, so that they can impose their views. It is difficult to believe that a few non-accountable economists in Washington know better what should be done in each developing country than the local economists. Even when countries are extremely poor, as it is the case of Sub-Saharan countries, it does not seem that Washington's conditionality is beneficial. The historical outcomes of official loans plus conditionality in this region are dreadful.

[33] - See Bresser-Pereira (1978). The central thesis of this book is that the transition to democracy would not be a donation by soft military in fight with the hard-liners, but a conquest of an increasingly large coalition of democrats, in which the historical new fact was the adhesion of businessmen to the democratic cause, as they did not feel anymore threatened by a Castro-type revolution, and, so, did not see reason or advantage in being monitored by the military. The only thing published in English in this line is Bresser-Pereira (1984: Chapter 9).

[34] - On this typology of democracy see Bresser-Pereira (2000b): "After the Elites, Civil Society's Democracy in Brazil".

Yet, instead of insisting in this issue, in this last session I will look for an unconventional alternative between the official development strategy (which should not be identified with mainstream neoclassical economics), and the anti-official developmental or populist views (which also should not be identified with structuralist development economics).[35] Official and developmental views are often crude practical simplification of much more sophisticated theories, but they are politically significant as long as public debate is usually referred to, and economic policies based on, these ideas, and not directly related to the complex and often conflicting theories that academic economists develop not only among schools of thought but within each one.

My question is: which are the strategic questions related to intermediary countries' economic development for which either orthodox or developmental views have no satisfactory responses? Which progressive development alternative is required on market-oriented reforms? On macroeconomic stabilization? On development finance? On trade strategy? On income distribution? On the role of experts or bureaucrats? As we will see, in some cases the alternative strategies are, as would be predictable, between the two opposite extremes, but in other cases they oppose both orthodox and developmental views that, paradoxically, are alike. I was short in listing the quasi-consensuses; I will detain myself just a little more in discussing issues that require more public debate.

Developing countries need institutional, market-oriented 'neo-liberal' reforms.[36] They need legal and organizational institutions that act not as obstacles but as guaranty and incentive of work and innovation. This is consensual, what is not consensual is how to do this. The official approach evaluates reforms according only to one criterion: increase in markets' role. A more balanced view should recognize the need of market-oriented reforms, but, since the essential nature of the crisis was a crisis of the state, it advocates, as a second criterion, the ability of reforms of strengthening state capacity through better institutions and a more effective and efficient state organization.

The first generation of reforms was market-oriented. Trade liberalization was the obviously required reform given past protectionism. Privatization was also required, given the distortions caused by the disproportionate use of state-owned enterprises, but privatization of natural monopolies counting on regulatory agencies does not make economic sense: it responded to ideological pressures on one side, and to the financial crisis of the state on the other. Internal financial reform, making public budgets more effective, and central banks

[35] - I discussed what I understand for a new left, modern social-democrat, or social-liberal politics in Bresser-Pereira (1999a).

[36] - Notice that I am using 'market oriented' and 'neo-liberal' reforms as identical. I used to reserve the expression 'neo-liberal' to 'ultra-liberal' reforms, and complained with English and American friend economists and political scientists that used neo-liberal just to mean market-oriented. I was convinced that I was wrong when one of them (Valpy Fitzgerald, from Oxford University) responded: "we use neo-liberal because we don't have an alternative word". Indeed, since in United States principally 'liberal' means progressive, neo-liberal means what in Latin America we call liberal, or market oriented. Thus, to identify conservative reforms I will use either the word 'conservative' or, when it is based on radical liberalization, 'ultra-liberal'.

more independent, were also badly required, but liberalization of international flows is quite another story. They are not an imposition of globalization, as it is often argued, but respond to interests of the international financial system in detriment of developing countries' state capacity and macroeconomic stabilization.[37]

Current account stabilization

I included among the overlapping-consensus macroeconomic stabilization. It is essential for economic development. But stabilization is not only price stabilization, and balanced budget. Stabilization is also current account stabilization, is to achieve balance of payment equilibrium. According to official orthodoxy, it is not necessary to directly worry about current account deficits, given that it assumes the twin deficits theory: budget deficits lead to current account deficit. Thus it is sufficient to fight the first, that the second will be automatically warranted… This assumption makes orthodox policymakers soft on current account deficits – and so, paradoxically, friendly with neo-populism. It was proved wrong in Mexico and in Brazil, and for several years it is being proved wrong in Argentina. The damages it caused to the three greatest Latin American economies were enormous. If the country does not end in a foreign currency financial crisis, it is constrained to systematically reduce its growth rate in order to avoid such crisis. Yet, just read the newspapers today about the Argentinean economy and IMF. We only read that budget deficit target is or is not being met. As if the fiscal was the only problem. As if Argentina did not face a serious balance of payments problem given the manifest overvaluation of the peso. The twin deficits theory is 'logical' but it is often not true. This was already demonstrated in innumerous cases.[38] Yet, the official stabilization doctrine continues to assume the twin deficits theory.

Financial danger

Developmental neo-populism and official orthodoxy are soft on current account deficits for different reasons. The former, because it believes in 'easy economic growth', ignoring costs or trade-offs, the later for two different and concurrent reasons. First because, according to neoclassical belief, if the budget deficit is under control, eventual increase in indebtedness will be private, and private foreign indebtedness is no cause for worry: markets will take care of it. This argument does not take into consideration that the foreign debt is a national-state's debt. When a country faces a currency crisis, it is because the country as a whole is insolvent, not because each individual debtor is in such situation. Second, because official orthodoxy is an ideological product of creditor countries, and creditors do not willingly accept constraints to the indebtedness of their clients except the limits they themselves pose.

As a matter of fact, capital is made at home, with its own savings. Feldstein and Horioka showed this fact to the developed countries.[39] Yet, neoclassical economics teaches an obvious

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[37] - See Armijo (2000)

[38] - Remember, for instance, Chile (1979-82), Mexico (1991-94), Brazil (1994-98), United States, today. Sometimes it is the budget that is balanced, while the current account is not; in other cases, the inverse is true. In any case, the twin deficits hypothesis proves wrong.

[39] - See Feldstein and Horioka (1980), Feldstein (1995), Gordon and Bovenberg (1996).

thing: whenever expected rate of return on investment is higher than the interest rate firms (and countries) will be entitled to borrow. Domestically or abroad, it is indifferent. From this abstract reasoning, and from the capital shortage existing in developing countries, which would leave us to predict a higher rate of profit, it is derived a definitive truth, shared by orthodox and developmental economists: it is natural and desirable for developing countries to be debtors and developed countries to be creditors.

This logical deductive reasoning ignores how risk is for developing countries to finance economic growth with foreign borrowing. The probability that a large part of the borrowed resources be used in consumption, and that a populist cycle takes place, is enormous. Developing economies are small economies. When borrowed foreign currency starts flowing in, the local currency will tend to rise, and the exchange rate to turn overvalued. Overvaluation means change in relative prices, means that the prices of non-tradable increases in relation to the prices of tradable. The more important non-tradable is labor, whose price, wages, will increase with evaluation of the local currency. Higher wages will mean higher consumption: higher imports, including higher tourism abroad. Instead of investing, the country will consume a substantial proportion of what it borrowed. Albert Hirschman once observed that it was interesting to study Latin America, because it was possible to see there, in a crude way, what was disguised in advanced countries.[40] Today, I suggest that Latin Americans should carefully study Sub-Saharan Africa, because there one can see in a crude way what is disguised in their region. In 1970 these countries had an income per capita around 400 dollars and no debt; today they have the same 400 dollars of per capita income, and an enormous per capita debt. In these countries almost 100 percent of what was borrowed was spent in consumption (and corruption of a bureaucratic oligarchy), in Latin America this figure is certainly smaller. Let us say 50 percent, or 30 percent. But these percentages are already unacceptable.

Against this reasoning and against the fact that foreign borrowing usually ended in disaster for Latin America, one can argue that United States' economic growth in the nineteenth century was financed by England. It is true. But at that moment United Sates was already a developed country, a dynamic developed country that was borrowing from a quasi-stagnant developed country. Developing countries today face an entirely different situation. It is a dangerous fantasy to believe that international markets and the World Bank will be helpful to developing countries. Foreign borrowing should be limited, and foreign direct investment, in principle, preferred to borrowing.

Free trade

Free trade made enormous advances in the last twenty years. Besides the Uruguay Round and the creation of WTO, many developing countries were engaged in unilateral trade liberalizations. Yet, although official orthodoxy is formally in favor, and developmental doctrine against trade liberalization, conventional wisdom shared by both approaches is that developed countries support free trade while developing countries resist to it. I speak of

[40] - See Hirschman (1986: 9-14).

‘conventional wisdom’ because, if it is true that intermediary countries continue to resist trade liberalization, the countries that more strongly resist are the developed ones.

There was a complete inversion of national interests in relation to international trade. If in the 1950s protection was more on the interest of developing than of developed countries, the inverse is true today. Domestic producers everywhere fear free trade while they insecure on the competitive capacity. Yet, if intermediary countries fear free trade, developed countries fear much more. In manufactured products whose technology is relatively simple, intermediary countries use the same technology used by the developed ones, and incur in smaller labor costs. Even when technology becomes moderately sophisticated, but remains labor-intensive, intermediary countries’ competitive advantage is significant. Most intermediary countries did not realize that for long, some still do not, while developed countries know this very well since the 1970s. They adopt free trade rhetoric but their practice is mostly protectionist.

Income distribution

Here also there was a full inversion, but only within intermediary countries, not in their relations with developed countries. In the 1950s, when these countries were beginning industrialization, economist viewed concentration of income as a necessary part of the game. Today, on the contrary, an increasing number of studies show that the more even the distribution, the more dynamic will be the economy. It is true that the connection between inequality and development runs in both causal directions. But a historical approach is here essential. What changed the first causal directions was the fact that intermediary countries are in a different stage of economic growth. When a country still has a pre-capitalist economy, or when it is engaged in primitive accumulation, there is no other alternative but increasing income concentration. We read this in Marx’s classical chapter on primitive accumulation.[41] Arthur Lewis, in his classical “Economic Development with Unlimited Supply of Labor” was absolutely clear about the income concentration imperative, but we should remember that he was assuming very poor countries, where the rate of savings and investment in relation to GDP was around 5 percent. Rostow’s analysis of the ‘pre-conditions for the take-off’ stage, which corresponds to Marx’s primitive accumulation, involves also income concentration.[42] Yet, even in this case, the required concentration is in the new bourgeois middle class, which will be committed to investment, not in the rich land-owners that, as the poor, but for quite different reasons, have a high marginal propensity to consume.[43]

Once primitive accumulation was completed and a capitalist economy took place, the essential is to have macroeconomic stabilization, a more efficient allocation of resources, and stronger incentives to work and entrepreneurship. Reduction of inequality is more consistent with these goals than its increase. Jeffrey Sachs and Andrew Berg for instance, demonstrated

[41] - See Marx (1867: chapter 24).
[42] - See Rostow (1960).
[43] - See Mervyn King (1992).

that the greater the concentration of income, the greater will be foreign indebtedness.[44] In the same vein, Alesina and Rodrik showed that inequality sets higher political demands for distribution, and consequent populist policies.[45] Alice Amsden observes that workers are more motivated and more efficient when a more favorable income distribution make then socially nearer their managers[46].

The finding that economic development tends to have an inverted U-shape in relation to inequality is well-known since Kuznets's classical study.[47] Several subsequent studies demonstrated that: Growth of per capita income is initially accompanied by rising inequality, but these distortions tend to go away as economic development advances. The inverted U-shaped theory, however, should not lead policymakers to believe that this is an inevitable and automatic outcome of development. In Latin America since industrialization began, and in the developed countries in the last quarter of a century, what we see is economic growth with increasing inequality – an inequality whose main cause is the acceleration of technical progress, that raises demand for skilled labor and decreases demand for non-skilled one.

If cross-country analyses demonstrate the U-shaped theory, they also show a wide variation among countries within each per capita income category. Or, this "certainly dispels the notion that the inverted-U is inevitable in the history of each country's development".[48] Growth with distribution is rather a policy outcome of a progressive tax system, and of state expenditures in education, health, and welfare. For sure, it is not of the outcome of regressive flat tax systems, nor from radical privatization of the basic social security system,[49] that official orthodoxy proposes and some developing countries adopt, although no developed country makes such mistake. Distribution promotes growth; growth will only become again consistent with distribution when the education systems proved able to supply a higher number of skilled people than the demand for them derived from technological change in the 'new economy'.

Public sector reform

Within the second generation of reforms, public sector reform and particularly public management or managerial reform is central. Public management reform should not be confused with World Bank's basic recipe on this matter: downsizing the state and bureaucratic reform.[50] It is a step ahead of civil service or bureaucratic reform. Downsizing is

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[44] - See Sachs and Berg (1988).

[45] - See Alesina and Rodrik (1994).

[46] - See Amsden (1989).

[47] - See Kuznets (1955).

[48] - See Ray (1999: 202).

[49] - I am referring to the social security system that, in many countries, guarantees pensions till a certain level (in Brazil, 10 minimum wages). Acknowledging that this is a role of the state, and that the state is not an investment banker, all developed countries sensibly finance the basic system with current revenues. After that level (or a little less), private pension funds, representing a complementary pension system, are indicated.

[50] - I discuss World Bank's resistance to managerial reform in Bresser-Pereira (2001).

part of the game, but not the only game in town, neither the main one. Public management reform involves a redefinition of state's roles, distinguishing exclusive state activities from social and scientific activities that the state is suppose to finance but not to directly execute: contract out with non-profit organizations. It has as a central principle making state agencies and senior civil servants more autonomous and more accountable. In order to achieve the later goal, the basic idea is substitute control by outcomes, managed competition, and social control by civil society for classical bureaucratic procedural controls. On this subject, we should differentiate a neo-institutionalist literature that just tries to recover classical checks and balances and auditing systems, from the new public management or managerial public administration literature. The first continues to identify state reform with civil service (bureaucratic) reform, while the second assumes that civil service reform already took place, and proposes a next step, managerial reform; or, if civil service reform was not completed, asserts that the best way to complete it is managerial reform.[51]

It is also important to consider the 'bureaucratic insulation' proposal that is quite usual in the orthodox and developmental agenda. In order to avoid politicians' populist interference, some key state agencies should be insulated from their influence. I have no objection to this as long as the insulation is the outcome of the legislative branch' decision. Politicians in developed countries in which pork barrel politics continues to exist do that. They know that their survival in office depends on contradictory demands – on the demand of macroeconomic stabilization and transparent policies on one hand, and, on the other, on attending their constituencies' pressures – and they look for some balance between them. One form of achieving this balance is protecting some agencies – as central banks and regulatory agencies – from day to day politics. What is unacceptable is proposing bureaucratic insulation *per se*, not as an elected politicians' decision, but as a strategy against them. This is just disguised authoritarianism.

The second generation of reforms includes judicial reform, whose objectives, besides establishing the rule-of-law, are making the judiciary branch more independent, and having judicial cases more rapidly decided. This is certainly an important reform, but Brazilian experience shows that an independent judiciary branch (that already exists in this country) does not mean an effective and efficient one. Second generation reforms involve also making labor markets more 'flexible'. Indeed, new technologies, international competitiveness require more flexible working hours and part time jobs. And international competitiveness requires welfare institutions that stimulate work. But they do not require a 'flexibilization' that just means eliminating social rights. In this moment, as well as when natural monopolies are privatized, or when financial liberalization involves complete liberalization of financial flows, or when managerial reform means erasing civil service and reducing the state to minimum, reforms sponsored by official orthodoxy become just a manifestation of a right-wing, ultra-liberal, ideology.

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[51] On the first kind of political science literature see, among others, Tirole (1994), O'Donnell (1998) and Schedler, Diamond and Plattner, eds. (1998); on the second, see, among others, Barzelay (1992), and Ferlie, Pettigrew, Ashburner, and Fitzgerald (1996). I was personally involved in managerial reform in Brazil. For the model I developed, and the experience I was involved I will quote only an edited book in English (Bresser-Pereira and Spink, 1996), and *Reforma do Estado para a Cidadania* (Bresser-Pereira, 1998).

A political conclusion

Summing up, there is a development alternative between official orthodoxy and developmental populism for countries in an intermediary stage of economic growth. This alternative does not involve the existing overlapping consensus on what depends economic growth. On these matters, there is not a question of alternative, but of following the principles involved. The alternative is relevant when there is no consensus. I listed five strategic issues where there is no consensus and a progressive alternative exists: reforms, balance of payments stabilization, development finance, trade, and inequality.

On reforms, it is not sufficient that they are market-oriented; they must also strength state capacity. On stabilization, controlling budget deficits does not automatically entail current account balance, which is crucial for development. On finance, capital is 'made at home', essentially based on domestic savings: the 'growth cum debt' strategy is a dangerous one; the less developed the country, the more dangerous it is. On trade, there was an inversion of positions between intermediary and developed countries: now the ones that are most interested in free trade are the intermediary ones, not the advanced countries, which are increasingly involved in protectionism. On inequality, there was also an inversion, but internal to the developing countries: in the first stages of growth income concentration in the hands of a new business middle class favored growth, now equality-oriented policies are economic development tools.

Notice that in evaluating development economics in the intermediary countries I did not return to the 'specificities' argument', while this argument was usual in big-push and structuralist development economics: the specificities of developing countries would require a specific economics. They spoke of cultural and social specificities, but, actually, the relevant difference was between pre-capitalist, pre-primitive accumulation countries, and capitalist industrial countries. Specificities remains relevant today for the poor countries, not anymore for the intermediary ones. These economies and society may remain dual, in the sense that social exclusion and wealth cohabit, that inequality is often outrageous, but are already fully capitalist: most of the market principles that control advanced economies are applicable to them. Celso Furtado, recently referring to developing countries' specificities, distinguished the small from the large developing economies. While in small economies, like Chile or Costa Rica, integration in global markets is the only alternative, large economies like Brazil or India are supposed to use their domestic market as source of growth.[52] This observation indirectly confirms the loss of relevance of the specificities' argument for intermediary countries, as it correctly reduces it to a size argument also valid to developed countries.

In the 1950s a central problem for the underdeveloped or poor countries was to industrialize, to 'take-off', in Rostow's words. Furtado, in his most inspired paper on economic development, analyzed the historical process of development since its origins in the Italian trade cities till the English industrial revolution. His major objective was also to show how, after industrialization, economic development became automatic or self-sustained, because industrialists had no alternative but to invest their surplus (profits) in order to keep pace with

[52] - See Furtado (1999: 21).

technological progress.[53] Well, most Latin American countries took-off, made their respective industrial revolution, and almost immediately after stagnated, while advanced economies continued to grow. Why? The answer to this question would require a new paper. The only thing that I may advance now is that democratic governance matters. That the conditions for self-sustained growth are two, not one.[54] Besides having achieved industrialization, they must have changed from elites' democracy (the kind of democracy that characterize intermediary economies) to civil society' democracy (the political regime prevailing in developed countries). In elite's democracy good governance depends on enlightened elites (as in authoritarian regimes, it depended on the enlightened monarchs). It is only when civil society's democracy turns dominant, when elites merge in a larger and differentiated civil society, and when public opinion formed in public debate becomes the major influence in governmental decisions, that good governance stops depending on chance, and economic growth becomes indeed self-sustained.[55]

If I am right, deepening democracy, creating a public space, debating issues not people, using public debate as a learning device from past mistakes, turning active and democratic civil society, are tasks that become an essential part of an economic development strategy. The overlapping consensus and the strategic issues that I discussed in this paper will be permanently debated in this new public space, and new consensuses will be achieved.

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[53] - See Furtado (1961: Chapter 3: "O Processo Histórico do Desenvolvimento"). It is worth noting that a new and fully changed edition of this book, with a different title, *Teoria e Política do Desenvolvimento Econômico*, was published in 1967, in which this classical chapter disappeared.

[54] - Note that the expression "self-sustained growth", that development economics used to mean the outcome of industrial revolution or of take-off, should not be confused with the expression "self-sustainable growth", that later became key environmental issues. I owe this observation to Ignacy Sachs.

[55] - See already referred Bresser-Pereira (2000).

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