

# FURTADO AND KALECKI: UNDERDEVELOPMENT AND CLASS STRUGGLE

JOSÉ MÁRIO DOS SANTOS<sup>1</sup>

## Abstract

Taking as a starting point inadequate technology used by developing countries in their industrialization processes, we may state there is a coincidence between writings of Michael Kalecki and thought of Celso Furtado regarding “structural unemployment” in these countries. Also when analyzing Furtado’s reflections stressing the fact that a “culturally colonized” elite hinders adopting a national development project by adopting developed countries consumption patterns, we think it is possible relate these ideas with the analysis of Kalecki because he assigns an important role to taxation of luxury goods as a way of generating income to invest in industries producing goods for the population mass. However, both authors recognize political non viability of such endeavor.

## Keywords

underdevelopment; technical progress; full employment.

## INTRODUCTION

The objective of this paper is to analyze writings of Polish economist Michal Kalecki regarding political problems to be faced to allow overcoming underdevelopment and its correlation with Latin-American economics school of ideas dealing with this subject, especially by comparing Furtado’s thought. Kalecki, Like Furtado, is much more emphatic than Keynes to political element present in economic development of underdeveloped countries, granting privileged role to income distribution among social classes<sup>2</sup>.

<sup>1</sup> Economic Sciences graduate from Instituto Superior de Ciências Aplicadas – ISCA. Lato Sensu post-graduation in External Trade Management from Universidade Metodista de Piracicaba – UNIMEP. e-mail: [jmario.santos@yahoo.com.br](mailto:jmario.santos@yahoo.com.br).

<sup>2</sup> Versiani (1988) addresses to some ideas regarding influence of Keynes, especially with his “General Theory of Employment, interest and money” in developing Cepal’s thought. The author sees some formal similarities between Keynes and Cepal propositions, as for instance, attributing a much broader role to government action and denial of the “invisible hand”. Cepal sees that in international labour division scheme based in comparative advantages there was no place for peripheral countries industrialization. Keynes book brought a basic idea that free trade and market automatism did not work. As Versiani states (1988, pp. 44-5) Cepal literature emphasizes main role of government, like Keynes proposed in his “General Theory”. Keynes supplied theoretical justification for protectionism, considered

Kalecki thinks it is technically possible underdeveloped countries to advance in the industrialization process through a policy conducted by the State, considering public investment and imposing a progressive taxation of non-essential goods, to subsidize low income population consumption. Nevertheless, this issue faces a hindrance within political environment of class struggle, represented by elite's two basic causes of resistance to this economic intervention: (a) development of the country would make its economy to reach a near full employment situation, by incorporating low income population to massive consumption process; thus would make manpower not obeying financial capital objectives; and (b) taxing elite country's consumption to subsidize consumption of another political class. This would imply in intervening in free play of market forces, where each individual has to fight to obtain resources to spend.

In same molds, Furtado also mentions the fact that ruling class imitates consumption pattern of developed countries, first during a phase of exporting primary goods, when credits were spent in imports of sophisticated consumption goods. And then during industrialization, where this same cultural dependence oriented industry implementation processes to manufacture in the country what was previously imported.

Addition of these production methods explains underdevelopment condition; since industrialization process was based in an "inadequate technology" the political elite conducted it thinking in the use of modern production techniques, not related with Brazilian culture nor level of capital accumulation, that due to the fact of being capital intensive, saved work and kept wages in low levels due to huge working force offer, and did not develop mass consumption.

Here is where we see similarity with Kalecki's thought, since solution was not technical but political – struggle between classes interests– because taxation of these modernized goods could favor do lower income classes market development. But as Furtado states, the elite would resist any policy not being compatible with their interests; Brazilian elite objective was commanding industrialization process through subsidies to implement industries that would product goods to reproduce same consumption pattern of developed countries, in despite of whole society's interest, of our culture and our level of development.

This paper will present 5 items; first one has already been described above here as a brief introduction. Second one will show Celso Furtado's theory regarding historical origin of underdevelopment and how is related with cultural dependence of our elite. Item 3 will refer to Michal Kalecki's thought and the political aspects of creation and maintenance of full employment; we must stress also that underdeveloped countries problem is not insufficient demand, but lack of adequate capacity to absorb workforce. The item 4 will try to describe theoretical convergence between Furtado and Kalecki comments, since both recognize that solution to overcome underdevelopment is not technical,

an instrument of the economic policy, supporter of full employment, like Cepal writings.

but strictly political. And, in final considerations, we will summarize main ideas discussed in this paper.

## 1. CELSO FURTADO AND THE HISTORICAL ORIGIN OF UNDERDEVELOPMENT

To understand the way how Furtado theorizes on overcoming underdevelopment, first we must know his position regarding historical meaning of underdevelopment. Furtado (1974, p. 77) states that historical origin of underdevelopment is related to the way international division of labour occurred within Industrial Revolution context in Britain. Underdeveloped nations are characterized by social formations marked by great technological heterogeneity, inequalities in labour productivity among rural and urban areas and a relatively stable part of the population living at subsistence levels – underemployment. These economies are closely connected with growth of capitalism and the way it spread since its beginning<sup>3</sup>.

The insertion of subsistence farming in a broader social division of labour, or in other words, transformation into a commercial farming, does not mean abandoning traditional production methods. In Brazil, surplus was partially appropriated in the countryside; its main destination was, according to Furtado (1974, p. 78):

To finance a rapid diversification of consumption habits in superior classes, through imports of new articles. This particular use of surpluses gave birth to social formations currently identified as underdeveloped economies.

The industrial capitalism led certain countries – those leading industrialization processes – to specialize in these activities where production methods had faster penetration; while others specialized in activities with insignificant technical advances. Ricardo's law of comparative advantages brings a solid theoretical justification for international specialization<sup>4</sup>, but leaving an extreme diffusion of production progress and creating a new peripheral surplus not connecting with capital formation process. This surplus was mainly allocated to finance dissemination, in periphery, of new consumption patterns arising in the center of world economic system.

Peripheral countries became importers of new consumption goods, as result of capital accumulation and technical progress irradiated from develo-

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3 The acceleration of primitive accumulation of capital and working productivity increase in peripheral countries, where most profitable activity was international trade, plus insertion of a new product flow of coming from developed countries industries, originated a complex international labour division system (FURTADO, 1974, p. 77).

4 According to Pellegrino (2005, pp. 81-2) main legacy of theorization of underdevelopment proposed by Cepal regards existence of a "center-periphery" in world capitalism system to challenge comparative advantage law. By analyzing this system, Prebisch tried to prove that international spreading of technical progress and its benefits would have occurred in different ways among "central" countries (of advanced industrialization) and "peripheral" (commodity-exporters) letting them increasingly aloof in terms of economic and social development. Central countries were taking profits of technical progress in a greater extent than peripheral countries, challenging classic "international labour division" theory of comparative advantages.

ped countries. Adoption of these new consumption patterns in Brazil would be extremely irregular, since surplus was appropriated by a restricted minority. Furtado (1974, p. 80) understands that:

The existence of a ruling class with similar consumption patterns than in developed countries, where capital accumulation level was much higher and impregnated by a culture whose main engine is technical progress, was transformed in basic factor of evolution of peripheral countries.

The use of surpluses is related to adoption of new consumption patterns like used in countries where accumulation level is very high, and characterizes a cultural dependence present in underdeveloped countries social structures basis of reproduction. Furtado (1974, p. 85) states that in peripheral industrialization process there were two alternatives: (a) increase popular consumer goods production where more abundant resources are used (land and non specialized work) – increasing consumption of these goods is spread use of already known products, which already were in an increasing yield production stage; and (b) expand consumption of wealthy people means introducing new products in basket of essential goods. These demands use of more relatively scarce resources (specialized work, currencies and working capital). In peripheral countries, “cultural colonization” process is explained through the convergent action of local ruling classes, interested in updating its consumption patterns, and central groups, whose main interest is, create and extend markets to receive flow of new products coming from Industrial Revolution. Once this connection is established, track will be open to introduce any forms of “unequal exchange” that historically characterize relations between center and periphery of the capitalist system.

During commodities exporting period, consumption diversification of modernized minorities could be financed with surpluses arising from international trade comparative advantages. During industrialization period due to import substitution<sup>5</sup>, huge disparity among consumption levels of modernized class and population mass had to be incorporated to production system. Therefore, if this dependence is permanently being strengthened through introduction of new products (demanding use of more and more sophisticated techniques and increasing capital) it becomes evident that industrialization process depends of growing income concentration.

Now, we will mention a good answer to incapacity of industrialization process substituting imports to overcome Brazilian underdevelopment in Furtado’ theory. In his book, published in 1974: *O mito do desenvolvimento econômico* (The myth of economic development) he describes how incorporating technical progress in periphery is determinant in social and economic evolution of these countries, since adoption of sophisticated consumption patterns

<sup>5</sup> Industrialization reached through imports substitution certainly was an advance to what had previously been done, but did not mean a qualitative change; new activities were oriented by final demand final, like a building constructed upside down. (FURTADO, 1980, p. 127).

without its correspondent capital accumulation process and evolution of production methods reproduces the underdevelopment condition. This modernization becomes clearer in Brazilian industrialization process: it is a production of a set of goods to be consumed by modernized elites, using an own center technology not related with level of capital accumulation of the country, but with demand profile.

By imposing high capital density productive methods, oriented by developed countries technologies, wages remain near subsistence level, even with increase in work productivity. This capital accumulation process, based in "inadequate technology"<sup>6</sup> does not create manpower shortage, and therefore cannot absorb marginalized manpower surplus. (SAMPAIO Jr.1999, page 176). The existence of a center-periphery system is not enough for underdevelopment, since delay regarding developed economies does not necessarily imply that incorporating technical progress technical could not be done according to a priority scale taking into consideration nation's strategic interests. "Furtado thinks that peripheral position will only bring underdevelopment in societies where intertemporal spending decisions are divorced from population needs and economic country's resource endowments". (SAMPAIO Jr., 1999, p. 176).

Brazilian structural reforms began in 1964 to eliminate industrialization process bottlenecks by substituting imports. This basically consisted in concentrating even more income and deepening social inequalities. The question is: in what way could consumer durables demand be increased? By assuming a direct income spontaneous concentration, through wage squeeze.

In short: during second half of the 1960's, the way mainly consisted in boosting upper middle class demand, and increase buying capacity of that group in both absolute and relative terms. This was achieved through financing, granting subsidies to consumption and transfers to this class of title deeds and credit instruments granting a stronger financial position and higher future income prospect. (FURTADO, 1972, p. 41).

In other words: middle class, instead of being revitalized and consequently increasing durable goods demand, got privileges. Decrease of growth began in first years of decade of 1960 and brought great stir, since Furtado (1966) in his book *Development and stagnation in Latin America* introduced a thesis on economic stagnation as a trend that would affect all Latin-American economies<sup>7</sup>. Furtado links economic stagnation with the way industrialization

<sup>6</sup> According to Motta and Albuquerque (2007) an important reflection issue in Furtado is articulation between inadequacy of technology and modernization-marginalization polarity. Combined building of innovation and social welfare systems may be introduced from selection of techniques to perform explicit social objectives. Main step must clearly be a deeply rooted institutional arrangement, useful for social classes and sectors allowing huge profits for a small part of the population. To overcome underdevelopment barrier is needed a combination between "social homogeneity" and "creation of an efficient productive system, provided with a relative technological autonomy".

<sup>7</sup> Although many authors declare that Furtado's thesis regarding stagnation showed being wrong soon after it was stated, when Latin-American economies went into a new development cycle, Bresser-Pereira (2007, p. 74) proved that: "nevertheless, the error finally would reveal as being partially correct. Development cycle, then began, was artificially financed by external debt – a debt that made Latin-American economies becoming hostages of the international financial capital, which at the end led them to great crisis of the 1980's, and to the almost stagnation that

process substituted imports. The Latin-American economic development has different characteristics than capitalist developed economies, where technological progress is not only a basic growth factor, but also the main element of own social stability. In Latin-American countries, after a long integration period in international markets, result of commodity exports, intensely using different factors such as manpower and natural resources, countries had to look for diversification of economical structures to restore an adequate growth. Latin-American industrialization is not the result of a conscious intention to break with traditional schemes of international division of labour<sup>8</sup>. Industrialization gained impulse during international commodity markets depression, to protect and maintain national network (FURTADO, 1966, pp. 6-7)<sup>9</sup>.

According to Furtado, institutional prevailing framework in Latin America creates income distribution patterns performing forms of behavior not compatible with a more rational use of available resources. There is a conflict of interests among groups controlling capital formation process and those of collectivity as a whole, admitting that collectivity aspires to maximize welfare. Since first group occupies every power's strategic position, political signals are not adequate to record structural tensions; therefore policy decision bodies lack of necessary functionality to foster removing obstacles to development.

Furtado states (1966, pp. 79-81) that once ended substitution period of traditional activities, industrialization will be restricted to substitute more profitable goods, which will launch substitution of durable consumer and capital goods. These sectors concentrate higher investment volume – with a worker's capital ratio higher than traditional activities and lower absorption of manpower – and tend to reduce economy's growth rate, by producing a sharp decline in product/capital ratio because they point to industry investments more and more demanding regarding market dimensions<sup>10</sup>.

Economies in the region began working in two sectors: a semi feudal pre-capitalist sector combined with an industrial sector absorbing a technology characterized by a high capital coefficient – not able to modify income distribution pattern – trying to orientate application of productive resources

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endures to this day”.

<sup>8</sup> In his classical text (1949, pp. 71-2) Prebisch reveals it is true that reasoning regarding economic profits arising from international labour division has undeniable theoretical validity, but the premise in which is based is refuted by the facts. According to this premise, technical progress profits tend to be equally distributed by whole collectivity be it by price reduction, or corresponding income increase through international trade; commodities export countries manage to get a share of this profit. In that case, they do not need industrializing; on the contrary, its lesser efficiency would make them losing classic trade profits. Prebisch considers (1949, pp. 80-1) that technical progress was even more marked in industry than in primary production of peripheral countries between 1860 and 1970. If prices had dropped in line with productivity increase, drop should have to be lesser in primary products than in industrialized ones, and relation between them would have improved for peripheral countries as industrialized goods prices would fall due to its higher productivity. If this would happen, technical progress profits would have been equally distributed all over the world, according to the implicit argument in international labour division scheme, and Latin America would not have any economic profit in its industrialization.

<sup>9</sup> While classic capitalism development created social stability conditions and opened the doors to Reformism, Latin American countries situation was completely diverse: own penetration of technique generated social instability and made natural antagonisms worse in a classes stratified society. (FURTADO, 1966, p. 13).

<sup>10</sup> For Furtado (1966, p. 39) the rule present in Latin-American conditions tends to be monopoly or oligopoly and a progressive income concentration, which by conditioning demand composition, drives investments into high capital ratio industries, and more demanding with respect to market dimensions; this type of substitutive industrialization tends to decrease when phase of “easy” substitutions exhausts, and eventually provokes stagnation.

to reduce its economic efficiency, and concentrate even more income (therefore deepening former commodity exporting economy) and cause stagnation. Growing income concentration has in contrast an underemployed population going to urban areas, not capable of developing a socially integrated mass market, thus leaving these people standing aside of process of gaining social welfare and creating social tensions able to make growth process becoming unfeasible.

Tavares & Serra wrote in 1971 that economic crisis suffered in half of decade of 1960, was related from an structural point of view to investment dynamism depletion made in Target Plan, because had used pre-existing market stocks, allowing income expansion and a diversification of consumption; thus it was necessary a set of new investment projects to be introduced in an adequate time sequence. Income distribution was extremely concentrated, for the benefit of a minority, limiting diversification and middle class expansion of consumption. The authors did not see a problem in this; it was exactly consumption of this group which would allow a better use of installed capacity, bringing main sequence effects. We think that growing possibilities were limited by lack of resources to finance new investments and demand, making them being profitable. In these circumstances, solution would be modifying demand composition, redistributing income in favor of middle and high classes, and even squeezing wages of less skilled workers<sup>11</sup>.

## 2. KALECKI AND POLITICAL ASPECTS OF FULL EMPLOYMENT

Professor Jorge Miglioli (1980) stresses that Kalecki was not worried only in domestic growth income; his main concern regarded the improvement of poorest population standard of living. Increase of necessary investment to boost domestic growth income should go together with a production increase of essential consumer goods, to upgrade poorest population standard of living.

In a paper published in 1944, Kalecki describes what would be the three ways of reaching and keeping full employment in a capitalist economy. To do that he takes in consideration a closed economic system; but this does not mean that the author sets aside international trade problems in full employment discussion, being them perhaps those representing harder practical difficulties. The Polish author prefers avoid them to leave clear main full employment theoretical problems. He talks about generating an effective adequate demand to grant and keep full employment. This may be done in two ways: (a)

<sup>11</sup> According to Sampaio Jr. (1999, pp. 49-50) the paper of these authors: "marks break of way of interpreting contradictory relationships between domestic development and colonial society anachronisms. When abstracting social and cultural specific circumstances of domestic economic spaces, the new approach lowered domestic development discussion to a simple capitalist dynamic issue, ignoring that one of great domestic development dilemmas is exactly conciliating capital appreciation and organic solidarity among social classes. Considered a mere residue of colonial society, excess of overpopulation marginalized from labour market become a problem not related to economic development determinants".

through government public investment or subsidies to popular consumption (financial aid to families, reduction of indirect taxes, subsidies to keep subsistence good prices in low levels); (b) by stimulating private investment (through a reduction in interest rates, income tax reduction, or other measures boosting private investment); and (c) by redistribution of income, transferring it from higher classes to lower income classes. (KALECKI, 1944, p. 76)

According to KALECKI, first and third methods are the most appropriate to keep full employment. Public spending creates effective demand as follows: government will do public investments not competing with private ones (for example, building schools, roads, hospitals, etc.) or will subsidize example, building schools, roads, hospitals, etc.) or will subsidize popular consumption (by paying family aids, reducing indirect taxes, or granting subsidies to keep subsistence good prices in low levels). In page 92 of his 1944 paper, he states that income redistribution is the third suggested way to reach full employment. Because when income will be transferred from people with higher income to these of lower income, total consumption will increase, since poor people have a higher propensity to spend than wealthy people. Income tax of wealthy people may be increased and simultaneously reduce taxation of essential goods, or pay same financial aid to families, increasing average rate of consumption.

Kalecki (1943, p. 54) sees maintenance of full employment through public investment only focused in its economic aspects, without paying due attention to political facts. He states that the assumption government will maintain full employment if he knew how to do it, is false. Regarding this, it is of main importance entrepreneurs' distrust to the fact that full employment will be maintained through state intervention. Kalecki says that this attitude was clearly seen in Great depression of the 1930s, when major entrepreneurs strongly opposed to experiences of increasing employment through public spending in every country - except in Nazi Germany.

In pages 54-5, he mentions entrepreneurs' reasons to be against full employment obtained by public spending: (a) they simply do not approve government interference in the employment issue; (b) they do not approve government spending destination for public investment and consumption subsidies; and (c) they do not approve social and political changes arising from maintaining full employment. Every each increase of state activity is seen as suspicious by "business world", but job generation makes opposition particularly intense. In a laissez-faire system, level of employment mainly depends of the so called state of confidence. If it gets deteriorated, private investment declines – reducing production and employment; and this is a strong government indirect control instrument of government, because any economic policy economic undermining confidence may cause an economic crisis. The social function of doctrine of "sound finance" is making level of employment being related to the state of confidence.

Kalecki considers that economic principles of state intervention demand

public investment not competing with private investments. There is also risk of government nationalizing some industry sectors; this would lead entrepreneurs to be more favorable to subsidies to popular consumption than to public investment. However, the author affirms that subsidies to popular consumption are much fought than public investment, because of a highly important "moral" principle in capitalist foundations: you have to earn your living by your own efforts. Even if overcoming these political issues, Kalecki states that maintaining full employment would bring social and political changes having a new impulse to oppose such policy, since firing a worker would cease being a disciplinary action. Political position of entrepreneurs would be undermined and this would open the doors to working class consciousness through strikes, wage demands and better working conditions, causing a very strong political tension. Thus, "entrepreneurial leaders are more interested in "discipline at factories" and "political stability" than profits (...) unemployment is integral part of regular capitalist system". (KALECKI, 1943, p. 56). The only thing that entrepreneurs accept is government intervention in case of economic depression, but not a policy to reach full employment.

Regarding underdeveloped economies, Kalecki (1968a, p. 132) reveals that its crucial problem is a deficiency of effective demand and lack of adequate capacity, not able to absorb available workforce, generating income levels compatible with population needs, resulting in a very low society's standard of living; obviously not for everybody but certainly for large population masses. It makes necessary adequate capital endowment to allow searching full employment. Underdeveloped countries must substantially increase investment to boost expansion of its productive structures, indispensable for domestic income growth. To obtain this, three main obstacles must be overcome: (a) insufficient private investment; (b) insufficient resource availability to promote additional investments; and (c) insufficient adequate consumption goods supply to cover higher demand resulting from employment due to investments. These factors would technically be avoidable; public investment may play a complementary role in case private investment would not be enough. Resources to purchase capital goods may be obtained through imports facilitated by import reduction of non-essential goods, to be achieved by adopting progressive taxation – taxes levied on most wealthy classes.

Kalecki states that this is a theoretical and technical solution to balanced development in an underdeveloped economy (1968a, pp. 134-5). However such solution will face huge political obstacles. The first one arises from attempt to introduce some economics planning; to do so it would be necessary plan volume and structure of investments; because it is essential having an appropriate investment plan for production of essential, non-essential and capital goods. This demands a much more deep government intervention than the one applied in developed economies targeting full utilization of resources. Government will have to invest in each area of the economy lacking private

adequate investment, and on the other side, private investment will be regulated in order to avoid investments in some economic sectors not exceeding planned level. Besides, new political obstacles are found in adequate taxation of wealthy people to get a high level of public investment. In underdeveloped economies tax collection is a hard task due to evasion of taxes happening on huge scale. For Kalecki (1968a, pp. 135-6), theoretically, many representatives of ruling classes support need of implementing these instruments, but when it comes to the application, affecting its sacred interests, then they radically modify their political policy, causing huge reaction. The truth is that overcoming all obstacles to economic development, means more than uprising made by French Revolution 1789-1799. Therefore it is no surprise these measures have not been adopted.

In a text of 1953, Kalecki analyzes development financing of an underdeveloped country: fundraising. According to Miglioli (1977) when this text was published it was a really original research, based in lectures given by Kalecki in Mexico in this year at the Centro de Estudios Monetarios Latino-Americano (CEMLA) – Center of de Monetary Studies for Latin America - Professor Miglioli states that this study had great influence on Cepal's theoretical orientation. Kalecki said society was divided in three segments: capitalists, workers and small holders (poor peasants, craftsmen and small merchants) adopting a simplified model – a closed economic system where government spending and tax collection are negligible – however stressing this does not correspond to real situation in underdeveloped countries, since they have high dependence of international trade, spending and public tax collection are very important. Nevertheless he does so because of thinking interesting conclusions regarding investment financing mechanism can be taken.

Kalecki (1953, pp. 141-3) supposes that both small holders and workers do not save and therefore he divides economy in two sectors: department I, producing capital goods and department II producing consumer goods. Then each sector's production value will be divided in consumption and savings. Consumption in department I will be supplied by production of department II. And it will be done as follows: part of consumer goods production from department II will be consumed in this department by workers, small holders and capitalists, but since these last do not entirely consume its profits, there will be a surplus of consumer goods in this department, corresponding to not consumed part of profits, in other words saving of this department. This means that consumer goods surplus in department II will be sold to workers of department I.

This equation can be found in Marx's schemes of reproduction, showing that investment finances itself. Investment, if financed by a bank credit or company's net reserves, when contracted generates a savings entry. A part of it comes directly from department I; second part of savings is equivalent to consumption goods surplus sale from department II to workers and capitalists

from department I. These savings are made by entrepreneurs benefiting from demand generated by a higher investment. Kalecki (1953, pp. 143-4) considers that investment volume has no financial limits; the real problem is if financing creates or not inflationary pressures and main issue is knowing if possible offer expansion of essential consumer goods will create inflationary pressures as an answer to demand.

Kalecki (1953, p. 147) states about investment expansion that at the same time than allowing an increase in producer's goods – result of a higher demand – also creates a strong pressure on food available offer. In an underdeveloped economy, agricultural production is obstructed by a number of limitations: countryside feudal and semi-feudal relations and poor peasants being subjugated by merchants and creditors. Therefore, it is impossible having a radical growth in agriculture without the introduction of substantial institutional changes. If peasants cannot benefit from food price increases, going in higher percentages to large landowners, merchants or money borrowers, – then food offer rigidity may lead to under-utilized productive capacity in non-food consumption sectors, since decline in real wages due to food price increase, will not have as a counterpart, increase in demand of massive consumption goods by rural population. These additional profits will be used to purchase luxury goods.

Not even an agrarian reform would be enough, because as experience shows, subjugation of peasants to money borrowers and merchants would continue; not to mention fraud to the reform itself. According to Kalecki (1968a, p. 135):

It is absolutely clear that overcoming obstacles to institutional changes maintained by privileged classes is a more difficult problem to solve than financial tricks to save deficiency of effective demand, something crucial for developed economies.

An economic policy, states Kalecki (1960b, p. 138) must be based in two elements quite different between themselves: (a) a right ratio between domestic income growth rate and supply growth rate of essential consumer goods; (b) a tax policy able to restrict essential consumer goods in a volume enough to provide financial resources for investment. A domestic income increase demand and agricultural production increases, however such expansion implies in long range social and economic in farming.

### **3. THEORETICAL SIMILARITIES BETWEEN THOUGHTS OF CELSO FURTADO AND MICHAL KALECKI**

It is possible to note convergence between Kalecki's impressions and considerations in theoretical formulations of Latin-American authors sharing

Cepal ideas, nevertheless there are no quotes exchanged among them. Celso Furtado in a short paper written in 2000 mentions he first met Michal Kalecki at the beginning of the 1950's, in a visit to UN headquarters in New York, together with Mexican economist Juan Noyola. Both of them had a great deal of admiration for the Polish author, of well-known value in academic world on both sides of the Iron Curtain. Furtado mentions that they worked at UN Secretariat without any restrictions or ideological controls. In this time, Cepal had just launched famous manifesto drafted by Raúl Prebisch, which would be known as the starting point of Latin-American structuralism.

Kalecki showed being well informed about structuralist work in Latin America and called their attention to a research of same tenor being held in other regions of the underdeveloped world. Some years later, Furtado talked with Joan Robinson and Nicholas Kaldor in Cambridge, where he noticed the importance of Kalecki's contribution to build the economic theory that prevailed in the twentieth century. Furtado considered Kalecki's intellectual work more seducing than Keynes writings, because Kalecki was not based in Marshall's core to build the effective demand theory. Starting from Marx and Rosa Luxemburg, he arrived on his own and before to similar results than Keynes.

Through Furtado and Kalecki's thoughts we can conclude that economy is not an eminently technical science, but that many of its problems depend on solutions arising from the political sphere policy. And it is there where we find greatest difficulties, since ruling classes influencing government decisions hinder social and political transformations that could improve standards of living of majority of population in underdeveloped countries.

Furtado's words make clear that in Brazil political option of the ruling class<sup>12</sup> shaped social and economic structure originated in a cultural dependence, or in other words ways of producing developed countries consumption patterns. Based in Kalecki's comments, we may see he also mentions need of taxing non essential goods, to break consumption and release resources to be invested in producing consumer goods for large number of people. However, propositions of both authors collide in the political issue, since ruling class participating in government decisions would not waive their consuming desires to benefit whole society; instead of taxing consumer goods the ruling class used the authorities to influence in political decisions and grant incentives and protecting measures to produce these luxury consumer goods.

Although Kalecki states that full employment policy in underdeveloped countries could not be applied before these countries would go through an intense industrialization process, Furtado (1966) emphasizes that here in Latin

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<sup>12</sup> For Tavares (2000, pp. 137-8) this ruling class is result of an structural nature pact of domination and complicity among international money agents and domestic money bureaucracies shaping structure that molded structure which framed our "cosmopolitan" elites and the more or less dependent – or associated – character of our bourgeoisie with international financial capitalism. But by sticking domestic money to speculative market after 1992, domestic currency arbitrage no longer was controlled by our government. Instead it went to global financial markets. Since political economic arbitrage is not any more the state, Tavares (2000, p. 145) understands that "national associated development" ended, because there is no more internal command of decisions on private capital valuation.

America this process was badly conducted, making countries tending to face economic stagnation. This due to a conflict of interests of groups controlling processes of capital formation and collectivity as a whole, admitting that collectivity aims to maximize social welfare. In this sense, we may attribute a structural character to Latin-American stagnation issue, since industrialization process in Latin America was developed by actions of several social groups willing to maximize its material profits to influence other society's groups without demanding or causing main changes in social structure.

Even if countries could achieve industrialization, Kalecki says that entrepreneurs could accept state intervention to leave economic depression behind, but would not admit state intervention in the attempt to reach and maintain full employment. While Furtado stresses that ruling class is not interested in reaching full employment, he states that its only objective is reproducing developed countries consumer goods patterns, Kalecki shows country's elite political opposition to social and political changes that would arise maintaining full employment. Entrepreneurs reject public investment in order to avoid it competing with private investment, and also refuse allowing government granting popular consumption subsidies, because this goes against capitalist principle of earning living through effort and individuality. Employers are afraid of losing control of the economy; therefore they put pressure on government to make it adopting "sound" investment policies, arguing that if the State destabilizes economic environment, this will affect entrepreneurs' investment confidence. Dismissal of workers would no longer be a disciplinary action and therefore employers' political position would be undermined. On the other side this would bring awareness to the working class with consequent fights: strikes, wage claims and better working condition demands, creating a very difficult political tension.

This is a point of convergence with Furtado, because the author shows us the conflict between interests of groups controlling processes of capital formation and collectivity as a whole. Groups controlling industrialization process use an "inadequate technology" increasing working productivity without dividing results technical progress results with workers. This capital intensive technology cannot absorb huge labour market marginalized surplus contributing to income concentration, and avoiding creation of a socially integrated mass market. Brazilian industrialization could have been addressed to an easiest technology, absorbing more workers. This, when technical progress would advance, would share gains in productivity profits with manpower to lead whole income increase creating higher consumer goods demand, which at the time, would require capital goods industry investments and social mobility to substitute more valuable goods. Furtado considers that technical progress in developed countries created social stability conditions, while in Latin America originated huge social tension. Therefore adopted measures to achieve full employment would be fought strongly by the ruling class, because achievement and maintenance of the full employment are not accepted by capitalists,

since they want continue profiting from technical progress without sharing it with workers.

Furtado compares technical progress advance as a force able to solve class struggle in developed countries while in underdeveloped countries is a social tension component. He explains that in classic industrialization countries, pressure to increase real wages, and consequently redistributing social income in favor of workers – would cause a reduction in savings and investment rates, and stagnation – did not happen, because capitalists have in their hands a powerful instrument, which is orientation and control of the technological progress, leading this technology to save manpower and compensate relative scarcity of the workforce. Advanced economies must be intimately related to develop technological progress orientation, a relative production factors' availability and a certain collectivity consensus to maintain a named savings and investment rate to grant social income distribution system stability, and at the same time meeting standard of living improvement aspirations for the working mass. Basic dynamic factor will be social workers pressure to increase income participation; a pressure not compromising development process, because capitalist class overcomes that issue through technology by reducing manpower use. When using technology advance as a support to preserve its share in social product, capitalists engage with development; this because technique advances could hardly conciliate in a stagnated economy.

Kalecki states that if non agricultural sector could significantly improve productivity, employment corresponding to a specified production level would fail in an inverse proportion to the increase of productivity. But if this increase of productivity would not be transferred to wages, this will reduce amount of payments, therefore food demand would be reduced and prices will drop. On the other side productivity does not grow and industrial production increase is merely obtained by transferring rural population into the cities. It is true that unemployment will

radically reduce, but at the same time it would be difficult expanding agricultural production in levels satisfying increasing urban demand. "Ideal pattern is usually between these two extremes: industrial production increase should be based in both productivity and employment increases" (KALECKI, 1953, p. 150) statement that may also be found in Furtado's analysis.

Furtado (1966, pp. 12-3) contributes with an interesting analysis: in developed capitalist economies, social nature issues arising from group conflicts and social classes struggling for the improvement of income distribution, were solved through own advance of techniques; technicians created solutions for issues coming from social conflicts. On the other side, in underdeveloped structures problems are different: the way how techniques arrive generates widespread repercussions in the society. This is due to technicians' work for individual interests' and private groups creating problems demanding political solutions.

Based in these issues mentioned by Furtado, we can use Kalecki' thou-

ght to describe what political decisions could have been taken to correct underdeveloped countries distortions in industrialization processes: (a) a tax increase on goods produced for the modernized part of the society, to break production absorbing little manpower; (b) tax income increase of wealthy people and simultaneously reduce essential consumer goods taxation, or pay equal aid value to families, increasing average consumption rate; (c) use these resources to be invested in popular consumer goods industries, using more simple techniques, creating additional jobs and consequently increasing income and consumption, contributing to the improvement in working class standard of living and creation of a socially integrated market.

Kalecki's work is based in Marx texts, stressing that class struggle policy is inherent to the capitalist system. Furtado (1966, p. 11) states that modern capitalism advance generated a new class structured type of society with antagonisms and complementarity of interests at the same time. The antagonism is expressed through the fight for better real wages; working class demands an income redistribution favoring them, clearly opposed to capitalist interests. But this workers' pressure indirectly leads to technological advance and it takes to an increase of productivity of all combined factors, allowing compensate real wage increase. Therefore, own antagonism launches forces overcoming this. It is a society whose dynamism is result of own antagonism of classes being part of it.

## FINAL CONSIDERATIONS

Furtado considers underdeveloped countries development as a question involving power structures modification, redefining State functions and mass mobilization; regarding development issues, most difficult tasks are political, not technical. Maybe this thought is more aligned with Kalecki's one: pursuit of full employment and overcoming underdevelopment face political restrictions from those ruling the economic process. Similarities between Kalecki and Furtado are mainly based in role performed by underdeveloped countries industrialization industrial technology, since both acknowledge existence of a "structural unemployment" within the underdevelopment context.

Regarding full employment policies, Kalecki considers capital parting full employment GENERATION from its MAINTENANCE: only second item is considered as politically impossible under capitalism. In an underdevelopment context, political tensions tend to be wider / more complex, due to higher heterogeneity of social groups and their respective interests – foreign capital role and interests to it tied is an "exclusivity" of underdeveloped countries, affecting definition of a domestic development project. This heterogeneity is particularly relevant to determine domestic development project directions and possibilities, because it is a long term project and implies in a determined coalition of minimally stable political forces. Here we see that similarities with Furtado

may take shape: while political control of the development process (for instance, taking decisions) be in hands of “culturally colonized” elite, development model to be adopted will not be socially inclusive or oriented to modify international labour division current pattern.

For Kalecki, foreign capital political role in underdeveloped countries is preponderant, being a “natural obstacle” to economic emancipation projects. This is shared by Furtado, he saw industrialization control made by multinational companies as something negative, because they – opposite to what happened in traditional capitalism where competition was done through prices – practice a price administration policy, blocking increase of productivity becoming a decrease in prices and an increase of real income real. Another issue mentioned by Furtado are main domestic market activities controlled by foreign companies with their own international expansion projects, scarcely known and controlled by governments of countries where they act, and not always meeting interests and aspirations of local collectivity.

Kalecki, influenced by Marx works, stresses capitalist system struggle class as a way each group use to try increasing its domestic income share. But he says that a real wage increase will not reduce capitalist profits, and also would not be enough to modify income functional distribution, because while profits and wages will increase, income distribution will remain unchanged. Therefore he agrees with Furtado; real wage increase must be the result of working productivity, like solution found in classic industrialization countries to solve social classes’ antagonism. Here in Brazil we should need a political intervention to level technology advance and absorbing surplus of labour. But, as Furtado shows (1966, p. 35):

these modifications may be planned and provoked, making accelerate the “modernization” society process. This rational development policy, consciously modifying social structures, will hardly be promoted by ruling groups, users of privileges arising from ancient structures.

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