

# ECLAC: BRAZIL, ARGENTINA AND THE PROBLEMS AND MISTAKES IN THE LATIN AMERICAN STRUCTURALIST ECONOMIC THEORY

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## Abstract

To a large part, Latin American economic thought is rooted in the view that the State should be the engine of economic development. The theory developed by the Latin American Structuralist School supports this view. ECLAC, a United Nations development commission, is the bastion of the policy agenda branch of structuralism. Despite their central role in Latin American economic policies, structuralist ideas have hardly been discussed. We trace the historical origins of this school and use the theoretical standpoint of the Austrian School of Economics to talk about its views and mistakes.

**Keywords:** Latin America, Post-Keynesianism, Economic Commission for Latin America, and the Caribbean (ECLAC), Economic Policy, Marx, Austrian Economics, Economic Development.

JEL Codes: B29, B53, O21, O25, O43, O54.

## INTRODUCTION

The economic theories and development policies that dominate Latin American theoretical discussion and policy implementation are predominantly developmentalist. The Latin American developmental school was applied in policy issues all over the subcontinent throughout the 20th and 21st centuries (Bielschowsky, 2016; Boianovsky & Solís, 2014). Its origins are in the Economic Commission for Latin America and the Caribbean – ECLAC. ECLAC's economic approach is inspired by the ideas of Mihail Manoilescu (1891-1950?) (Bobulescu, 2003; Denslow, 1997; Nenovsky & Torre, 2015) and is grounded in the structuralist theory framework. It proposes that the state should guide economic development and society's welfare (Dias, 2012; Medeiros, 2006; Vieira & Carvalho, 2004) by protecting the internal market against foreign competitors.

ECLAC was established by the United Nations (UN) in 1948, also known as CEPAL, from its Spanish/Portuguese acronyms. It was 'founded to contribute to the economic development of Latin America, coordinating actions directed towards this end, and reinforcing economic ties among countries and with other nations of the world' (ECLAC, 2020). Its two most relevant economists are the Brazilian Celso Furtado and the Argentinian Raul Prebisch. Prebisch is

the mastermind of the theoretical approach, while Furtado translated the theory into policy recommendations (Bielschowsky, 2010; Paranaíba, 2016) adopted across Latin America (Nino, 2016). In the 1950s, they created the theoretical and policy core of a 'new economic approach' known as structuralism.

The decades of structuralist policy have had controversial results. Despite the industrialization of Brazil (and somewhat of Argentina), the countries in the region have, in comparison, grown less than their counterparts elsewhere in the globe (International Monetary Fund, 2021). However, the importance of structuralism to the history of Latin, and South America in specific, is undeniable (Bielschowsky, 2020; Medeiros & Cosentino, 2020). This importance suggests that the school should be scrutinized from other theoretical standpoints. At the same time, developmentalism, especially the Latin American Structuralism (LAS) branch, remains mostly out of the reach of theoretical discussion. We contribute by discussing LAS' theoretical underpinnings, problems, flaws, and consequent problematic policy implications.

Our analysis adopts an Austrian Economics perspective to discuss LAS. We follow Austrian authors in their analyses of other theoretical approaches, for example, Böhm-Bawerk's (1949) and Mises' (1951, 1990) on Socialism, Hayek's (Bas, 2011) and Garrison's on Keynesianism (1985, 1995), as well as their internal discussions, as in Bylund's (2019) critique to Kirzner & Jankovic' (2014) to Foss & Klein (2012).

We proceed by presenting a brief historical background of Latin America and how the idea of state interventionism came to dominate the discussions in this part of the globe. We then talk about LAS' theoretical underpinnings, its origins, and analysis of the region's underdevelopment, and we also present its derived economic policies. Next, we offer the Austrian analysis and critique, and the last section concludes.

## 1

# HISTORICAL BACKGROUND: IDEOLOGY AND POPULISM

Latin American European colonization began in the 16th century; the continent was divided between Portugal and Spain. Brazil, the Portuguese colony, became an empire in 1822 and a republic in 1889 (Fausto & Fausto, 2014). The Spanish colonies became several independent republics, usually with

little to no political stability, the largest being Argentina, which gained independence in 1816 (Rock, 1987).

One common feature in the history of these countries is their ties to centralizing governments, usually under a populist leader. Examples are abundant, and some known names are Perón in Argentina, Vargas in Brazil, Allende in Chile, and Chavez in Venezuela, among many others (Galván, 2013; Lewis, 2006). This sociological phenomenon is externalized in a 'cult of the leader' and a widespread belief that solutions to societal problems are to be given by the leader via the state apparatus. This point of view is sustained by academia, usually owned by the state and in part of the upper aristocratic classes, historically linked to political power. The result is that governments are seen as capable and responsible for securing safety and prosperity for the citizens. This is done by passing and enforcing legislation that creates and safeguards rights. The regulation also needs to stop exploitation by entrepreneurs. As a result, entrepreneurship and business success get a bad reputation, while governments defend those in need. This is the *modus operandi* of political movements led by Vargas and Lula in Brazil, Perón and Kirchner in Argentina, and Chavez in Venezuela. Structuralist ideas find fertile ground and become deeply entrenched in Latin American economic thinking, where they remain influential (Almeida Filho & Corrêa, 2011; Bielschowsky, 2020).

In Brazil, the view on the government's role in guiding economic activity has known origins. Modernly, it can be traced to the 1930s, when Getúlio Vargas' 'New State' took power. He was elected president in 1930 and stayed in power until 1945 would retake power for a second term from 1951 to his suicide in 1954. In the second part of his first government, Vargas imposed the 'New State' (1937-1945) and became a dictator, changing the constitution and centralizing power in his figure. Economic power was shifted to the federal government to gain influence and control over the preexisting political power of economic elites in the states of São Paulo and Minas Gerais. Vargas' central economic idea was that the federal government was to be the sole inductor of economic development, and even political power in the states should be subject to the central government mandate, a way to politically control the whole country (Fonseca & Bastos, 2012). The federal government became the leading player in the two forms of organizing society: power and market (Oppenheimer, 1922; Rothbard, 2004).

Economically, the 'New State' was backed by three elements (Bielschowsky, 1988): a) economic protectionism with a particular nationalist aspect and anti-American imperialism; b) an assault on classical liberalism and the consequent governmental discretionary power to intervene in markets; and;

c) association between industrial development and 'prosperity,' or 'progress' (see also Paranaíba, 2016). These characteristics are aligned with the economic ideas of Manoilescu and his followers (Nenovsky & Torre, 2015).

Two historical events under Vargas' illustrate his government's centralization and anti-free-market characteristics that perpetuate in Brazilian history. The first is the '*Petróleo é nosso*' ('oil is ours'), a nationwide advertising campaign partially sponsored by the federal government to convince the population that the state should exclusively exploit oil, outlawing all possible entrepreneurial initiatives. It culminated in 1953 when the legislation-based state monopoly over oil in Brazil was established via Petrobras, the state-owned company. Second, the introduction of fascist-oriented labor legislation which remains mostly operative to this day (Gentile, 2017).

Also, in the mid-century, scholars started assessing regional inequalities in Brazil (Paranaíba, 2009). The 1958 study by the 'Northeastern Development Team' (*Grupo de Trabalho de Desenvolvimento do Nordeste* – or GTDN in its Portuguese acronym) is exemplary. This was written mainly by the pre-Keynesian economist Celso Furtado (Carvalho, 2008; Mantega, 1989) under Raul Prebisch. Furtado helped to found ECLAC and became Brazil's first planning minister in 1962 under the socialist-inspired government of João Goulart (Fonseca & Monteiro, 2005).

In Argentina, Juan Domingo Perón's emergence as a political leader is associated with a turning point in economic policy. The country left a classical liberal tradition and entered an era of state interventionism that would later be associated with the economic decline (Campos, Karanasos, & Tan, 2016) that continues to this day (Cachanosky, 2018). Perón's presence in Argentinian politics started with his participation in a military coup in the 1940s and ended with his passing during his third term as president in 1974. He founded the Justicialist Party (*Partido Justicialista* – PJ for its denomination in Spanish) in 1947, and the party remains one of the largest and most influential in Argentina (Cachanosky, 2018). He became an influential figure in Latin American politics, particularly in the populist movement; interestingly, he had connections to Mussolini and was assigned to a military position in Italy (Lewis, 1980). During his terms, he drastically expanded interventionism in the economy and established a big part of the Argentinian welfare state. Many of his followers' economic ideas can be traced to Raul Prebisch (1901-1986). Prebisch implemented the income tax and created the country's Central Bank in 1935. He left the government to embrace policy consulting in Latin America, joining ECLAC in 1949 (Couto, 2007).

Political centralization and developmentalist economic policy had consequences all over Latin America. Brazil and Argentina are cases that stand out because they are the largest and historically the most developed nations in that region. The following section explains the theoretical underpins of Latin American structuralism and shows how centralization led to economic theories that put the state as the (sole possible) inductor of economic and social development.

## 2

### ECLAC, THE STRUCTURALIST SCHOOL AND ITS THEORETICAL BACKGROUND

After World War II, the UN created commissions to promote economic and social development worldwide. The idea was that economic tensions and consequent conflicts could be avoided by stimulating growth. One of these commissions focused on Latin America and the Caribbean, ECLAC, established in 1948. From the beginning, its economists tried to understand the causes of Latin American underdevelopment to how this could be overcome. Those studies led to the creation of theoretical approaches to development that were explicitly suited for underdeveloped Latin American countries (Couto, 2007). Prebisch, as mentioned earlier, and Furtado are two of ECLAC's most influential figures.

The commission was never intended to be an academic organization nor wanted to promote scholarly debate. Its objective was to design policy and influence regional policymakers (Bielschowsky, 2016, p. 17). ECLAC economic thinking builds upon the Rumanian fascist economist Mihail Manoilescu (Denslow, 1997). It builds upon a center-periphery approach to point to underdevelopment due to a historical dependence by underdeveloped countries on their more developed counterparts (Couto, 2007; Medeiros, 2006). The *Latinos* would be in the periphery, while the developed world, mainly in western Europe and North America, would be at the center of the economic development. The theoretical conclusion was that the state in peripheral countries was the only entity capable of starting, increasing, and sustaining socio-economic development. Individual entrepreneurial action was never considered a possible solution.

The critical concepts of structuralism are (i) the deterioration of terms of trade, (ii) structural inflation, (iii) structural heterogeneity, and (iv) the analysis

of technology in the periphery – their way of referring to the underdeveloped world (Santos & Oliveira, 2008). At the policy level, ECLAC theorists indicate that the State needs to intervene in the economy to alleviate the consequences of a structural center-periphery system and to make up for the absence of a bourgeoisie capable of supporting economic development. This intervention is to be carried out by deploying a centralized industrialization plan (Bielschowsky, 2020; Furtado, 1966, 1974). This is indispensable; development cannot happen in the periphery in any other way. While entrepreneurs and capitalists from the region are incapable, the government is considered capable. Centralization of power and economic dirigisme is the way to overcome underdevelopment and poverty. The idea was promptly welcomed by governments all over Latin America.

Structuralism's theoretical influence continues in Latin America's academia, even beyond economics (Gabay, 2008; Ruiz, Rizzuto, & Benitez, 2013), especially in Brazil (Dias, 2012). And many Latin American countries subscribe to the ECLAC economic theory or its policy recommendations (Boianovsky & Solís, 2014; Niño, 2016).

## ■ 2.1 Origins of ECLAC's thinking

ECLAC's thinking derives from sociologists and philosophers like Marx and Gramsci and economists like Manoilescu, Keynes, and Kalecki. In epistemological terms, the commission builds upon 'a fertile interaction between, on the one hand, an essentially historical and inductive method, and on the other hand, its theoretical-abstract reference, the structuralist theory of the Latin American peripheral underdevelopment (Bielschowsky, 2016, p. 11).

The method used by their economists is vital for breaking up with the classical-liberal tradition and for moving away from neoclassical. Furtado (1980, p. 43) takes a neoclassical approach and adapts natural sciences methods to study social relations. It is initially based on the methodological approach that ECLAC stands away from the classical-liberal tradition. Structuralists focus on the relationship between the center and the periphery, and the core of the commission's argument lies in it (Bielschowsky, 2016).

Also, on methodological grounds, structuralists emulate Marx and adopt the historical-inductive approach. Influenced by sociologists, structuralists believe that social organizations and forms are historical and can only be overcome by the action of a power that lies beyond those same forces; this power would be the state (Furtado, 1974). From an economic standpoint, Marx's

influences are seen in the importance given to technological advancement and capital accumulation by a minority of individuals (D’Aguiar, 2020, pp. 59–60).

Gramsci’s epistemology was also highly influential. This is externalized in building a national plan to defend the national sovereignty against external imperialism; Gramsci and the dependency theory of the structuralists converge (Almeida, 2008). Along similar lines are also the ideas of the Rumenian economist Mihail Manoilescu (Denslow, 1997).

From a pragmatic and policy standpoint, the theories of John M. Keynes, especially in the *General Theory* (Keynes, 1964), provide ECLAC’s theoretical foundations. D’Aguiar (2020, p. 60) suggests that Furtado borrowed from Keynes the notion that the market economy needs state intervention and some degree of central planning. In short, there is a defense of the need for state interference in the economic arrangement, especially during a crisis. Complementary, Caldenteu e Vernengo (2013, p. 1) show a connection between Keynes and Prebisch since both criticized the economic orthodoxy and suggested that free markets could not promote wealth distribution and full employment. Prebisch also followed Keynes in defending state interventions on the money supply, the fiscal side, and international trade. Despite the agreements, Prebisch is not a Keynesian and criticized Keynes in several aspects, possibly because Prebisch thought Keynes was incapable of understanding the idiosyncratic nature of peripheral countries (Caldenteu & Vernengo, 2013).

Several other authors were also influential. The three most important examples are Nicholas Kaldor, Michal Kalecki, and Arthur Lewis. Kalecki’s analysis of economic development wanted to dictate how underdeveloped economies would be able to industrialize. He states that this will not happen because of political reasons. Therefore, the state must intervene to solve the problem by using direct investment, progressive taxation, and taxation of luxury goods consumed by the elites to subsidize the consumption of the lower classes (Santos, 2014, p. 100). This is very similar to Prebisch’s and Furtado’s understanding of the problems with the consumption of the elites. Besides taxing luxury goods to distribute among the poorer individuals, to spread the consumption possibilities, the state must finance and even directly control the industrialization of the country. Building on Manoilescu, substituting imported goods would internally offer what the elites buy from the outside and allow the marginalized classes to consume. This neo-mercantilist approach would enable the state to ‘slowly creep in and gradually undermine economic progress’ (Niño, 2016).



Kalecki says that the elites in the underdeveloped world would not peacefully comply with such a political movement. Kalecki is widely recognized as a Marxist economist, as is the case of the structuralists; building on Marxian 'class struggle,' he provides two reasons for why this would be the case. Development and industrialization would lead to full employment; employees would stop working for subsistence wages and be free to choose where and who to work for. This would take power away from the elites by taking away capital rent. Two, the elites would not readily accept subsidizing the consumption of the poorer classes. Therefore, only the state, via progressive taxation, would be capable of doing it (Santos, 2014, p. 100). Despite differences between Kalecki and Marx, which arise primarily because of the evolution of capitalism, they employ the same framework, and their methods are essentially the same (Kriesler & Halevi, 2020).

Furtado's ideas on this topic are very similar to Kalecki's. He says that the peripheral elites would oppose state-directed development because this development would inherently be against their interests. Furtado opposes the elite's and society's interests. Moreover, as the standards to be copied by national industrialization would not satisfy these elites, the tension between them and the oppressed would perpetuate (Santos, 2014, p. 101).

The ideas of W. Arthur Lewis, the 1979 Nobel Laureate, also share commonalities with structuralism. Lewis (1954) builds on classical economists and says that the neoclassical approach is only valid when the workforce is not limited. His conclusions are like ECLAC's and share the Marxist sociological background.

Kaldor (Missio & Pereira, 2018) would significantly influence Furtado's thinking. He also follows a Marxist tradition and sees industrialization as essential to the economic independence process of underdeveloped economies. Countries moving from a non-industrial to an industrial arrangement face problems. First, there is a workforce deficit; workers are not immediately ready to move from a non-industrial to an industrial setting. Plus, workers moving from the agricultural to the industrial sector would start an inflationary process in agricultural products that will impact the social structure. Like Kalecki, Prebisch, and Singer, Kaldor also believes in structural inflation.

Kaldor also adopts the center-periphery framework to investigate the terms of trade trajectory. Prebisch concluded that the peripheral countries face diminishing terms of trade with central countries, which explains their dependence status. Kaldor reaches the same conclusion, explaining that a rise in economic growth in the peripheral countries leads to a fall in its terms of trade in the

long run because of a consequent increase in imports. On the other hand, central countries do not face this trend. The Prebisch-Singer hypothesis of diminishing terms of trade finds in Kaldor a valid theoretical explanation (Sarkar, 2009).

By the end of his career, Kaldor changed his view on economic growth. In contrast to his previous assertion that labor scarcity constrained economic growth, Kaldor adopted a demand-constrained growth concept. This meant that export demand constrained economic growth (Palumbo, 2009). The paradigm shift arguably puts Kaldor even closer to the structuralists.

As shown above, the perspectives adopted by the central proponents of structuralism build upon the concept of class struggle as a cornerstone. At the same time, there is almost no role for the individual per se. In this approach, the agricultural sector, usually in the periphery, suffers long-term losses while trading with the industrial sector, traditionally in the center. Those losses lead to a structuralist inflationary process. In other words, inflation is caused by the structural inequality between the peripheral agricultural sector and the central industrial sector; the inflationary pressure would be laid upon workers by capitalists. The genesis of this logic is in Kalecki's contributions.

The Kaleckian construct is a refinement of Marxist ideas through Keynesian models. The logical development justifies the need for governmental intervention and expenditure via fiscal deficits to compensate for the capitalist spending that would be directed exclusively to capital accumulation with profits earned from exploiting the workers.

As a Marxist, Kalecki sees the economy from the idea that capitalism is a society of classes. Workers have a marginal consumption rate of one and a savings rate of zero. The whole of their earnings is spent on consumption. To capitalists, the situation is different. Their income exists in the form of profit, and according to the Kaleckian theory, profit is the difference between the national income and salaries [...] Joan Robinson, a colleague of Keynes' and Kalecki's in Cambridge, summed up the Kaleckian theory in a sentence: 'workers spend what they earn, and capitalists earn what they spend' (Mueller & Vaz-Curado, 2019, p. 6).

Therefore, public investment is responsible for compensating for the deterioration of terms of trade between the struggling classes or the exploited and

exploring the country. Governments, through spending, should ensure that a country's economy is directed to compensate for the losses in international relations between the underdeveloped country and the imperialist powers, generating a flow of public investments to replace imported goods from the central countries.

## ■ 2.2 ECLAC's analysis of underdevelopment

To analyze the underdevelopment in Latin America, ECLAC authors adopt three levels (Bielschowsky, 2020). The first deals with the structural conditions allowing growth, employment, and wealth distribution. The focus here is on the restrictions to development imposed by the structural conditions in the periphery. These restrictions stop the peripheral countries from converging to the standards of the center's wealth. The second level deals with the method for international integration of the peripheral nations. In the structuralist idea, this integration depends upon the central countries uninterested in this happening. Finally, the third level builds upon the other two and offers a solution: it creates a national plan to promote industrialization and development that would lead to peripheric integration with the center and wealth distribution for the peripheric citizens. This plan should be focused on creating policies to overcome the difficulties imposed by the socio-economic structure that derives from the historical formation of Latin America (Bielschowsky, 2020).

Therefore, ECLAC's economic analysis is grounded in the idea that Latin America's socioeconomic problems are structural. The name of the school, structuralism, comes from this insight. This structuralism can be seen in the various types of relationships: diachronic, historical, and comparative, that compose the ECLAC's analysis. Its intellectuals take an inductive approach and build a historical Latin American (under)development theory. This theory concludes that peripheral countries have underdeveloped structures that lead to economic and social behaviors that are very different from those observed in centrally located countries (Bielschowsky, 2020).

The second level presupposes that the participation of the peripheral countries in the global economy will follow a specific pattern. This pattern is defined by the production and exportation of products with (close to) static global demands, usually raw materials, while the demand for imported industrialized goods from the central countries proliferates. Further, the elites in the periphery tend to absorb and implement consumption standards common to

the center countries, deepening the internal divide between the different classes in the peripheral country (Bielschowsky, 2020, p. 21).

Because their theory supposes an economic hierarchy in international commerce, structuralists believe that the integration of the peripheral countries in this commerce is somehow dependent on the central countries allowing for it to happen. According to the theory, central countries would not be interested in such a movement because it would undermine their central positions and shift the balance of economic and political power toward the periphery. Without governmental action, peripheral countries would be locked in a perpetual state of underdevelopment because of structural causes. Prebisch (1949) explains that by saying that peripheral countries would export primary goods with low aggregate value and would, in contrast, import goods with a high aggregated value from central countries. He explains that this relationship is particularly detrimental to the poorer countries because of the inequality of the goods being exchanged and the pressure this tendency would have over the means of exchange (see below).

This theory on the means of exchange is known as the Prebisch-Singer hypothesis. Both formulated it simultaneously and independently in the late 1940s (Maizels, Palaskas, & Crowe, 1998). They explained that, over time, primary goods would lose value when compared to manufactured goods. This tendency would force peripheral countries to export increasing quantities of primary goods to afford the same amount of industrial goods. Prebisch suggests two reasons for this. The first arises because of the differences in the economic cycles; because of the structure and characteristics of their production, the prices of industrial goods would not fall as much as the raw materials/primary goods in the bust phases of the economic cycle. In his idea, the prices of industrial goods are more inelastic; consequently, producers can reorganize production without reducing costs. The analysis for the primary goods is different. Since they are commodities and thus interchangeable, the competition is based on prices, and they are more elastic. Plus, entry barriers tend to be low. Those characteristics would lead to more abrupt and profound fluctuations in the prices of these goods.

A second reason would be a lack of human resources in peripheral countries. Workers in those countries do not need much education or training to be inserted in the primary goods' production, and they are hardly organized or syndicated. Therefore, they are incapable of facing capitalist exploitation. This allows capitalists to maintain salaries low and exploitation happening. On the other hand, Central countries had well-organized workers that pushed

for better working conditions, and their organization would counterbalance the power of the capitalists. These different job-market characteristics would be proof of the subordination of peripheral countries to their central counterparts in the international division of labor. When summed, the two factors meant that a change in the price ratio between primary and industrialized products would generate a deterioration in terms of trade, with explicit prejudice to the peripheral countries (Couto, 2007, p. 7).

The center-periphery tension also meant that the socioeconomic structure in the periphery would lead to idiosyncratic development and industrialization. Specificities would be seen in the introduction and diffusion of technology and growth, the absorption of the workforce, and wealth distribution. Those would be very different between the two groups of countries. From the peripheral countries' perspective, these specificities lie in the lack of diversity in the structure of production when compared to the central countries. This would lead to very different productivities in the various stages of production in the periphery. While in the center, the productivity would be much more evenly distributed. In addition, technological diffusion and wealth distribution mechanisms are not in place in the periphery as they are in the center (Bielschowsky, 2016). ECLAC's theorists accepted the Ricardian-Smithian classic theory of specialization and division of labor to generate wealth and prosperity, but these would only be valid for central countries. Peripheral countries would not develop that way; they would be kept outside the central world by internal structural forces and external economic pressure that would obliterate the economic mechanisms explained by Ricardo and Smith.

ECLAC authors pointed to another problem derived from the center-periphery divide. They suggest that the central countries have a specific logic of technological innovation that is somehow exported to the periphery. However, incorporating the centrally created technological development brings another problem to the periphery. Because a) the workers in the periphery are not educated to deal with the technological advancements and b) the imported technology is necessarily labor-saving, potentially augmenting unemployment, and c) workers in the periphery are disorganized and abundant. By bringing the technical progress to the periphery, the 'economic surplus' generated by the higher productivity would not be divided with the workers via the increase in real wages. On the contrary, it will all be directed to the capitalist through higher profits by exploiting fewer workers.

The economic surplus from the higher productivity in the periphery generated a social critique that became central in structuralism (Prebisch, 1949,

p. 76-77). Their higher profit could be reinvested in the periphery, contributing to development and job creation. But structuralists say this does not happen; peripheral capitalist profits will not be reinvested in new capital, and the peripheral elites do not save nor invest. They consume these profits in imported luxury goods to try to imitate the consumption patterns of the elites in the center (Serrano & Medeiros, 2004, p. 248).

Finally, these theorists say that food supply is a structural problem for economic development in the periphery. This was due to the underdeveloped structure of food production and the consequent inelastic supply. Because populations kept rising and supply shocks occurred constantly, structural inflation was unavoidable, ever augmenting the socioeconomic conflict. This is potentialized by the infrastructural problems with the supply chain and the low productivity of the agricultural sector (Serrano & Medeiros, 2004, p. 247–248).

### 3

## FURTADO AND THE APPLICATION OF STRUCTURALIST IDEAS INTO POLICY

While Prebisch is the mastermind of the structuralist theoretical argument, he was only, to a limited extent, able to implement ideas in Argentina early in his career. On the other hand, Celso Furtado could implement the already developed ideas of the ECLAC using his political power and intellectual influence in Brazil. With the construction of his economic underdevelopment theory, Furtado would become the primary reference for ECLAC (Furtado, 1966, 1974; Mantega, 1989). He subscribed to Prebisch's and saw development as following the center-periphery paradigm. This movement forces peripheral economies to mimic miniature versions of central economies with a broader capital accumulation subsidy.

In practice, this miniaturization takes the shape of, in the country at issue, the installation of a series of subsidiaries from the centric countries, reinforcing the tendency to reproduce the consumption patterns of societies with a much higher level of average income. From that results, the well-known tendency to concentrate income syndrome, which is so familiar to those who study the industrialization of underdeveloped countries (Furtado, 1974, p. 26).

As we have seen, the effect is an ever-increasing disparity between peripheral and central economies and between the elites and the poor individuals in the periphery (Furtado, 1974).

Sampaio Jr. (1997, p. 230) demonstrates that Furtado's ideas were Brazil's industrial policy baseline from the 1950s onwards. The process of industrialization and its modernization via technical progress created a social dichotomy, resulting in a socially heterogeneous environment. Furtado saw the pattern as following the one predicted by structuralists in the center-periphery also within Brazil among its different regions and states. The different Brazilian states tend to have varying economic and social development degrees. Consequently, this construction prevents efficacy on the political and fiscal industrialization models within the country in the 'peripheral states' since it creates a perverse logic of modernization of consumption patterns pushed by the elites in the peripheral states that try, by using the economic surplus, to imitate the elites in the central states.

In the international sphere, the technological dependency of the central countries and the lack of capacity to generate innovation in the periphery create a production bottleneck. This stops the peripheral countries from detaching from the central ones while, at the same time, preventing the creation of a robust internal market. In other words, as Prebisch's theory predicted, because peripheral economies could not produce industrialized goods, they became dependent on imports from central economies. In this sense, the domestic production aimed at the internal market was insufficient, making it difficult to set up, start and maintain the process of industrialization and economic development.

Furtado uses his intellectual influence at ECLAC to take up critical political positions and employ some of his students in Brazilian governmental positions (Pacífico, 2009). He is then able to transform a number of his ideas into policy. Some of these ideas materialize in the creation state-owned companies, the nationalization of industries, impediments to industry competition, and the creation of development banks. The theory was that those measures would serve to industrialize the country through the hands of the state and generate development and intended to compensate for the discrepancy between workers and owners of the means of production.

The developments were to be all backed by significant influxes of government money. Public investment was initially directed at the development of the agricultural sector. It promoted research and skill development in rural areas and credited rural producers, with the so-called development tripod

(Pacífico, 2009, p.38). Public agents supported all three legs, Embrapa would cover research, Emater would cover farmers' skill development, and public banks would advance the capital needed for agricultural production<sup>1</sup>.

The connection between farm workers and industrial economies materializes in rural credit. Credit to allow agricultural producers to access the technological package proposed by the research was the goal. The golden age of rural credit goes from 1965 to 1976, when the Brazilian Rural Credit System was created and consolidated, counting on increasing governmental funding (Comin & Muller, 1986, p. 7). In addition, farmers also had access to the Guarantee of Minimum Price Policy (PGPM), enacted to ensure income to producers who embraced the agriculture suggested by the government (Carvalho & Silva, 1993).

Other examples of developmentalist ideas in Brazil are the public-debt financed Kubischek's '50 years in 5' program and the economic interventions of the military regime in the 1960 and 1970. For about 30 consecutive years, the federal government took the lead in industrializing the country. This was financed by mainly issuing international debt, rapid rises in taxes, and, later on, inflation (Baer, 2003).

In Argentina, ECLAC's and the structuralist school's influence was seen initially in the 1940s. Argentina rapidly developed in the 19th century, and the influx of capital was partially based on the country's capacity to export primary goods, especially meat, and grains. The country was among the most well-developed in the world at the turn of the century in what is known as the Argentinian golden age (Elena, 2016; Taylor & della Paolera, 2003). The 1929 crisis substantially reduced the international influx of capital. It opened the road for a more prominent role for the government in the economy that would consolidate after World War II.

In the 1940s, Argentina adopted exchange rate controls and started to advance border controls over goods. In that decade, a state-owned '*Banco de Crédito Industrial*' (Bank of Industrial Credit) was created to provide medium-long-term loans to support industrialization. Legislation to protect and promote 'national interest industries' was made; among others, nationally produced raw materials were preferred over imported, regardless of the price. In 1947 companies owned by 'enemies' (mainly German) were nationalized. The '*Dirección Nacional de las Industrias del Estado*' (National direction of State industries)

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1 Embrapa, Emater are government funded agencies that deal with technology and education in the Brazilian agricultural sector.



was created to organize and direct the newly acquired industrial assets. This government bureau incorporated the production of chemical and capital goods, including iron and steel. Later, in the 1960's following similar measures, the government pushed for lighter industrialization, focusing on consumption goods and somewhat opening to foreign investment (Cano, 2000; Iaderoza, 2002).

## 4

### AUSTRIAN CRITIQUES FOR THE STRUCTURALIST APPLICATION

ECLAC argued for most economic policies implemented in Latin America since the middle of the 20<sup>th</sup> century. Rooted in Marxism and Keynesianism, the structuralist school puts the state at the center of economic decisions. The State becomes responsible for designing and conducting socioeconomic development. The Austrian School of Economics authors offer theoretical arguments to counterpoint the structuralist ideas and explain why they are bound to fail.

The initial critique relates to the calculation problem (Mises, 1990) and bureaucracy (Mises, 1944). Since government bureaucrats are not moved by profit, they cannot determine the best use of the resources. In contrast to entrepreneurs, governmental bureaucrats cannot do the economic calculation. Because of this, bureaucratic decisions will always be very different from entrepreneurial ones; an expected consequence is that they will cause misallocation and misuse of scarce resources. This becomes even more of a problem because governments tend to be large, usually much more extensive than any single entrepreneur. Therefore, errors in economic calculation will cause consequences that spill over to many industries.

This argument is complemented by the fact that central planning cannot access all the knowledge necessary for decision-making (Hayek, 1937, 1945; Lavoie, 2016). On the contrary, individuals have 'bits of incomplete and frequently contradictory knowledge' of the circumstances in which they must act. Therefore, decentralized planning is much more effective in using dispersed knowledge (Hayek, 1945) to allocate economic resources. Those Austrian arguments touch at the core of ECLAC's suggestion of centralized economic planning.

Furthermore, Mises (2006) emphasized the dangers of interventionism and its most extreme form, socialism. In a society where entrepreneurs face market uncertainty, the consumer determines what is to be produced and judges the quality of the products by choosing in the market (Bylund, 2016a; Mises, 1998). Interventionist policies, such as structuralism suggests, take the decision-power away from consumers and stop entrepreneurial action. In this setting, business people, whenever they are allowed to exist, will act to serve the government, not the consumer preferences. Interventionism restrains and ultimately cancels consumer preferences. It stops the market process from adequately working since the profit and loss signal disappears in the bureaucratic governmental structure. Without this signal, agents in the economy become blind to whether they are contributing to the improvement of social well-being or not. More than this, Mises (2006 lecture 3) explains how a series of interventions would be needed to solve the problems created by the precedent intervention (Bylund, 2016b)<sup>2</sup>.

Mises (2006) further suggests that can be no third way other than capitalism and socialism. The proponents of the so-called third way do not recognize two features. One, state companies are subject to the supremacy of the market, and because of that, they represent nothing different from private companies except for their management. Second, interventionism obstructs and ruins markets and is cumulative, as it constantly calls for more intervention. This chain of intervention results in socialism (Hayek, 2001; Mises, 2018).

Austrians demonstrate that an interventionist state causes several other effects on the market. The rise in government spending must be financed; this usually occurs through either money creation – raising inflation – or debt issuing – which reduces national savings (Ammous, 2018; Mises, 1953; Rothbard, 2010). In the first case, price inflation calls for price controls; with price ceilings come shortages, and with price floors comes overproduction. Both lead to economic disorder fostering the overproduction of goods that were not demanded by the public but were still bought by the government or stopping the increase of production altogether.

When debt is issued to finance government spending, private savings diminishes; this crowds out the money available for private capital investment, thereby hindering economic progress in the medium and long run (Garrison, 2000; Hayek, 1935).

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2 Ikeda's (1997) theory of interventionism deals with complete cycles, since this is not the case in this paper, his insights were not used in the analysis of structuralist policies.

One of the main features of the ECLAC and the structuralist school of thought is the aversion to foreign investment. The anti-imperialist and nationalist views of the school led to a neo-mercantilist approach to international trade in which protectionism was pointed as a partial solution to the peripheric problems. Mises (2006) addresses this issue by explaining that the standard of living in developing (or peripheric) countries is lower because of differences in labor productivity. Real wages depend on labor productivity, and capital accumulation is the only way to increase labor productivity. The higher the quality and quantity of the instruments available to support production processes, the more the worker can produce and the more he will be paid.

In economic terms, more advanced nations (and regions within the same country) have these conditions because they are more capital-intensive (Lachmann, 1978; Rothbard, 2004). Because they have more slack resources, they tend to invest more than developing nations in building and maintaining capital. In this sense, foreign investment aids developing countries in their industrialization process. This occurs because peripheric countries usually have lower savings and a least developed capital structure and are less capable of investing. Mises (2006) recognizes the importance of industrialization as a requisite for economic development and higher equality between the peoples in the nations. But he stresses that industrialization can only be achieved by capital accumulation and investment, which depends on savings. Governments could help lower taxes on savings and provide an overall stable monetary policy, avoiding debt and inflation because those hinder savings. Protectionism, whether through exchange rate control or taxes on imports, prevents the entrepreneur in the peripheric country from accessing imported capital and investing in the country. It causes the opposite of what is intended; that is, it hinders the process of industrialization and economic development.

Another relevant critique of structuralism is the methodological standpoint. Structuralism authors suffer from the same problem as most economics professionals after the introduction of macroeconomics and the Keynesian revolution in the mid-1930s; they disregard the role of the individual and look at the economic system as an aggregate. Neoclassical economics uses the methodological approach of the natural sciences (Friedman, 2008) and looks at the economy from an equilibrium perspective and an aggregate standpoint (Keynes, 1964). In this approach, the entrepreneur disappears from economic theorizing (Demsetz, 1983; Kates, 2015), and consumers become numbers. Governments must move the levers and make the economy more heat and cool, depending on what is needed. The Austrian School offers a different methodological standpoint, adopting methodological individualism (Heath,

2015; Hoppe, 2007; Rothbard, 1973), an approach that explains macro-phenomena based on individual human action. This approach was the one that sustained the development of classical economics (Say, 1836; Smith, 1776), and the tradition was carried out by Austrians (Menger, 2007; Mises, 1998; Rothbard, 2004) and some others in the 20th century (Knight, 1921; Robbins, 2000; Schumpeter, 1983).

From the individualistic methodological perspective, the structuralist approach seems naïve. By concentrating the economic decision in the hands of the politicians, the structuralist authors imply that the individuals in power are somewhat ontologically different from the others in society. They are qualitatively different from entrepreneurs. They are capable and more morally equipped to decide when and where scarce economic resources should be employed. The critique can be summarized by Hamilton and Madison's quote in the *Federalist Papers* (2009) 'If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary.' But since men are no angels, how can the structuralists suggest that this amount of power over the economic life of so many individuals in one nation should be concentrated in so few politicians and bureaucrats? The Public Choice literature builds upon this insight (Buchanan & Tullock, 1999) and draws similar conclusions.

## CONCLUSIONS AND FUTURE DEVELOPMENT

Since its foundation, the structuralist school has been among South America's most critical and impactful theoretical agendas in economic policy. For over 70 years, structuralism, with changes and modernizations (Almeida Filho & Corrêa, 2011; Bresser-Pereira, 2020), continues to be very influential among economists trained by some of the most prestigious schools in that area of the world.

Critiques of ECLAC's ideas have been around for a while. Neo-Institutional economists, in particular, provided these discussions but not without rebounds from modern structuralists (Aguilar Filho & Silva Filho, 2010).

The present paper develops a different critique. We take authors from the Austrian School of economics to analyze the foundations of structuralist economics; we discuss methodological and applied flaws and demonstrate that the economic reasoning and the different policies that emerged from the structuralist agenda, when analyzed using different lenses, lack proper economic

foundations. The structuralist defense of financial planning centralized in the state, their opposition to free-trade – giving preference to a neo-mercantilistic approach -and their denial of the human agency by adopting a macroeconomic perspective is their three significant flaws. Even before the structuralists' formulation, authors in the Austrian tradition have disputed several of those ideas, presenting their logical flaws and the unavoidable detrimental consequences of their implementation.

Countries in Latin America, with possibly the exception of Chile, have been underdeveloped for a long time. And despite more than half-century of implementation in many different areas, the structuralist agenda and its derived policies failed to generate economic and social prosperity, as promised. Regardless of the (lack of) results, most politicians and policymakers across the continent, influenced by academic thinking, continue to believe in this school's arguments and implement different policies based on its ideas. Structuralism, as most ideas directly associated with socialism, survives in a self-delayable promise. In this, the same approaches are repeatedly tried and failed, as results become worse. The inability of the structuralist policies to generate the promised change is never to blame. Lack of proper implementation or Sheer sabotage from the elites is usually pointed to as the significant explanation for the unsuccess. We only need another round of interventions, and all will end up as planned.

Regardless of the results, academics and politicians keep pushing for the same problem analysis and the same group of proposed solutions. The current cases of Argentina and Venezuela exemplify the continuous enforcement and deepening of the same structuralist policies that have failed to deliver their promised results for over 50 years.

In 1959, Ludwig von Mises delivered a series of lectures in Argentina. He spoke on capitalism, socialism, interventionism, inflation, etc. These lectures were later published as the book entitled 'Economic Policy: Thoughts for Today and Tomorrow.' A little earlier, in 1955, Juan Perón had been forced out of the country after a dictatorship during which the economy collapsed; the military took power and mostly maintained Perón's structuralist-inspired economic agenda. Meanwhile, in Brazil, the government was becoming ever more centralized and influenced by communism; this culminated in a military regime that lasted for two decades. This Brazilian regime also mostly followed the structuralist notebook. It imposed economic interventionism, increasing the economy's dependence on the public sector. The sum of the interventions led to hyperinflation and the 'lost decade' of the 1980s that was later blamed on the imperialistic powers.

In retrospect, Mises' lectures allowed Argentina, Brazil, and Latin America to run away from interventionism and adopt free market ideas. This opportunity was never taken, and these countries have, for the most part, dived into economic and political disorder. This paper presents the theoretical foundations of structuralism and offers the Austrian critique of the central points in the structuralism agenda, its method, and its policies. We contribute to pointing out the theoretical problems with structuralism. We also analyze it's the economic policies of that school of thought, policies that lead to detrimental practical implications and resistant underdevelopment. By providing the Austrian critiques, we aim to continue the discussion and provide grounds for further developing the theoretical understanding of how and why economic and social development occurs.

## CEPAL: BRASIL, ARGENTINA E OS PROBLEMAS E ERROS DA TEORIA ECONÔMICA ESTRUTURALISTA LATINO-AMERICANA

### Resumo

Em grande parte, o pensamento econômico latino-americano está enraizado na visão de que o Estado deve ser o motor do desenvolvimento econômico. A teoria desenvolvida pela Escola Estruturalista Latino-Americana corrobora essa visão. A Cepal, uma comissão de desenvolvimento das Nações Unidas, é o baluarte do ramo da agenda política do estruturalismo. Apesar de seu papel central nas políticas econômicas latino-americanas, as ideias estruturalistas pouco foram discutidas. Traçamos as origens históricas dessa escola e usamos o ponto de vista teórico da Escola Austríaca de Economia para falar sobre suas visões e erros.

**Palavras-chave:** América Latina; pós-keynesianismo; Comissão Econômica para a América Latina e o Caribe (Cepal); política econômica; Marx; economia austríaca; desenvolvimento econômico.

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