

Income distribution and development: Celso Furtado's theory in a context of global economic changes and its proximity to neo(post)-Kaleckian literature

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Abstract:

The objective of the present article is to analyse the elements proposed by Celso Furtado regarding the process of overcoming underdevelopment – before and after “industrial civilization” – and to determine whether such attributes can characterize him as a neo(post)-Kaleckian. To accomplish this objective, we will carry out a detailed analysis of growth patterns led by profits and wages based on the neo-Kaleckian literature. The relationship between income distribution, demand, and capital accumulation was always present in Furtado's analyses, even before these approaches were formalised theoretically. This analysis is important to understand two main points of Furtado's thought: i) the reason for Furtado's emphasis on distributive conflict as an engine of structural transformations and, in turn, as a driver of economic development; ii) the challenges imposed over underdeveloped economies in the face of a new world economic order, based on the increase in dependency relations as a result of the huge capital flows in the form of foreign direct investment of developed economies in underdeveloped regions.

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How to cite this article:

Orsolin-Teixeira F., Arruda Coronel D., Oreiro J.L. (2023), “Income distribution and development: Celso Furtado's theory in a context of global economic changes and its proximity to neo(post)-Kaleckian literature”, *PSL Quarterly Review*, 76 (307), pp. 337-351.

DOI: <https://doi.org/10.13133/2037-3643/18411>

JEL codes:

B2, B5, D3

Keywords:

Celso Furtado, neo(post)-Kaleckian theory, income distribution

Journal homepage:

<http://www.pslquarterlyreview.info>

In heterodox macroeconomics,¹ a topic much discussed in the last three decades has been the relationship between growth and income distribution. Based on the work of Bhaduri and Marglin (1990), a broad literature has developed, both theoretical and empirical, in which the conditions for the existence of wage-led and profit-led regimes are discussed, as well as the empirical evidence that supports one or the other of these demand and growth regimes. From a strictly theoretical point of view, Blecker and Setterfield (2019, p. 197) conclude that the wage-led regime depends on strong and very restrictive hypotheses, including the propensity to save based on wages equal to zero, the absence of foreign trade and a strong accelerator effect. In more general models in which one or more of these assumptions is relaxed, an

¹ On the state of the art of heterodox macroeconomics, see Blecker and Setterfield (2019).

increase in the wage share can have very different effects from the ones predicted by canonical neo-Kaleckian models.

In his analyses, mainly focused on the case of underdeveloped countries, Celso Furtado presented a comprehension of the effects of income distribution over development process well ahead of these relations becoming the subject of controversy in neo-Kaleckian literature. Furtado was concerned about the future of underdeveloped economies, especially in the case of Brazil, and was always looking for a national project to achieve development. For him, development was not based only on increasing wealth, but on better living conditions for the entire population. However, he had a complete understanding that the technological gap between developed and underdeveloped economies posed substantial challenges for the underdeveloped economies that were demanding, at the same time, social planning and consumption patterns that were more compatible with those of the developed countries.

In one of his main works, entitled *Theory and Politics of Economic Development* ([1964] 1971), Furtado presents an optimistic view regarding overcoming underdevelopment. The main measure for achieving faster development, in his approach, was in the behaviour of social classes, as well as in their disputes for greater participation in social income, which tended to change structural relationships – with the surplus and the growing process of accumulation (reinvestments) being essential for the beginning of this development process.

However, the global scenario changed after the 1970s. To escape social pressures for higher wages and, therefore obtain higher profit margins, firms in developed countries began to send large amounts of capital to underdeveloped countries. Furtado (1978) called this phenomenon “industrial civilization”. This expansion of transnational companies led to greater industrialization and greater surplus growth, in addition to contributing to greater equality in productivity levels between developed and underdeveloped regions. However, for Furtado, this process was far from being considered development, since, unlike developed countries, the intensification of accumulation in underdeveloped areas are not able to generate transformations in social structures, mainly in employment structure, and hence did not allow the integration of the larger share of population into the modern sector of the economy.

In this way, the expansion of “industrial civilization” further intensified social heterogeneity, with great differences between the consumption patterns of the mass population those of a privileged minority. This expansion also facilitated the formation of oligopolies. In this sense, as low wage levels were already rooted in the culture and history of underdeveloped countries, wage earners lost the autonomy to compete for greater share in social income. This generated a process of concentration of wealth in developed countries. This greater openness to foreign capital left Furtado (1978) concerned with the future of underdeveloped countries, leaving the author discredited about the development process, as he observed in “industrial civilization” a process of constant increase in the dependence relations of underdeveloped countries to developed ones.

The objective of the present article is to analyse the elements proposed by Celso Furtado regarding the process of overcoming underdevelopment — before and after “industrial civilization” — and to determine whether such attributes can characterize him as a neo(post)-Kaleckian. To accomplish this objective, we will carry out a detailed analysis of growth patterns led by profits and wages based on the neo-Kaleckian literature. The relationship between income distribution, demand, and capital accumulation was always present in Furtado’s analyses, even before these approaches were formalised theoretically. This analysis is important to understand two main points of Furtado’s thought: i) the reason for Furtado’s

emphasis on distributive conflict as an engine of structural transformations and, in turn, as a driver of economic development; ii) the challenges imposed over underdeveloped economies in the face of a new world economic order, based on the increase in dependency relations as a result of the huge capital flows in the form of foreign direct investment of developed economies in underdeveloped regions.

The relationship between income distribution, demand and capital accumulation was always present in Furtado's analyses, even before these approaches received the proper theoretical formalization. This article is divided into six sections, including this introduction. In section 1, we present the macroeconomic scheme of development proposed by Celso Furtado. Section 2 presents the change in Furtado's expectations regarding overcoming underdevelopment in a scenario of massive capital flows in the form of foreign direct investment of developed economies in underdeveloped regions. In section 3, we analyse the growth models and income distribution in the neo-Kaleckian approach; in section 4, Furtado's analyses are inserted within the theoretical framework of neo-Kaleckian literature. Section 5 presents the final remarks.

1. Macroeconomic schemes of development from Celso Furtado's perspective

In his book *Theory and Politics of Economic Development*, Celso Furtado stood out in the field of economics not only for the historical analysis he had carried out so far but also as an intellectual of economic theory. In this book, Furtado presents in detail the main ideas of the classical authors, as well as Marx's model and the neoclassical and Keynesian formulations. The author is critical of some of these approaches and presents his own development scheme. This section deals specifically with what he considered the "macroeconomic framework for development".

Celso Furtado used the concept of underdeveloped economies to highlight the idea that the development process is not only a quantitative problem of increasing the level of income per-capita of low and middle-income countries relative to high income countries, but mainly to make a structural change in the composition of employment from low productivity activities to high productivity activities in a context in which capitalist firms permeate in archaic economic structures.

Furtado states that "[...] underdevelopment is not a necessary step in the process of formation of modern capitalist economies. It is a particular process, resulting from the penetration of modern capitalist enterprises in archaic structures"² (Furtado, [1961] 2016, pp.

² "The most complex case – an example of which offers us the current stage of the Brazilian economy – is one in which the economy presents three sectors: one, basically subsistence; another, mainly focused on exports and the third, an industrial core linked to the internal market, diversified enough to produce some of the capital goods it needs for its own growth. The industrial core linked to the domestic market develops from a process of replacement of previously imported manufactures goods, it is worth saying in conditions of competition with foreign products. It follows that the main concern of the local industry owners is to present an article similar to the imported one and adopt production methods that enable it to compete with the foreign exporter [...] the practical result of this – even if the industrial sector linked to the domestic market grows and increases its participation in the product, even if the per capita income of the population as a whole increases, and the country's occupational structure changes slowly. The contingent of the population affected by economic development remains small, very slowly reducing the relative importance of the sector whose activity is production for subsistence. It is explained, therefore, that an economy where industrial production has already reached a high degree of diversification and has a participation in the product that is little different from that observed in developed countries presents a typically pre-capitalist

171-172, translated from Portuguese by the authors). For Furtado ([1964] 1971), development presents itself in the most productive combination of production factors, and its understanding happens through the full knowledge of the process of increasing productivity and the behaviour of social classes that use income. An economy with a low level of productivity tends to have a low or zero economic surplus, which makes it difficult to invest and diversify consumption. In this way, this economy will only meet the basic and/or subsistence needs of the mass population. So, development needs an external impulse to start. Both supply and demand factors (greater openness to trade and greater exploitation of natural resources, among others) can generate an increase in income, being necessary for the economy to start an accumulation process.

A growth process influenced by external impulse, for example, tends to increase productivity and profits. The increase in profit allows for greater reinvestments, and the increase in productivity tends to raise real wages. The dynamic relationship between these factors and the quest for higher wages, on the one hand, and for higher profits, on the other, is what causes the structural changes necessary for development.

With the increase of income available for consumption, the productive capacity is expanded. The relationship between income expansion and capacity creation is fundamental to Furtado's analysis ([1964] 1971, ch. 9). For him, the large income concentration of underdeveloped countries causes a low diversified consumption demand that reduces the incentive for capital accumulation and hence restricts development process. For Furtado ([1964] 1971, pp. 108-109) there is a positive relationship between increase in real wages and diversification of consumption demand. This demand is greater for basic goods in the early stages of economic development, but with the continuation of economic development, the demand for more sophisticated goods will be increased. Based on this, the author considers that this diversification of demand constitutes a driving element of development.

For Furtado ([1964] 1971, pp. 110-116) the output growth rate (\hat{Y}) in an economy depends on the two factors: the investment rate (I/Y) and capital productivity (Y/K). The investment rate is an important variable in determining the intensity of growth and the capital accumulation³ in an economy. Furtado postulates that development can be supported in different ways, and the change in the average productivity of investments (Y/K) can occur through the incorporation of new natural resources, the introduction of new techniques and greater efficiency in the use of resources due to the integration in a wider market. The structural change (increase in the I/Y ratio) occurs through an increase in capitalization.

Furtado ([1964] 1971) takes as a starting point the case of a capitalist economy that presented increases in the growth rate of the output⁴ at levels higher than consumption growth

occupational structure and that a large part of its population is away from the benefits of economic development" (Furtado, 1961, pp. 171-172, translated from Portuguese by the authors).

³ The rate of capital accumulation g_K is given by the following equation: $g_K = \frac{I}{Y} - \delta K$, where δ is the depreciation rate.

⁴ It can be influenced by numerous factors, such as: greater trade openness, abundance of natural resources, growth of the world economy, increase in imports and others.

rates.⁵ Thus, this economy will have a growth in the investment rate⁶ and this situation will accelerate the growth rate of output in long term.⁷ Furtado considers development based on accumulation, which takes two general forms:⁸ i) accumulation with the incorporation of technical innovations; ii) accumulation that allowed the diffusion of already existing technical innovations. That is, accumulation is a response to the action of forces that command an economic system according to the objectives of social life. This highlights the relevance of the behaviour of social classes and their dispute for greater share in social income. However, it is important to note that Furtado considers accumulation to be a necessary, but not sufficient, condition for development. Despite the emphasis on the role of accumulation, it would be a mistake to consider it as an end in and of itself.

Furtado ([1964] 1971) analyses a scheme with two classes, which can be simplified here as wage-earners and entrepreneur-capitalists. Wage-earners try to defend the wage rate level and capitalist-entrepreneurs try to increase or, at least, maintain the rate of return on new capital invested in the economy. The increase in labour productivity results in a rise in wages and increases workers' consumption patterns. The workers move in the direction of the capitalist-entrepreneurs. Thus, there is greater accumulation using already known techniques, so that development will take place based on the accumulation-diffusion of technical innovations. This increases the demand for labour and, consequently, the wage rate.

To establish equilibrium along the lines of the capitalist environment, capitalist-entrepreneurs will seek to increase labour productivity by introducing labour-saving capital innovations which will tend to increase the share of profits in social income. In turn, the consumption patterns of business-capitalists tend to distance themselves from the consumption patterns of workers. However, during the process and with the intensification of the endowment of capital per worker, the entrepreneur-capitalists will once again adopt the process of accumulation-diffusion of technical innovations to prevent the rate of return on capital (profit rate) from falling to very low levels, which will increase the demand for labour and reduce the amount of capital per worker. This, in turn, tends to increase real wages.

As a result, both sides (workers and capitalist-entrepreneurs) mutually stimulate and limit each other. The dynamic functioning of these relations between economic classes is, for Furtado ([1964] 1971, ch. 9), one of the main engines of economic development. In other words, the development process is influenced by the pattern of behaviour of social classes and their ability to modify structural relationships. Thus, this mutual limitation makes one side try to equalize consumption patterns and the other try to prevent the fall in the profit rate.

Pressure to raise wages is one of the engines of development, as it changes the profile of demand. On the other hand, when the wage growth rate is higher than the labour productivity

⁵ In this example, Furtado ([1964] 1971) implies that he is analysing a capitalist environment in which the surplus is not entirely used for personal consumption. In the example used by him, consumer spending remains constant. However, this will depend on institutional factors and the consumption habits of the capitalist class. Veblen (1898) was the main institutionalist author who addressed the importance of consumption habits and how they influence changes in the economic environment. Veblen is best known for his analysis of economics as an evolutionary science, saying that the situation in the current period shapes future institutions through a selective and coercive process. The term evolutionary science is linked to biology, mainly due to Charles Darwin's work on the evolution of species.

⁶ Furtado (1978) shows examples of the effect of the growth in the investment rate on the growth of the net output.

⁷ Furtado (1978) analysis growth from the perspective of demand and assumes the existence of some degree of idleness in the economy, which gives greater validity to analysing growth through variables that influence aggregate demand.

⁸ Boianovsky (2010) presents in detail the role of technical change and capital accumulation in Celso Furtado's approach to development.

growth rate, the entrepreneur-capitalists seek to introduce labour-saving technical innovations in order to preserve their share in income.

However, despite highlighting the factors that would ease the scope of development, Furtado was not clear on the magnitude of the institutional change that was to come with greater financial openness and the massive inflow of capital from developed to underdeveloped countries after the 1970s. Furtado (1978), when analysing this new scenario, changes his perspective regarding the possibility of overcoming underdevelopment. Furtado's perspectives on this new world economic order are highlighted in greater detail in the next section.

2. New world economic order and Furtado's changing expectations regarding overcoming underdevelopment

In the book *Creativity and Dependency in Industrial Civilization* (1978) Furtado focuses on showing the effects of the evolution of what he considered industrial civilization. After the 1970s, underdeveloped countries had easier access to the capital from developed countries. However, the interests and final objectives behind the facilitated access to a greater amount of capital is to make the dependency ratios even greater, which led Furtado to question himself about the future of this strategy, as well as the possibility of overcoming underdevelopment.

According to Furtado (1978) the expansion of firms beyond their national borders occurred in countless ways, such as the installation of international branches in import markets (aimed at their domestic markets) or the international expansion of companies that feared the shortage of raw materials in their country of origin. In other words, the innovative capacity of industrial civilization is most effective at the international level. The objective of firms operating in a multinational space is to increase expansion or, at least, remain competitive in an increasingly competitive environment (Furtado, 1978, p. 26). However, a process of wealth concentration begins in the countries that control the capital of these firms due to the sending of profits from the subsidiaries to the headquarters.

Trade activities necessarily engender a process of concentration of wealth and power. One of the outstanding features of the evolution of industrial civilization is the real wage, which, in a certain way, increases with a greater allocation of capital per worker (Furtado, 1978, p. 21). When dealing with development, Furtado (1978, p. 57), as he does in previous works, emphasizes the importance of transforming social structures and the role of surplus and accumulation in the production system. For him, development is a process of recreating social relations based on accumulation.

Thus, Furtado (1978) states that industrial civilization assumed two relevant characteristics: the concentration of economic power, which became a stimulating force for accumulation, and the increase in the organization of the working class, due to greater stability in the labour market. From the point of view of the organization of production, the advance of industrial civilization brought to light several positive points. However, when one starts to observe it as a social organization, it is possible to verify the real meaning of the concentration of power that characterizes it.

The availability of resources to invest and the advancement of techniques after the end of the Cold War further consolidated the position of transnational companies, whose expansion provided easy access to productive capital. The countries that had this industrialization faced a dilemma between the struggle for development and expansion of the internal market or the

renounce of their own development project, moving forward in the “industrial civilization”. The first case seems to be more costly but allows greater national autonomy in the development process (Furtado, 1999a).

This industrialization process through the penetration of foreign companies in underdeveloped economies seemed to be one of the factors that would contribute to greater equality in productivity and income levels (Furtado, 1978, p. 27). The entry of foreign companies influenced the increase in wages and the generation of local income. However, transnational expansion also allowed greater exploitation of economies of scale and scope, facilitating the formation of oligopolies. Furtado (1977) believed that the wages paid by transnational companies are based on the cultural and historical conditions of the population – that is, they have no direct relationship with labour productivity⁹ – and thus considered that large companies in developed countries could increase their competitive capacity by finding cheap labour in the underdeveloped regions. This caused changes in the surplus appropriation process, and wage earners began to lose autonomy and strength to fight for greater share in social income – although accumulation is a necessary condition for raising wage levels, it is still far from being sufficient. From this perspective, the transnational company used current techniques from the developed economies, together with cheap labour from the underdeveloped regions, to obtain a greater surplus, which was used to maintain the consumption patterns of the population of countries that control capital of these firms.

Given the great disparity in income levels observed in underdeveloped countries, large firms began to gain strength and maintain low wage levels. All pressure on the part of workers from the underdeveloped countries to try to increase the wage level would be contained, since the transnational company could move to more favourable regions, which would offer cheaper labour (Furtado, 1974, p. 74).

In this way, the whole question posed by Furtado in *Theory and Politics of Economic Development* – discussed in section 1 of this article – is challenged, since the balance of forces is no longer effective, leaving wage earners without incentives to dispute greater share in social income in a country where capital is dominated by transnational corporations. This entry of foreign capital into underdeveloped countries allows only a small portion of the population to have consumption patterns compatible with standard level of developed countries.¹⁰ Based on Furtado’s ideas presented so far, it can be said that this undermines the country’s ability to develop and have a more planned society, with more diversified consumption patterns.

Thus, the idea that this new global economic order would contribute to greater equality of income levels did not materialize. In this sense, the expansion of production towards underdeveloped areas would only be a necessary condition for social stability and the maintenance of consumption patterns in central countries. As a result, national development strategies became necessary, in many cases based on contradictions, so that the underdeveloped economies had the chance to overcome dependency relationships.

In this new world economic order, the struggle for the appropriation of surplus, control of technology and finance and access to cheap labour is of key importance. According to Furtado (1978), a country that had an abundance of natural resources – as is the case of Brazil – could have the reach of development facilitated, as it would benefit in terms of a greater surplus due

⁹ For Furtado (1977, p. 47), the idea that the worker’s wage is linked to labour productivity is one of the most curious fictions of neoclassical economics.

¹⁰ Here, the word “center” is treated based on the ECLAC approach, meaning the places or regions where developed countries are located, and which control a large part of the world’s capital.

to a higher capital productivity. However, this strategy should be used with caution, as this policy could only be used as a means and not as an end in and of itself, since, if poorly executed, it could increase dependency relationships.

It is clear in Furtado's analysis that the overcoming of dependency relationships, in most cases, would not occur through isolation of underdeveloped economies, but with greater economic openness and greater international relations. These relations, however, should be made strategically and not always with characteristics favourable to the underdeveloped economies in the short term, and therefore could be initially contradictory. Some strategies should be used only to reach a certain level, which allows these economies to overcome dependency relationships. According to Furtado (1999b, p. 23), "it is not a question of arbitrarily restricting the action of transnational companies, but of guiding them towards giving priority to the national market and job creation", since the capital of transnational companies is reversed in greater accumulation, and this constitutes a necessary (but not sufficient) condition to reduce dependency relationships. The contradiction is that, if this accumulation occurs only within the scope and interests of multinational companies, new elements of dependency are introduced. In this way, as the cost of leaving this new international system was high and unfeasible, overcoming dependency relationships would happen within the scope of "industrial civilization".

Furtado (1978, p. 111) cites the case of China, considering it the only underdeveloped country that had the minimum conditions to escape the domination area of "industrial civilization". The author had the idea that it was difficult to retrogress the process already created, and for this reason he saw the Chinese strategy of advancing in international relations – which were largely contradictory with the initial interests of the Chinese regime – as a struggle against dependency. Since isolation is not the solution, the strategy is to minimize the costs of this dependency while looking for new alternatives to overcome it. It is now possible to see that Furtado was correct in his analysis of China.

Finally, Furtado (1978, p. 115) cites five real resources of power that nations can use to appropriate surplus internationally, namely: i) control of technology; ii) control of finances; iii) market control; iv) access to non-renewable resources; v) access to cheap labour. Central countries benefit from the first three, and peripheral countries can benefit from the last two. However, technology was seen as the most promising of these resources, given its ability to replace other resources without being replaced by them.

3. Growth and income distribution in the neo-Kaleckian approach

The relationship between social classes in the dispute for higher wages and profits – highlighted by Furtado ([19644] 1971) and discussed in section 1 of this article – gained new forms, with greater theoretical formalization, and began to be treated in more detail from the 1990s with the seminal work of Bhaduri and Marglin (1990). These ideas, based on the relationship between wages and profits, became more mathematically formalized and treated in a more empirical way, through econometric analysis and more reliable databases. The basis of these ideas will be discussed in more detail in this section.

In the first-generation post-Keynesian models of growth and income distribution, developed by the Cambridge School of Economics (UK),¹¹ the distribution of income between

¹¹ See Oreiro (2018, ch. 3-5).

wages and profits was the variable responsible for the adjustment between the warranted and natural rates of growth, thus allowing the convergence of the economy to a balanced growth path. In these models, the causal relationship was from growth to income distribution: an increase in the natural rate of growth would cause the share of profits in income to rise, resulting in an increase in the desired rate of savings, since the propensity to save out of profits is supposed to be higher than the propensity to save out of wages. An important property of these models is that the economy operated with a degree of productive capacity utilization equal to normal or desired level in the long run.

The development of second-generation post-Keynesian models began in the 1980s based on the seminal article by Rowthorn (1981). These models assume an economy in which the market structure is oligopolistic, in such a way that firms have the power to set prices by fixing a markup over the unit cost of production. Furthermore, it is assumed that firms operate with idle productive capacity in such a way that the level of production is determined by effective demand. These hypotheses regarding market structure and the degree of idleness in the use of productive capacity date back to the work of Kalecki ([1954] 2013), which is why the models originating from Rowthorn's seminal work are called neo-Kaleckian models.

In neo-Kaleckian models, income distribution is exogenous to the economic growth since it is determined at the microeconomic level by the decisions of firms regarding the markup rate, which depends on their monopoly power and, therefore, on the market structure in which they operate. An increase in the monopoly power of firms will generate an increase in the share of profits in income. As the propensity to consume out of wages is higher than the propensity to consume out of profits, income redistribution in favour of profits will reduce consumption expenditures and hence result in a reduction of the degree of utilization of productive capacity. If the rate of accumulation desired by companies depends on the degree of use of productive capacity, then there will be a reduction in the pace of capital accumulation and, consequently, a reduction in the rate of economic growth. In this way, the neo-Kaleckian models of growth and income distribution establish the existence of a wage-led demand regime as well as wage-led growth regime.

In the early 1990s, this relationship between growth and income distribution was called into question by the seminal work of Bhaduri and Marglin (1990), who argued that a wage-generated demand and growth regime depended on the specification of the investment function. If the desired rate of capital accumulation were a function of the share of profits in income and the degree of utilization of productive capacity, instead of being a function of the profit rate and capacity utilization – as in Rowthorn's model, then it would be possible to demonstrate the existence of a demand and growth regime of profit-led type. That is to say, the existence of a situation in which an increase in the profit share would result in an increase in investment that would be greater than the fall in consumer demand, causing both the degree of utilization of productive capacity and the growth rate of the capital stock and the level of production to increase instead of decrease.

3.1. The neo-Kaleckian view of growth

Early neo-Kaleckian models began with the work of Dutt (1984; 1987) and Rowthorn (1981), and extensive discussions of this literature can be found in the work of Taylor (1985) and Amadeo (1986). The basis of these models is that low firm profit margins and, in turn, a low profit share will have an expanding effect on the level of capacity utilization and capital

accumulation in an economy that does not operate at full capacity utilization (Hein, 2014, pp. 241-243). In this article, the neo-Kaleckian approach¹² will be based on the pivotal work of Bhaduri and Marglin (1990), as it emphasizes that an economy can assume both a wage-led and a profit-led demand and growth regimes.

The work of Bhaduri and Marglin (1990) tries to create a new approach and oppose the ideas on underconsumption defended by the first neo-Kaleckian works, that a reduction in the wage share would always lead to a depressed demand when there is excess idle capacity.

According to Bhaduri and Marglin (1990), growth can be both wage-led and profit-led, depending on the intensity that a higher share of profits in national income has on investment. If investment responds weakly (strongly) to changes in the profit share, an increase in consumption tends to have (not have) a greater effect on investment than an increase in the profit share. Thus, growth would be more influenced by wages than by profits. In this way, growth is wage-led (profit-led) when investment responds more weakly (strongly) to the increase in the profit share than to the increase in the wage share.

When considering that profit share is directly related to profit rate, and the profit rate is positively related to investment level, the inverse relationship between profit share and capital accumulation seems contradictory. However, the fact that profit share is only one of the determinants of the profit rate explains relations between higher ratio of wage share and investment when there is excess idle capacity. When considering that capacity utilization is another determinant of the profit rate, along with profit share and the productivity of capital¹³ (Bhaduri; Marglin, 1990, p. 379), it is possible that the increase in the wage share has a positive effect on capacity utilization and, in turn, on the profit rate, to the point of offsetting the direct negative effect that the lower profit share would have on the profit rate.

Considering this, Bhaduri and Marglin (1990) called the thesis that a higher wage share (lower profit share) in income tends to increase aggregate demand and capacity utilization “stagnationist”. In opposition to this thesis, the authors created the term “exhilarationist”, in which the greater share of profits assumes a dominant role for the expansion of aggregate demand.

In more detail, when investment responds weakly to changes in the profit share, the increase in consumption, due to the greater share of real wages, tends to compensate for the fall in the profit share. The opposite occurs when the investment responds strongly with respect to changes in profit share — the increase in consumption, due to the greater share of wages in income, does not compensate for the fall in the share of profits in national income. In other words, if the investment response is weak (strong) in relation to the expansion in the profit share, consumption (profit) tends to assume a dominant role in aggregate demand, which forms the regime known as stagnationist (exhilarationist), or wage-led (profit-led).

Blecker (2002) states that both the stagnationist regime (wage-led aggregate demand) and the exhilarationist one (profit-led aggregate demand) can be both cooperative and conflictive, which will depend on the effects of the changes of functional distribution of income over the rate of profit and on real wages. Next, we will present a summary of these approaches, according to Blecker’s (2002) formulation.

¹² Here, all extensions of the works of Kalecki (1937) are considered as neo-Kaleckian, or of works that consider that the economy can assume, at some point, a wage-led growth pattern. However, Hein (2014) places Dutt (1984; 1987) and Rowthorn (1981) among neo-Kaleckians and Bhaduri and Marglin (1990) as post-Kaleckian.

¹³ The productivity of capital is held constant in most neo-Kaleckian approaches.

In both cooperative and conflictive stagnationism, aggregate demand is wage-led. However, in cooperative stagnationism, the increase in the wage share increases the use of installed capacity, the employment in the economy, the aggregate demand, and, in turn, the profit of capitalist-entrepreneurs, this profit being greater than it would be if wages had not been increased initially. That is, the profit rate is more elastic with respect to the level of capacity utilization than the profit share, and the increase in the degree of capacity utilization offsets the negative effect of a reduction in the profit share.

In the stagnationist-conflictive case, on the other hand, capitalists have no incentive to cooperate with workers, since they can increase their profit rate and accumulation by increasing their profit share, thereby cutting wages, even as they depress aggregate demand and capacity utilization (and employment). Although aggregate demand is positively related to the wage share, this effect does not offset the negative effect of the lower profit share on the profit rate. That is, the increase in profit share has greater effects on the accumulation of entrepreneur-capitalists than they could accumulate through greater capacity utilization, influenced through a greater share of wages in national income.

In the exhilarationist pattern, both cooperative and conflictual, aggregate demand is profit-led. However, in the cooperative case, real wages are positively related to profit share. In the conflicting case, on the other hand, the real wage is negatively related to profit share. In the cooperative case, the increase in profit share tends to increase the real wage. However, this increase does not tend to outweigh productivity. In the conflictive case, the increase in profit share will necessarily occur with the reduction in real wages. An example of the conflictive case occurs when the economy is at full employment and when there is no room for increased productivity, making the entrepreneur-capitalist more resistant to granting increases in real wages.

3.2. The neo-Kaleckian approach in an open economy

When the external sector is taken into account in the analysis, the issue becomes more complex (Bhaduri and Marglin, 1990; Blecker, 1989) and the positive effect of greater share of wages in income can be reversed with greater openness to the market (Lavoie and Stockhammer, 2013), since higher real wages increase production costs, which reduces the competitiveness of the manufacturing industry aimed at the foreign market and, in turn, net exports. This pattern of growth through competition with the foreign market can be considered export-led.

The intensity of this growth strategy can be influenced by price effects, represented by changes in the exchange rate, and by income effects, which consider the elasticity of demand for exported goods, in relation to changes in foreign income, and the elasticity of demand for imported products in relation to changes in domestic income. An exchange rate depreciation, in an open economy, may initially reduce profit margins, through the increase in import costs, and tends to reduce wages, due to the increase in the workers' cost of living. That is, this situation would lead to pressure on prices and wages. However, depreciation can also increase the price competitiveness of the economy. According to Bhaduri and Marglin (1990) the trade effects will be positive if the increase in competitiveness, caused by an exchange rate depreciation, exceeds the negative effects that this depreciation will have on inflation and on the costs of imported products. Thus, these authors consider that trade interdependence between countries has made the wage-led growth strategy less effective.

According to Blecker (2002), investment prices and costs are more sensitive to profitability in an open economy due to the greater competition that is created with the opening of trade and the entry of multinationals. In this way, it is likely that the economy that opens to the external market will assume the exhilarationist pattern, in which aggregate demand is driven by profits, or the conflictive stagnationist pattern, in which aggregate demand is driven by wages — but the rate of profit depends positively on profit share.

An underdeveloped economy with a high degree of trade openness will be less likely to be wage-led because developed economies tend to expand their capital to the periphery in search of cheap labor — a phenomenon observed in Latin American countries after the 1970s — causing more foreign capital to enter in search of lower production costs. In this specific case, there is resistance to the increase in wages, as multinationals seek to produce at lower costs to later export this product. That is to say that multinationals are not directly concerned with domestic demand, but with lower production costs.¹⁴

We can use the expansion of foreign capital in search of cheap labour in an underdeveloped economy with a wage-led pattern as an example. This capital will be in a productive sector with international competition, subject to greater price competition, whose demand for the product will be more subject to variations in the external income of a country than those in its internal income. On the one hand, increased competition puts pressure on production cost reductions, which leads to low real wages. On the other hand, workers lose bargaining power since their wages have little influence on demand for the goods produced. This new scenario tends to occur with an increase in the profit share and with greater use of the economy's capacity. The effect of this is higher profit rates. As investment is an increasing function of the profit rate (Rowthorn, 1982; Dutt, 1984, 1987; Taylor, 1985), there is an increase in investment. Thus, if trade liberalization causes investment to respond more strongly to the increase in the profit share than to the increase in the wage share, there is a shift from the wage-led pattern to the profit-led pattern.

4. Inserting Furtado's analysis within neo-Kaleckian theory

Celso Furtado was clear in his analysis (before and after 1970) that growth depended on accumulation and that this was a growing function of the profit rate. Although he did not postulate in these words, it is evident to him that, without disregarding the positive effects of greater diversification of working-class consumption on product growth, the performance of an underdeveloped economy depends on increasing rates of investment, with growth in the profit rate being a necessary condition for the increase in private investment.

Thus, it can be said that growth (capital accumulation) for Furtado was profit-led, both before and after “industrial civilization”. However, what changes in his analysis and what makes him dissatisfied with the perspective of overcoming underdevelopment, after the 1970s and/or in the era of “industrial civilization”, is that the profit-led growth after that period occurred without the inclusion of the mass of workers in the social income. As wages were paid according to the historical and cultural reality of the worker from the underdeveloped

¹⁴ Furtado (1978, pp. 24-26) is quite critical of this point, since, according to the author, multinationals do not offer wages compatible with productivity, but based on the local labor market – that is, based on the historical and cultural reality of the worker.

economies, and not according to the productivity of labour, this ended up reducing the share of the working class in income and social consumption.

In this way, we can place Furtado's analysis before transnational capitalism (or "industrial civilization") as compatible with the cooperative exhilarationist pattern in the neo-Kaleckian approach, in which aggregate demand is driven by profits and the increase in profit share tends to increase the mass of wages. In this case, wages tend to follow productivity. These would not be greater than productivity, as this would cause a reduction in profit share. At the same time, wages cannot be too low, as this situation would cause constrained demand and would have a negative effect on the profits of the entrepreneur-capitalists.

The entry of foreign capital after the 1970s changed the rules of the game. Structural modifications influenced by the relationship between wages and profits – as discussed by Furtado ([1964] 1971) and presented in section 2 – no longer made sense in this new world economic order (Furtado, 1978). Considering that the main objective of external capital was not to promote the internal market, the highest wages were now considered only as costs within the production system. At the same time, capital was no longer reinvested internally, wages did not keep pace with labour productivity, and the mass of the population had an increasingly smaller share in social consumption.

This scenario observed by Furtado can be included in the conflictive exhilarationist pattern in the current neo-Kaleckian approach, in which aggregate demand is profit-led but, unlike the cooperative pattern, real wages are negatively related to profit share. In this way, resistance from the entrepreneur-capitalist in giving in to wage increases becomes increasingly greater, causing deterioration in the consumption pattern of the mass population. In this way, this new world economic order, intensified by the relations of dependence on capital in underdeveloped countries, modified class relations, moving from a scenario in which the real wage could go hand in hand with the increase in the profit share to a scenario in which the profit share always comes at the expense of real wages.

Finally, despite this close relationship between Furtado's analysis and neo-Kaleckian theory, it does not seem fair to say that Furtado was a neo-Kaleckian, since he did not include himself within a specific school of thought, with the exception of the Latin American structuralism. However, the author was aware of the neo-Kaleckian theoretical framework in his analysis – even before the full theorization of the ideas defended by this current of thought.

In addition to the economic characteristic, the focus of attention in this work, Furtado also considered the institutional, historical, and cultural context that was under investigation. However, these issues go far beyond the scope of this article.

5. Final considerations

Furtado demonstrated intellectual flexibility in his analyses, eschewing a rigid adherence to any single pattern. Guided by his profound historical and theoretical knowledge, coupled with a nuanced understanding of the complex political transformations of the 20th century, he refrained from adopting simplistic frameworks. Instead, he consistently adapted his perspectives and strategies to confront the issue of underdevelopment with a comprehensive and dynamic approach. Thus, we can divide his analysis into two phases: before and after the 1970s.

In his first analysis (before the 1970s), which Furtado considers as a macroeconomic development scheme, the development process was influenced by the pattern of behaviour of social classes and by their capacity to modify structural relationships, whose main point was the dispute between wage-earners and entrepreneur-capitalists for greater appropriation of social income.

What Furtado considered ideal in this relationship – that is, the scenario that can influence the achievement of a greater surplus, as well as significant increases in wages – is very similar to the cooperative exhilarationist pattern, presented in section 3 of this article, in which the aggregate demand is driven by profits and an increase in the profit share tends to steadily increase the real wage. With this scenario, the economy would show a greater surplus and higher levels of real wages, which would influence the increase in investment levels and greater diversification of consumption by the mass of the population.

However, Furtado did not expect the changes that were about to occur in the world scenario after the 1970s, which he considered as “industrial civilization”. This scenario was marked by the expansion of firms of developed countries into underdeveloped regions, causing a higher concentration of wealth in developed countries. The balance of forces changed in favour of transnational companies and the countries that held the capital, and this made Furtado change his strategy for overcoming underdevelopment. The dispute between workers and entrepreneur-capitalists in achieving a greater share of social income no longer tended to cause structural changes, since wages no longer increased with labour productivity; that is to say that workers were remunerated according to their historical and cultural reality within the underdeveloped countries.

Furtado would observe in “industrial capitalism” after 1970 what can be considered a conflicting exhilarationist pattern in the current neo-Kaleckian approach, in which real wages are negatively related to profit share and there is greater resistance on the part of capitalist-entrepreneurs to grant raises of real wages. At the same time, considering that foreign capital did not have the main objective of promoting the domestic market, higher wages were now considered only as costs within the production system.

Despite considering foreign capital as important for the greater growth of the appropriated surplus, the dream regarding the scope of development becomes more distant in Furtado’s perspectives. It is worth mentioning his disgust in the book *The Myth of Economic Development* (1974), in which the author is sceptical about the future of underdeveloped countries, even writing that “the idea of economic development is a simple myth” (p. 75).

However, Furtado (1978) considered that after the beginning of the new global order and the underdeveloped countries being in the shackles of “industrial civilization”, the solution– or the least painful path to be taken – would be through greater economic openness and greater international relations. But it is understood that these relationships should be made strategically, aiming to reach a certain level that would allow these economies to overcome dependency relationships. Finally, it is worth concluding with one of the most striking phrases by Celso Furtado, which represents the feeling of most people who dream of a developed and less unequal country: “at no time in history has the gap been so great between what we are today and what we expected to be” (Furtado, 1999a, p. 14).

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