PSL Quarterly Review

vol. 71 n. 285 (June 2018)

Editorial

Economic development, technical change and income distribution: A conversation between Keynesians, Schumpeterians and Structuralists. Introduction to the Special Issue

ALBERTO BOTTA, GABRIEL PORCILE, RAFAEL S.M. RIBEIRO *

Abstract:

The original "manifesto" that gave rise to the Structuralist development theory was written for the Economic Commission of Latin America (ECLA, subsequently ECLAC, after incorporating the Caribbean States in 1984) by Raul Prebisch (1949). This work had a strong impact on both the theoretical and policy debates and served as a rationale for the efforts at structural change and industrialization that many developing countries adopted in the following decades. By and large, the Latin American Structuralist tradition focuses on how the external constraint disproportionately affects output growth and domestic policies in less developed economies. The existence of bottlenecks in the productive system and labor market dualism characterizing peripheral economies opens space for state intervention and industrial policies as a way to promote structural transformation and economic development.

Botta: University of Greenwich (UK),
email: A.Botta@greenwich.ac.uk;
Porcile: Economic Commission for Latin American and the Caribbean (ECLAC), and Federal University of Parana (Brazil),
email: jose.porcile@un.org;
Ribeiro: Federal University of Minas Gerais (Brazil), and University of Cambridge (UK),
email: rsmribeiro@cedeplar.ufmg.br

How to cite this article:
Botta A., Porcile G., Ribeiro R.S.M., (2018), "Economic development, technical change and income distribution: A conversation between Keynesians, Schumpeterians and Structuralists. Introduction to the Special Issue", *PSL Quarterly Review*, 71 (285): 97-101.

DOI: http://dx.doi.org/10.13133/ 2037-3643_71.285_1

JEL codes:
010; 033

Keywords:
economic development, technical change, income distribution, Latin America

Journal homepage:
http: //www.pslquarterlyreview.info

The original "manifesto" that gave rise to the Structuralist development theory was written for the Economic Commission of Latin America (ECLA, subsequently ECLAC, after incorporating the Caribbean States in 1984) by Raul Prebisch (1949). This work had a strong

* This special issue is the result of a joint effort of the *PSL Quaterly Review*, the Young Scholars Initiative (YSI) of the Institute for new Economic Thinking (INET) and the professors and students of the Summer School on the Latin American Economies of the UN Economic Commission for Latin America and the Caribbean (ECLAC). The opinions expressed in the articles are personal and do not necessarily reflect the views of their institutions

impact on both the theoretical and policy debates and served as a rationale for the efforts at structural change and industrialization that many developing countries adopted in the following decades. By and large, the Latin American Structuralist tradition focuses on how the external constraint disproportionately affects output growth and domestic policies in less developed economies. The existence of bottlenecks in the productive system and labor market dualism characterizing peripheral economies opens space for state intervention and industrial policies as a way to promote structural transformation and economic development.

1. Structuralists and Keynesians

From the very beginning of the Structuralist thought, Keynes was (implicitly or explicitly) present. In advancing his ideas on development, Prebisch argued that the Keynesian revolution was a great source of inspiration for his work in the sense that it encouraged him to challenge the dominant orthodox theories of trade and growth. However, the interrelatedness between Structuralism and Keynesianism goes well beyond their shared discontent with the dominant view. Structuralists see the secular deterioration of the terms of trade and balance of payments constraint as the central determinant of the long run rate of growth, as many Keynesian models for the open economy do. This perspective would subsequently be developed in a more rigorous way by the Keynesian economist Anthony Thirlwall in his work on the balance-of-payments constrained growth rate (for a review, see Thirlwall, 2011).

In both the Structuralist and Keynesian views, the behavior of demand matters in shaping long-run growth. Productivity growth and technical change translate into growth mediated by their effects on the patterns of specialization and the behavior of domestic and international demand. It is not exaggerated to say that the models based on the balance of payments constraint and on cumulative causation, i.e. the export-led Kaldorian models of growth, are all part of an amalgamated Keynesian-Structuralist tradition. Such a view is crucial for understanding economic development, to the extent that the less diversified, poorly integrated economic structure of the developing economies (the 'periphery') tends to exhibit a lower income elasticity of foreign demand for their exports and a higher income elasticity of domestic demand for imports than the diversified advanced economies (the 'center'), except for (usually short) periods of very good luck in the commodity lottery.

These insights may also help us understand the growth performance of countries that cannot be considered poor or underdeveloped. The recent turbulences and difficulties that the Eurozone faced after the worldwide financial crisis are closely related to a vicious cycle of high indebtedness and recession in the countries in the periphery of the Eurozone. And such a cycle, triggered off by the outbreak of the 2007-2008 financial shock, finds its in-depth roots in the process of monetary and economic integration between the relatively less developed Eurozone periphery and the more developed Eurozone center. In this sense, despite of the institutional peculiarities of the Eurozone, several aspects of its crisis closely resemble the boom-and-bust cycles and balance-of-payments crises that Structuralists described in the case of developing countries in general, and Latin American economies in particular (Frenkel and Rapetti, 2009; Ocampo, 2013). This scenario reminds us of the important role played by the external constraint for achieving sustained output growth in the long run.

At least one additional point of convergence between Keynesian and Structuralists is worth mentioning: the growth-distribution nexus. Some Structuralists claim that the high levels of income inequality observed in peripheral countries leads to sharp differences in consumption patterns between the lower and upper classes. As the latter used to imitate the pattern of consumption of households from richer countries, a meaningful part of domestic savings of the periphery leaked out to the center to sustain the imports of superfluous luxury goods from developed countries (Furtado, 1968). As a result, capital accumulation and output growth was constrained due to the lack of domestic saving. Even though Furtado and Keynesians may disagree about the causality between saving and investment, Furtado's framework yields a result which is very close in spirit to the vast wage-led growth literature originally developed by Dutt (1984) and Rowthorn (1981), largely inspired by the works of Keynes, Steindl (1952) and Kalecki (1954).

2. Structuralists and Schumpeterians

But the dialogue and cross-fertilization has not been the exclusive province of Structuralists and Keynesians. The point of departure of the 1949 manifesto explains the emergence of a center-periphery system out of the "slow and irregular" diffusion of technology in the international economy. It is precisely the existence of leads and lags in innovation and diffusion that gives rise to the contrasting production structures and patterns of specialization of center and periphery. In other words: the differences in the income elasticity of the demand for exports and imports (and hence the differences in the rate of economic growth) are rooted in different specialization patterns, which in turn is the outcome of international competition based – à la Schumpeter – on innovation and the diffusion of technology.

It is easy to identify in this picture a strong Schumpeterian flavor – in particular, Schumpeter's idea that economic development is a process of creative destruction led by technological change. To the extent that the process of creative destruction is spatially asymmetric, and the creative parts concentrate in certain regions of the world and the destructive in others, it is possible to say that the Prebischian center-periphery system is the geographical expression of this asymmetry.

More importantly, Structuralists did not have in the 1960s a consolidated 'micro' theory of why the international diffusion of technology was "slow and irregular" (as they claimed), why patterns of specialization were so difficult to change, and why path dependence and increasing returns were so important in technological learning. Structuralists correctly hinted that market forces would just reproduce asymmetries, and that active industrial and technological policies were required to break the technological and structural lock in. But they do not have clear-cut theoretical and empirical underpinnings to support these tenets. It will be the task of the Schumpeterian scholars (and the evolutionary Schumpeterians in particular) to provide a solid microeconomic narrative to explain macroeconomic divergence in the international system and the center-periphery dynamics set forth by the Structuralists and Keynesians (Katz, 1987; Cimoli and Katz, 2003).

While there is much to say about a bilateral dialogue between Keynesians and Structuralists, and between Schumpeterians and Structuralists, a parallel, fruitful dialogue has been taking place between Schumpeterians and Keynesians already for a long time (see, for instance, Ciarli et al., 2017). It is hard to choose a specific pioneering work in combining both approaches. Nonetheless, the book by Dosi et al. (1990) on international trade clearly points to the bi-directional interactions between effective demand, technological processes and, ultimately, the long-run growth rate of the economy. And while Kaldor (1967) and McCombie and Thirlwall (1994) discuss the relentless interaction between demand and supply in their pioneering contributions about export-led and balance-of-payments constrained growth, such relation has finally got explicit formalization and micro-foundation through the recent wave of "Schumpeter-meets-Keynes" models (Dosi et al., 2010; Dosi et al., 2017).

The combination of Keynes' and Schumpeter's views does not only bear relevant consequences for the evolution of economic theory but also has profound implications for policymaking. First, the recognition that effective demand and structural change feed back into each other casts doubts about the alleged virtues of austerity policies, and fiscal austerity in particular. Abrupt cuts in public budgets or restrictive monetary policies can in fact cause permanent reductions in the growth potential of the economy. Even a temporary contraction in effective demand may have long run implications if the economy traverses towards an equilibrium with a lower rate of growth (Dutt and Ros, 2007). Second, the macroeconomic management of the business cycle is not disjointed, but rather goes hand-in-hand with long-run development policies aiming to shape the structural trajectory of the economy (ECLAC, 2018). Accordingly, the emerging theoretical consensus that financial liberalization and volatile international capital flows can give rise to acute financial and macroeconomic volatility in developing and developed countries alike stands out as an indication that capital controls and the management of a stable and competitive (real) exchange rate are necessary to ensure short-run macroeconomic stability and strengthen long-run development (Akyüz, 2014). Last but not least, cumulativeness in technological learning and structural change, and the existence of multiple equilibria, imply that economic development will not emerge automatically. The technology gap, poverty, unequal development and migration should not be seen as transitory phenomena.

The center-periphery divergence may rather be a permanent feature of the world economy. If so, the neoliberal belief in free and unfettered market forces as the optimal institutional device to foster economic growth and catching-up turns out to be misplaced. Active industrial and technological policies are required to overcome inertia, technological backwardness, income inequality and low-growth traps, especially in a context in which the technological revolution is rapidly reshaping competitiveness, capabilities and patterns of specialization.

References

Akyüz Y. (2014), *Liberalization, Financial Instability and Economic Development*, London: Anthem Press.

Ciarli T., Lorenz A., Valente M., Savona M. (2017) "Structural Changes and Growth Regimes", *Document de Travail*, no. 2017–19, Strasbourg and Nancy: Bureau d'Économie Théorique et Appliquée, BETA.

Cimoli M. and J. Katz (2003), "Structural Reforms, Technological Gaps and Economic Development: A Latin American Perspective", *Industrial and Corporate Change*, 12 (2), pp. 387–411.

Dosi G., Pavitt K. and Soete G. (1990) *The Economics of Technical Change and International Trade*, London: Harvester Wheatsheaf.

Dosi G., Fagiolo G. and Roventini A. (2010), "Schumpeter Meeting Keynes: A Policy-Friendly Model of Endogenous Growth and Business Cycles", *Journal of Economic Dynamics and Control*, 34 (9), pp. 1748-1767.

Dosi G., Napoletano M., Roventini A. and Treibich T. (2017), "Micro and Macro Policies in the Keynes+Schumpeter Evolutionary Models", *Journal of Evolutionary Economics*, 27 (1), pp. 63-90.

Dutt A.K. (1984), "Stagnation, Income Distribution and Monopoly Power", *Cambridge Journal of Economics*, 8 (1), pp. 25-40.

Dutt A.K. and Ros J. (2007), "Aggregate Demand Shocks and Economic Growth", *Structural Change and Economic Dynamics*, 18 (1), pp. 75-99.
ECLAC (Economic Commission for Latin America and the Caribbean) (2018), *The Inefficiency of Inequality*, Santiago: United Nations.
Frenkel R. and Rapetti M. (2009), "A Developing Country View of the Current Global Crisis: What Should Not be Forgotten and What Should Be Done", *Cambridge Journal of Economics*, 33 (4), pp. 685-702.
Furtado C. (1968), *Subdesenvolvimento e Estagnação na América Latina*, Rio de Janeiro: Civilização Brasileira.
Kaldor N. (1967), *Strategic Factors in Economic Development*, Ithaca: New York State School of Industrial and Labour Relations, Cornell University.
Kalecki M. (1954), *Theory of Economic Dynamics*, London: Allen & Unwin.
Katz J. (ed.) (1987), *Technology Generation in Latin American Manufacturing Industries*, Basingstoke: Palgrave Macmillan.
McCombie J.S.L. and Thirlwall A.P. (1994), *Economic Growth and Balance of Payments Constraint*, London: Macmillan.
Ocampo J.A. (2013), "Balance of Payments Dominance. Its Implications for Macroeconomic Policy", *IPD Working Paper*, no. 268, New York: Initiative for Policy Dialogue, Columbia University.
Prebisch R. (1949), *The Economic Development of Latin America and its Principal Problems*, E/CN.12/89, United Nations publication, Sales No. 50.II.G.2, New York: United Nations.
Rowthorn B. (1981), "Demand, Real Wages and Economic Growth", *Thames Papers in Political Economy*, no. TP/PPE/81/3, London: Greenwich Political Economy Research Center, University of Greenwich.
Steindl J. (1952), *Maturity and Stagnation in American Capitalism*, New York: Monthly Review Press.
Thirlwall A. (2011) "Balance of Payments Constrained Growth Models: History and Overview", *PSL Quarterly Review*, vol. 64 n. 259, pp. 307-351.