Theoretical misrecognitions as the source of Development theory *Déjà vú*

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Ah, what happened to you, Written and painted thoughtsi Not long ago you were so colorful, young and Malicious, so full of thorns and secret spices that you made me sneeze and laugh –and now? Already you have doffed your novelty, and some of you, I fear, are about to become truths: so immortal do they already look, so distressingly honorable, so boringi
Nietzsche[1]

This paper tries to describe an episode in economic theorizing in Latin-America during the fifties. After a brief glimpse at economics (*The end of postmodern economics*) it examines Albert O. Hirschman's theoretical evolution previous to his work on development (*On the road to the Mecca of development*). Then the story moves to examine the structuralist vocabulary of Celso Furtado, Raúl Prebisch (*Disembarking at the Mecca of Development*) and returns to Hirschman once again to scrutinize his classic work on development (*Mr. Hirschman Through the Looking Glass*). Lastly, in *(Remembering the Future*) I argue that structuralism can certainly be examined as part of a cyclically found and lost tradition in economic thought that insists in not getting rid of social relations (power) to understand the evolution of the economy and its agents. In this last part I try to make some sort of defense of the worst and perhaps silly things said about structuralism. Given that this story tries to recover the notion of development for today's reexamination of policies in developed and "in development" alike, we can say that if it wasn't for Hirschman, perhaps Latin-American structuralism would have not been heard and this might be because nobody was obliged to read or publish in Spanish or Portuguese then or

* I thank Professor Geisa Rocha who did wonders with the translation to English.

[1] Quoted in Hirschman (1984) "A dissenter's confession: 'The Strategy of Economic Development' revisted", in Meier G. M.; Seers D., 1984.

now. I was told once by perhaps one of the most important source in Anglo-Saxon academia on these issues (Joseph Love) that having asked for a research grant to develop a work on these matters one of the evaluators said he had never heard the name of Raúl Prebisch, circumstance which perhaps my paper might redress a littleiii.

Although development theory had its heyday between the fifties and the mid-seventies, today's revival (Chang, 2003; Toye, 2004, Vernengo, 2007) brings to mind a series of theoretical misinterpretations which are of value to recall, especially for Anglo-Saxon readers. Some even find the discourses surrounding the notions of growth and development as part of a forgotten or lost world. As Jolly, *et. al* (2004: 51 my emphasis) explain:

> One of the more interesting *discoveries* that digging into UN archives of the 1950´s brings out is the central role of the UN in development thinking regarding two major issues which have been at the genesis of the emergence of development economics as an autonomous branch of knowledge and which even today are at the heart of the debate on development. These are the role of the state versus the role of the market and the role of external *versus* internal factors.

Reading Krugman´s frase that "the theory of economic development was correct" (Krugman, 1995: 29) and in its genealogy mentions as its intellectual hero A. O. Hirschman, nearly the whole story is left untold or "skewed". Much of Hirschman´s classic work published in 1958 leaves out most of the theoretical and practical debates of the fifties and sixties at the Economic Commission for Latin America (ECLAC)[2] and other institutions.

Much of what was constructed in Latin America as "structuralism" during the fifties had a very specific theoretical source and perspective: 1) the questioning of orthodox economics 2) the construction of a theoretical tradition 3) the theoretical recovery of the historical conditions of the agents to understand their behavior and their calculus. Indeed, very similar to the institutionalism of the 1920´s, most of its promoters were intellectuals that composed the first generation of ECLAC.

This could be put in a somewhat more elliptical fashion: if Keynes thought that neoclassical thought was a "special" case, structuralists like Raúl Prebisch and Celso Furtado argued that Keynesianism was just another "special" case within the corpus of the economics mainstream in general which in turn should be transformed to think not only the Latin-American problematic, but mainstream's own conditions of existence and its pretense of "universality".

[2] Later on its acronym includes "the Caribbean".

We will see that in a similar fashion Hirschman´s vocabulary on development went through an analogous conceptual transformation once he discovered that those elements perceived in underdeveloped economies that inhibited its "proper" functioning could also be found in developed ones.

While initially the theoretical strategy adopted by Latin-Americans in the fifties -later on called "structuralists"- was to refuse the relevance of economics' general categories, arguing that they could not explain the specific structural features of "underdeveloped countries", and that what was needed was the construction of a theoretical vocabulary for its own specific field of application, it finally culminated with a general perspective which could be used to examine and explain the "developed" economies.

Krugman´s reminder of Hirschman as one of the most important pioneers in development thought is not in doubt here, but Hirschman certainly took his time to signal or articulate much of his ideas to Latin America's own pioneers on the field. In his classic work *The Strategy of Economic Development* (1958) much of his *vocabulary* seems consciously constructed so as not to be confused with them, in *other words,* pardon the pun intended, they both shared some similar notions.

Nevertheless, the publication of Furtado´s review (Furtado, 1959) of Hirschman´s book *The Strategy…* (1958) scolding its author for his omissions of ECLAC theoretical and practical discussions on growth and development in Latin America would bring about important changes in the way Hirschman communicated certain intellectual currents. Undisturbed, Furtado stated (1959: 64-65; my translation):

> This book is an extremely useful reading because it shows much more a desire to comprehend a reality of underdevelopment and retarded development than a preoccupation to submit reality under a pre-established academic scheme. He is a heterodox in his own way (…) Analyzing this interesting book by Hirschman, we cannot but reflect on this point. Large part of what is said in the book was already said and repeated by Latin-American economists. Particularly, the analysis of the problems of the external disequilibrium and of inflation is for us extremely familiar, that is why they are less interesting. Meanwhile the author nearly does not quote the Latin-American bibliography and, in particular, the contributions of ECLAC. Given that the bibliography is well known by Hirschman, who opened his eyes to the problems of underdevelopment in Latin America, IT IS possible to deduce that there exists a deliberate purpose to ignore the contribution of the organ that acted as an authentic pioneer in the field of the study of underdevelopment and specially, in the analysis and interpretation of the Latin-American economies.

Without a doubt this brought on an important change in Hirschman's evaluation and acknowledgement, to say the least, of the issue about the presence of "indigenous theories" (Hirschman 5: 1961a). Judging by the book of the latter year the vocabulary of "structuralism" takes on a much more prominent place and mention, especially as an opposing explanation of inflation vis a vis the orthodox perspective as well as Prebisch´s perspective and theory on the Center"/"Periphery" where it gets a short and honest presentation. But from then on, for example, in the book *Journeys Towards Progress* (1963), more than four years after his classic work, *The Strategy…* (1958), Hirschman never lost the opportunity to recall the structuralist perspective.[3] Indeed *Journeys Towards Progress* is dedicated to one of its founders: Celso Furtado[4] as a "reform Monger". Notice nonetheless, that the notion is much closer to a "dealer," a "haggler," a "negotiator," or politician instead of an able theoretician.

The end of postmodern *economics*

Hirschman's own social milieu and political proclivities of his early days as an anti-Nazi operator (Hirschman would immediately retort saying, "my Weltanschauung"), as well as his intellectual formation explain partly his intrinsic subversive tendency to question orthodoxies in general. Meldolesi (1997: 20, my translation) emphasizes that:

> It is important to remember that, for a series of reasons, generally not considered, economy in France in that epoch (in the thirties C.M.) had taken some peculiar characteristics: a practical inclination towards the description of economic facts, some tolerance with respect of the several different schools of thought (liberal, historical, social, mathematical, sociological, etcétera) and a marked interest for the political aspect of the economy. From here (and form Henry Pomméry course at the École on money and banking) probably grew his interest to start an investigation on France's monetary policy of the twenties and thirties, conceived in London and concluded in Trieste.

For our story, similar positive conclusions can be derived from the promiscuous and "postmodern" intellectual and academic landscape under which Celso Furtado received his academic formation, especially his doctoral thesis

[3] See also Hirschman on "structuralism" (1961).
[4] Also to Carlos Lleras Restrepo, a Colombian intelectual and politician.

in Paris, in 1948, under the guidance of Maurice Bye one of Perroux´s disciples. In constrast, Raúl Prebisch, 18 and 13 years Furtado´s and Hirschman's senior respectively, was a totally different kettle of fish. The social and political milieu at the Faculty of Economics of Buenos Aires had just undergone a reform in 1918 when he started his studies, outstanding among them was the liberty of students not to attend classes, which Prebisch exploited to the fullest. What marked the difference in the Faculty, until he was forced to leave in 1948, was the presence of two prominent intellectuals: Alejandro E. Bunge (1880-1943), the "first apostol" of industrialization (Prebisch, 2006), and Luis Roque Gondra (1881-1943), perhaps one of the most outstanding of Pareto´s disciples. Thus, on the one hand a List follower, and a guardian of "lassez-faire" on the other, up to certain point. With Gondra the mathematization of economics was based on the hegemonic currents of mathematics of the time, in particular, the influential views of Vito Volterra (Weintraub, 2002). Part of this work was carried out by Ugo Broggi (another professor of Prebisch), from whom, perhaps in his young years, Prebisch heard that he was trying, long before Gerard Debreu, to prove the existence of general equilibrium.[5]

On the road to the Mecca of development

As discussed further on, notwithstanding certain similarities between the Latin Americans mentioned, and Hirschman, as to the role of reforms and reconstructing the economy as well as the appropriate inducement mechanism for the growth/development to get started, their divergence cannot be any further apart as to the theoretical strategies of reconstruction, and superseding orthodox economic thought.

Among the factors that promoted growth and development as a political and conscious policy objective in Latin America was the creation of ECLAC which in turn was born under the drive for the political and economic reconstruction of Europe after the Second World War. The Marshall Plan and the Economic Commission for Europe were the basis for the "impertinent" idea of Latin Americans at the UN to create a similar organization for the region. The U.S. had other plans because it wanted to launch its project of development under the tutelage of the Organization of American States (OAS), under its control. ECLAC started initially with a first three year life trial; subsequently, a decision was to be taken if it was to become a permanent UN body. With the support of France and other Latin American countries, the

[5] Fernández López (2000).

opposition of the U.S. was defeated and in 1951 ECLAC established its new lease of life.[6]

Hirschman was quite close to these developments in Europe before he decided to move to Colombia in 1952. Before his arrival in Latin America, most of his work from the late thirties onwards concentrated on the international economic order: in 1939 he ventured into a study on the statistical trends of foreign trade (Hirschman, 1939) and by 1945 he published his first book *National Power and the Structure of Foreign Trade* (Hirschman, 1945)[7] where Germany's foreign policy of the post first world war period and the rise of the Nazi regime were analyzed. Its focus was the function of commerce and foreign trade as the basis for enhancing national power. Therefore, the central role in the book of examining the trends in world trade between differing nations and the importance of economic policies that tend to diversify the commercial external flows of some countries became the basis to limit their "dependency" or some sort of domination vis a vis other countries.

In *National Power,* Hirschman also shows how inadequate was the established view that the great bulk of world trade was undertaken between countries producing raw materials versus manufactured goods. Thus, Hirschman shows very early his ability to question the prevailing orthodoxy, emphasizing the importance of underlining the heterogeneity of the countries in question as well as their trade patterns.[8]

That work is followed by a few texts that examine inflation and deflation as well as exchange control in certain European countries; much of that

[6] For details see Santa Cruz H; 1984; Mallorquin, 2006; 2009.

[7] Hirschman published its seventh chapter in 1943 as "The Commodity Structure of World Trade" (Hirschman, 1943) in Furlo-Blasco E., 1998.

[8] Although rather naively, Hirschman says (Hirschman, 1945: 150-151): "Any future reconstruction of world trade should take into account the complexity of its structure which our statistics' reveal. (…) The policy of all countries during the period of mercantilism was to prevent the spreading out of their particular skills and industrial arts. But this vestige of mercantilism has assumed a most beguiling disguise –that of the maintenance of "sound" international division of labor. An encouraging aspect of present thought on postwar reconstruction is therefore the radical change from the traditional outlook in this respect. Today, (1945, C.M.) schemes for the future industrialization of underdeveloped countries (…) are proposed and discussed on many quarters; and the future economic mission of the older industrial countries is conceived less as the mechanical workshop of the world than as the initiator and educator in industrial processes. International trade has nothing to fear from these developments, since there will probably always remain a fruitful division of labor between the various countries and parts of the world. But it is highly improbable that any *particular* pattern of the international division of labor will last forever. (…) But to conclude that the world trade is doomed because the traditional pattern of the international division of labor seems imperiled is one of these flights of ima-gination at the start of which we find a lack of real imagination: and incapacity to conceive of a state of affairs radically different from that which we have been acquainted".

work was done when he became a functionary at the Federal Reserve.[9] And apart from his studies of the structure of world trade, Hirschman was quite oblivious of the "underdeveloped" countries in Latin America.

His arrival in Colombia in 1952 (staying until 1956-7, working as a member of the Council for National Planning of Colombia during the first half, a post suggested by the World Bank, and the latter half as a private consultant), marked his first experiences and contact with the magical realism of the tropical rationality.[10]

Although as early as 1951 Hirschman started mentioning the "notoriously inconsistency" policy of the most technically advanced countries towards the less advanced in its attempt to impede their policies and their desires for promoting some manufactured activity: "alternatively and sometimes simultaneously helped, feared and obstruct the efforts of these countries to acquire technical and industrial machinery" (Hirschman, 1951c: 285), he was mainly focusing on the east central European countries.[11] He insisted (1951c: 296-297, my translation), reminding us of some of his 1945 conclusions on foreign trade and market power that:

> This development need not have any sinister consequences for the future of international trade; there will surely be space left for a profitable division of labor between nations. But it could be asked if this division of labor based on ability differences and the past history of the industrial development might not be more unstable than the simple and "natural" labor between industrial and agrarian nations. (…) In each individual case, the loss of the preexistent international specialization will be small, although in aggregate figures these loses could be considerable. For this reason, the detailed disintegration of the international division of labor that we have in mind here is dangerously probable while the nations continue in freedom to follow autonomous internal economic policies, while sectors interests put pressure under the banner of the national interest, and while the special risks that affect the international trade, in contrast to the internal ones, have not been eliminated. (…) This division of labor is based more on an historical accident than on any basic difference in natural or human resources.

[9] As an example of some of his work of the period: Hirschman, 1948a; 1948b; 1948c, 1949a; 1949b; 1951a; 1951b; 1951c; 1952a.

[10] Example of this work in that period: Hirschman, 1954a, 1954b, 1955, 1956, 1956a, 1957a, 1957b.

[11] There is something that must intrigue anybody that has analyzed his work up to this period of his life and perhaps even for the continuance: I have yet to find some mention or discussion in Hirschman of the romanian Mihail Manoilescu (see, Love, 1996) or the german Frederick List!!!

Even in his subsequent text he had not extricated himself totally from what can be genuinely and legitimately be an industrialized country perspective and interests. Also he spoke as a North American citizen. Thus unlike those fears that in other industrialized countries prompted some policy strategies to inhibit the industrialization of some of their trading partners, Hirschman (1952a: 310, my emphasis, my translation) stated:

> In the United States those fears never became very important because the dependency of *our* economy from external supplies has always been quantitatively and qualitatively of a much smaller magnitude than those of the industrial countries in Western Europe.

Without any intention to downgrade in any way Hirschman's early work, in some sense very brave indeed, in Colombia and South America (1952-1956/7), much of it can be defined as advisory and technical. In contrast to what could be thought as the run of the mill economic histories, the presentation of the economic descriptions of Colombia and Central America, and those aspects emphasized, seemed written as manuals to attract investment to the region. Nevertheless, although in similar light to his previous work in Europe, here he allows himself a much more open and participatory position in his evaluations of the themes, in part imposed on him given the scant information and certain limitations on the information gathered and the national accounts in question.

But once stationed in the tropic's we can also see that he is willing to go further politically and theoretically and question several of many economic theses. His colleagues at the Federal Reserve would certainly have been flabbergasted to hear Hirschman (1954a: 325, my emphasis and translation) state:

> There is no economic law that demands narrow and automatic parallelism between the means of payment and level of prices even though the experience of a period of several of years nearly always shows an approximate parallelism with the observation that prices nearly always stay a little behind the means of payment for the reason given in the previous point.

But an overhauling of the monetarist conception was not yet in his mind. As Hirschman (1954a: 325, my emphasis and translation) argued:

> (…) or when the means of payment rise without a corresponding rise in prices, its obvious that the velocity of the means of payment has risen (…)

> having said this, nevertheless, even if it sounds scientific, *it does not explain nothing rigorously* (…) *The problem consists, precisely in knowing why the velocity of money has risen…* .

In other words, Hirschman shows an interesting period of experimentation. He insists as "artificial" (Hirschman, 1954a: *Ibidem*) the polemics on the topic as to whether the origins of the rise of prices is monetary or non monetary. As discussed later, those years started the deliberations on the nature of inflation, a crucial theoretical and political issue and which perhaps Hirschman forms parts of the few scholars able to understand its basis given his experience in the region. As Hirschman (1954a: 336-337, my translation) states:

> Equally, the economist does not have to wait for the economic and statistic documentation, even the most complete, to produce mechanically and automatically the best recipe; such documentation is a work instrument indispensable, that permits his orientation and avoid many errors; but in the last instance -and this is in turn the most irritant and pleasurable of our profession-, there is always an area of ignorance, variable interpretation of the facts and possible hesitation and discussion.

In another (Hirschman, 1954b), where he describes certain experiences in the field in Colombia, it appears to be his first break with economics as a stabilizing recipe for macroeconomics misadventures. He confessed in 1961 that it was "his first work written on general problems of economic development," of which "various ideas, (but not all of them) were structured in a more systematically form in *The Strategy of Economic Development*" (1954b: 338).

In that text, Hirschman is not very amicable with the role of ECLAC. His thesis against the notion of "balance growth", although not expressed in these terms, lurks huge in the background. He questions the "myth of integrated and global plans of growth" (Hirschman, 1954b: 341) arguing instead for precise planned projects by sectors. Apart from various notes of "skepticism", (Hirschman, 1954b: 353), ECLAC appears as one of the culprits of global planning,[12] as much as all those projects of growth and capitalization thought

[12] For many reasons both, theoretically as well as politically, in ECLAC the word "planning" was not used, especially during Prebisch´s reign, but instead, the term "programing" which is a way to start questioning Hirschman´s reading, that as mentioned previously had changed after Furtado recriminations in 1959. From 1961 onward Hirschman started speaking of "close adversaries": Prebisch, Nurkse, Rosenstein Rodan. Also comes to issue the term "balance", because most of the translations of Hirschman to spanish and portuguese use the term "equilibrio", that is "equilibrium", so unbalance growth means in spanish "crecimiento desequilibrado" or "desarrollo desequilibrado". Its interesting to note that in his letter to Andre Gunder Frank in

in "The Point IV of the United States". Hirschman also complains that Nurkse's "demonstration effects", solely in terms of consumption, forgets or bypasses its counterpart: the "investment demonstration effect" given the high capital or technological intensity of the machinery used in Colombia and other underdeveloped countries. Years later Nurkse would be, if not the central focus, one of the most important theoreticians of "balance growth"[13] critiqued by Hirschman.

Just up to before *The Strategy of…* (1958), Hirschman´s work involved as mentioned before economic macro descriptions of Colombia and Central America, as well as a project and diagnosis for the creation of an electricity plant. Most of which is coauthored with George Kalmanoff.[14] On the other hand, having returned to the U.S. he published "Economic Policy for Underdeveloped Countries" (Hirschman, 1957a) which is a preface to his classic work: the pervasive presence and importance and impertinence of "national plans of development"; the problematic nature of the recurrent "inflation" and the distinct social and political conditions in underdeveloped countries vis a vis developed ones. The problematic nature of these conditions opens the possibility that perhaps economic discourse may need some overhauling to explain them.

Disembarking at the Mecca of development

Retracing a little our steps, by the year 1954 many theoretical and political events had taken place in Latin America. Prebisch´s irruption at ECLAC Habana in the 1949 reunion with his *The Economic Development of Latin America and its Principles Problems* (Prebisch, 1949b) was to be branded from then on as the Latin American "manifesto" for development.

1959 talks in terms of "desequilibrums" (Hirschman, 1984: 105). The not so speculative point on my part is that Latin American structuralists used openly "desequilibrio", that is "disequilibrium", on the one hand, and on the other, it may perhaps be too much a heresy if used by Hirschman. That would have obliged him to engage with the general equilibrium debate in process in Anglo-Saxon academia. Perhaps this way Hirschman´s vocabulary simultaneously kept both currents apart liberating him from a futile discussion on the notion of "equilibrium". As we will see Latin Americans "structuralists" were perhaps more theoretically and politically transparent as to the irrelevance of "equilibrium". Both Furtado and Prebisch were disequilibrium theorists: so what there is of so called price stability or of some sort? The answer was elaborated via the notion of power of certain unit or sectors of production over that of others. For more details, Di Filippo (2009).

[13] Thus the paper back edition of *The Strategy of Economic…* pays homage to Nurkse with a long note in its "Preface" insisting on the importance of his notion of "unbalance growth sequence" (Hirschman, 1961: viii).

[14] (Hirschman, Kalmanoff, 1955), (Hirschman, Kalmanoff, 1956), (Hirschman, Kalmanoff, 1957).

Its writing and publication was not as easy as it is always told because Prebisch concluded it after a full blown revision of a first version that was presented to the close circle colleagues at ECLAC and then withdrew without an explanation. The presentation of its last version was done without any discussion. It was unique in a different sense also in that it was signed by its author not as an ECLAC document. It seems that after the appearance of the Singer article (H. Singer, 1949),[15] and the critical appreciations by the inner circle, changes emerged in Prebisch´s postures towards industrialization which now took on the offensive, having superseded its previous, defensive stance and in Furtado´s words, "monetarist" inclination. (Furtado, 1985: 53).

The famous text not only claimed that in the region "reality" was undermining much of past and present economic doctrines and the international division of labour, it also argued that the periphery had an inherent external disequilibrium ("desequilibrio" not "desbalanceado" ="unbalanced") tendency. Its stop and start shaky growth process denotes the limitation of the traditional external pull of the periphery´s growth: its export-led growth ("hacia afuera") process of the past now required an alternative driving force mechanism, *one* of which is the industrialization process of certain sectors, which in turn supposes a whole series of "structural reforms": land, fiscal, state reform, etcétera.

The inherent disequilibrium is not simply a product of fiscal mismanagement or badly thought investment priorities, in the long run balance of payments receipts decline as the deterioration of its terms of trade vis a vis the products of the Center manufactures makes its presence felt.

Prebisch thought that this process materialized through the cyclical repetitive process, which meant that unlike the industrial centers, the periphery did not manage to retain the fruits of its own technical progress. The center even manages to appropriate for itself those productivity gains via price decline of raw materials elaborated by the periphery. He argued that the asymmetry between the center and the periphery and its negative effects can be seen in many areas of the industrial countries and within the periphery itself, a notion of power that would be developed extensively by Furtado in his interregional and country analysis.

The point about the periphery's inherent disequilibrium tendency is that it could only be managed with less negative effects if nations programmed their investment and saving proceeds. The so- called "import substitution" process would not necessarily bring to an end the disequilibrium in question; it would only reappear in the guise of other necessities once the hitherto technical and division of labor reached a different configuration.

[15] For the tale of its irruption see: Toye, 2003a.

But what a well designed and programmed process of investment did ensue in Prebisch proposal was the incorporation, the integration, of higher numbers of the population in the "modern" circuits of production especially if other reforms were undertaken. The "liberation" of the work force from traditional forms of bondage of all sorts was also a prerequisite, industrialization and the cities were to soak up that labor producing a sort of "social mobility" coupled with the rising of productivity levels and standards' of living. That explains Prebisch´s insistence in the Central Latin American common market and other arrangements in between and within countries to expand markets and make possible economies of scale.

Prebisch was well aware of the ubiquity of the "heterogeneous" nature of much of the technical and social relations in the region, a notion which in the coming years, especially with the work of Furtado, would become central: the "structural heterogeneity" of the periphery was to be defeated with the transformation of the technical and social division of labor and structural reforms.

He was in agreement with Furtado on the transformation of those societies and its industrialization, but always thought industrialization *per se* had its limits given the asymmetries involved (see Toye in Mallorquin 2003 also Mallorquin, 2006). The issue was not "caching up" with the West but rather prepare the periphery to withstand the necessary downswing of the cycle but with a constantly evolving technical division of labor: economic development was precisely the transformation and the rise of the productive capacity of its societies.

The asymmetric mechanism of the distribution of productivity gains between the center and the periphery in Prebisch´s argument has nothing to do with "imperialism" whatsoever. It just so happened that during "the upward swing phase" of the cycle, prices of raw materials of the periphery rose at a much faster pace than the correlative products of the center, while in the down swing phase prices of raw materials declined much faster than industrial products and practically stayed at that level. Whether it was a question of differing demand-price elasticities for their respective products and/or because in the centers their much more homogeneous labor organizations manage to defend its level of income better than the periphery did not in Prebisch eyes lead necessarily to question the overall mechanism as "unequal" for two reasons which for lack of space cannot be explained in full:[16]

[16] See Mallorquin 2006 y 2007.

1) Since 1946 Prebisch had been arguing that the notion of "equilibrium" was a mystical notion.
2) Therefore the price mechanism and thus money did not "represent" anything external to itself other than being a unit of account, thus his condemnation as "metaphysical" all those discussions about "value" in the early days of marginalism or classical economy ("use value" and "exchange value" and so on).

Prebisch argued that there was an intrinsic constitutive reason that explains the life existence of the cycle: *Time* is the cause of it all. Classical and neoclassical economics eluded this issue BY introducing money as a "vicarious" entity to restore a balance between the real and financial levels of the economy. But for Prebisch there is a systematic asynchrony between the diverse productive cycles and the money cycle (a time disparity), although "money" is reintroduced post factum in traditional accounts of the economy and history of thought. That is what produces the systematic wave like motions of capitalism. At the *First Meeting of Technicians on Central Banking Problems of the American Continent*, Prebisch (1946: 227) stated:

> I find myself disturbed by the thesis that free competition leads to general equilibrium and to the most adequate distribution of the resources and income within the community. I do not see any correspondence between these abstract propositions and the reality of the economic world.

Capitalism was essentially unstable thus the importance of money and fiscal policies. As Prebisch (1946: 226-227) observed:

> I have found but wave motions, a succession of ascendant and descendant wave motions. (...) The cycle (...), in the center as much as in the periphery, is the characteristic form in which the economy grows–the capitalist economy has not had another form of growing than the cyclical form.[17]

We could also see how Prebisch appropriated *some* of Pareto´s work. As Pareto (in Mclure, 2001: 76) explained:

> In reality, equilibrium is never reached, since, as one approaches it, it alters continually because the technical and economic conditions of production modify themselves. The real state is, therefore, that of continued oscillation around a central equilibrium point, which itself moves.

[17] That is "a *continuous* succession of desequilibriums" (Prebisch, 1948, in Prebisch, 1991: 449, my emphasis).

It must be said, however, that Prebisch did not make explicit these theoretical considerations at ECLAC,[18] he was adamant that his purpose there was to produce practical and well organized policies and technical advice to development projects (Prebisch,1952b: 24-25, my emphasis):

> We have presented at different sessions of the Commission a flow, at times abundant of documents in which the economic phenomena of Latin American countries are analyzed, interpreted, ordered; studies that could be judged as eminently theoretical. Gentlemen, its true that reality persuades us more so that practical action should have a theoretical base, be it in economic matters as in any other field of knowledge; but to conclude from this that the permanent organization of ECLAC is an instrument of theoretical analysis would be a serious, a very *serious* error because it would mean distancing oneself by the path traced by this Commission in successive meetings. The ECLAC organization is not a theoretical instrument, not a body of scientific investigation, but rather it is inspired by eminently practical purposes, objectives that have been defined and reached, perhaps, more clearly at the Conference en Mexico (…) ECLAC as an organization of international action (…) can examine those forces that act deep in the womb of the economy of the Latin American countries (…) (and) find a solution to our immediate problems (…) determining the technical necessities of the countries (…) the necessities of investment of capital; studies of the techniques of investment programs (…) contribute to the formulation of policies of development; and (…) training economists in problems of development.

Prebisch reminder of ECLAC´s mission and reprimand represents just one of a series of difficult episodes at the organization. Furtado since joining the organization had been very busy taking Prebisch thesis about the fallacy of the universality of economic of orthodoxy very serious indeed. Side by side with his organizational tasks, having directed *An Introduction to the Technique of Programming* (1953) and revised in 1955, he also published his first book *The Brazilian Economy* (1954) dedicated to Prebisch.

[18] And yet Prebisch could not help himself. In 1953, after many important economists of Northamerican universities visited Brazil: G. Harbeler, J. Viner, R. Nurkse, L. Robbins, in a sense to counter ECLAC´s ascendancy, E. Gudin wrote a series of articles in *O Correio Da Manha*, with the title: "The mystical planning"_to which Prebisch responded with: "The Spontaneous Mystical equilibrium of the economy" (Prebisch, 1953a): "its proof that Dr. Gudin continues to believe in the tendency towards equilibrium, inherent in the economic system, when perturbing elements are not introduced in the economy. I don't believe in all of that. The cycle is the typical form of growth of the capitalist economy, that is to say, an uninterrupted succession of disequilibrium's".

Between 1950 and 1954 Furtado wrote a series of articles that were to become the book in question. Some of the articles were published in Anglo-Saxon international journals. The book can be divided in two parts: a historical description of Brazil´s recent economic evolution and transformation, and an engaging critique with classical political and its more modern theorists: A. Hansen, J. Schumpeter, J. M. Keynes, and, with the exception of Schumpeter all misunderstood or did not face theoretically the problems of that which could be thought of as "underdevelopment".

The second part of the book is indeed paradoxical given that it was its author who was to be in the years to come the constructor of the "underdevelopment" problematic nearly single handed. Its theoretical strategy showed deep tensions between its teleological and contradictory nature: the problematic and questions with which he addressed economic thought had not been created, orthodoxy examined "backward" countries in terms of its own categories, with all the linear evolution suppositions that it entailed. And yet one of his starting bases to construct the theoretical space of underdevelopment is promoted by the conclusions of an Anglo-Saxon economic reunion in Chicago in 1953, where it was decided that the issue of "development", "evolution" and "change" in underdeveloped countries was not part of economics proper. In the other part of the strategy, Furtado used Myrdal´s (1945), *The Political Element in the Developmentof Economic Theory* and Edwin Cannan´s (1942), *History of Theories and Production…* to argue that economic thought has been until recently a comedy of errors.[19]

But in ECLAC the book did not fare well, especially with Prebisch, since his description of economic growth of Brazil in the forties and fifties was argued showing that there was no deterioration of the terms of trade and that the high rate of capitalization and industrialization process was realised under a very positive socialising cost effects that fell on coffee exporters and importers of consumer goods given the existent foreign exchange controls then in force, which in turn favoured the introduction of capital goods. The book also offers one of the first accounts of inflation which later was to be named "structural": a differentiation between the "static" orthodox notion vis a vis the "dynamic" heterodox one in Furtado´s terms. It was the Mexican colleague J. F. Noyola (1956)[20] who managed to synthesize those views a couple of years later as "structural". Noyola (1956: 67) argued then that:

[19] It is not until Gerald M. and Robert E. Baldwin Meier, 1955 book that a history and revision with reference to "backwards economies" was undertaken.

[20] Noyola seems to be the only one to have reviewed Furtado, 1954; (Noyola, 1955). On the Furtado and Noyola relation see first chapter Mallorquin 1998 and C. Danby, 2006.

> inflation is not a monetary phenomenon; its the result of disequilibrium's whose characteristics are real that are manifested in the form of a general price level rise. The real character of the inflationary process is much more perceptible in underdeveloped countries than in the industrial ones.

Although Noyola said that "inflation is in each Latin American country is a specific and distinct problem" (Noyola, 1956: 68), its comprehension needs a distinction between "basic inflationary pressures" and the "propagating mechanisms". The first aspect refers to its causal origin which generally is observed in growth "disequilibrium's localized nearly always en two sectors: foreign trade and agriculture"; the second it's about a "propagating" mechanism that could vary among many, but they can be "grouped around in three categories: fiscal mechanism (in which it has to be included the system of social welfare), and the mechanism of readjustment of prices and incomes" (Noyola, 1956: 69).[21]

Therefore the intensity of the inflation is measured not by the circulating mass or its velocity, but rather taking into account the "pressures" and "propagating" forces. The "basic pressures" as a first driving force can be externally originated, and the second propulsion, the "propagation", will depend on the institutional processes like the behavior of the Banks, the taxing system or the occupational structure.

Years before in Nurkse´s visit to Brasil in 1952, emerged one of the first "misunderstandings": after claiming that Furtado has misread him, Nurkse (1953: 80-81, my emphasis) observed:

> If I understand correctly, he advocates in the last part of his essay a deliberate concentration of domestic as well as foreign investment on export industries and on industries producing import substitutes, as a mean to meet the pressures on the balance of payments that arise in the process of economic development. I must confess I have little faith in this prescription. It will not avert inflationary trends and balance of payments difficulties unless an attack is made on the root of the trouble; the tendency of money income to run ahead of productive capacity. In my view these pressures may have not even be related to high income elasticity of demand for imports. Besides, the very concept of income elasticity is usefully applicable only if the basic relationship between income and imports (that is, the 'import function') can

[21] O. Sunkel published a similar article two years later, but here he talks of three types of "pressures": "basic", "circumstantially inflationary" and "accumulative", which turns problematic the causality explicitly developed by Noyola double pronged division between "pressure" and "propagation" of the inflationary forces (Sunkel, 1958).

> be assumed to be fairly stable. If, as I am inclined to believe, the main trouble lies in the so called 'demonstration effect' and its influence on the propensity to consume, a change in the direction of the current flow of investment may accomplish little or nothing. The problem is rather to 'make room' for his investments by keeping a firm check on the growth of expenditures other than capital outlays. To recognize that inflation may have various underlying causes is one thing; but to say (as Furtado seems to say) that inflation is therefore *not* a monetary problem is quite another thing – and in my opinion misleading.

Prebisch certainly took his time to get involved in these discussions. Given his insistence on the importance of taking care of monetary aspects with anticyclical policies, he still thought he could find room for a non- "orthodox monetary stabilization" formula (Prebisch, 1961: 53). Prebisch (1961: 58) argued that income contraction *per se* was not recommended when the structural factors were the primary origin of inflation, but:

It would be a serious error to attribute exclusively to the structural vulnerability of the economy the cost and investment inflation. Because Latin American experience has shown repeatedly the importance of monetary and financial policies. There is no automatic relation between the structural vulnerability and inflation or the intensity with which it develops.

Certainly Prebisch did not think structuralism could encompass the whole field of economics during the fifties, Furtado on the other hand developed a general conception that not only referred to specific problems of the "underdeveloped economies", but also could explain the "structural obstacles" of developed countries. In Furtado´s vision, the asymmetries which Prebisch brought to light between the center and the periphery could be translated to any other social or geographic space, because what was at issue was the disparity, asymmetry of power between and within certain economic agents whose main characteristic was their heterogeneity. The structural heterogeneity was a universal phenomenon, manifesting itself in a wide variety of forms. In Hirschman's terms it could be said that the driving force and organizational structure of the units of production within and between sectors and regions depended on their inherent "unbalanced" *empowerment*. Hence the importance of structural reforms that addressed those "disequilibriums".

This is one of the aspects of structuralism which has been less understood: the state was needed not just for implementing and creating investment opportunities: just as important was its role in "creating" the "market". Es-

tablishing rules of possession in separation of and between different units and sectors of production, as well as more modern social relations for the labor force that was going to join the new technical division of labor, important aspect that were to be taken into account by the industrial policy to follow. Structural obstacles meant that the incorporation and articulation of new technologies was not an automatic process.

Mr. Hirschman Through the Looking Glass

If Muslims are obliged at least once in their life-time, if conditions permit, to visit Mecca, Anglo-Saxon economists should themselves be under the same stopover constraint at the Mecca of Development. Hirschman made it his life long laboratory center: theoretically and existentially.

By the mid fifties Hirschman also had reached a notorious disbelief on the capacity of economic discourse to explain specific rationalities that motivate change and transformation of societies; he initiated the task of reconstructing a perspective that could be "fitted" in underdeveloped regions.

Once you assume that capitalization or aggregate investment cumulatively does not tell the whole story of development, that it does not incorporate various human and capital resources, you have to think about how to combine these elements. In other words, you need a "binding agent" (Hirschman, 1958: 6) to explain the particular way in which it will take decisions and get the economy growing and therefore Keynesian remedies are insufficient. The growth models have no problem in this respect because they consider investment or "induced investment" as an automatic behavioral process of the functional relationship between output and capital formation. So Hirschman posits as important the inducement mechanisms of investment, a phenomenon that in contrast to the developed nations saving and investment decisions, in underdeveloped countries are "interdependent" (Hirschman, 1958: 32).

The notion that development requires a simultaneous process of investment along a series of sectors or units of productions, or otherwise negative vicious circles ensue, also is questioned by Hirschman. In underdeveloped countries, something else is required, a mechanism which Hirschman (1958: 42-43) calls the "complementary effect", it:

> Reinforces and supplements the slowly growing ability to invest (…) The investments of one period call forth complementary investments in the next period with a will and logic of their own, they block out part of the road that lies ahead and virtually compel certain additional investment decisions (…)

> is therefore the essential mechanism by which new energies are channeled toward the development process and through which the vicious circle that seems to confine it can be broken. To give maximum play to this effect must therefore be a primary objective of developmental policy.

The complementarity effects dissipates as the economy reaches "higher levels of development", some investment lose importance since the input-output matrix of the economy has most of its boxes filled. But all in all, Hirschman has no intention to displace Rostow´s notion of the "take off" period. H. A. Simon (Hirschman, 1958: 48) is brought to the rescue to explain the learning process of investment by which is meant that the preliminary process of development will need some forcing of the pace initially so that the agents in question don't give up once it becomes conscious of the price to reach the task at hand. Thus Hirschman insists that he is not proposing a "rigid" model of development, but steady growth has to do with the ability to invest, considering the great variety of negative forces that can appear, which is the reason why a conscious "development strategy" is needed.

One of its ingredients supposes the deconstruction of the "balanced growth" perspective (Rosenstein, Nurkse, Lewis) which presupposes an initial effort of investment in various sectors at the "same time" so that they can complement each other, but the theory fails as a theory of *development*. As Hirschman (1958: 52) observes:

> Development presumably means the process of *change* of one type of economy into some other more advanced type. But such process is given up as hopeless by balanced growth theory which finds it difficult to visualize how 'underdevelopment equilibrium' can be broken into at any one point.

But that perspective assumes an absence of differences between sectors and units of production, and wants to impose an "entirely new, self contained modern industrial economy" "on the stagnant and equally self contained traditional sector" (Hirschman, 1958: 52). This is not "growth" because there is a dualistic division and a pattern in which both economies are without any articulation. According to Hirschman (1958: 53-54), even if this is an exaggerated view of the balance theorist's account, what makes it its worst ally is the notion that it:

> requires huge amounts of precisely those abilities which we have identified as likely to be in very limited supply in underdeveloped countries.(…) In other words, if a country were ready to apply the doctrine of balance growth, then it would not be underdeveloped in the first place.

Hirschman maintains that if the balance growth theory is put forward precisely to get governmental intervention then it's "hardly "convincing", because what "private enterprise" cannot undertake cannot in anyway guarantee that public authorities can. There are thus some activities which cannot be undertaken, no matter who it is entrusted to realize them. And a multitude of centrally planned Investments so that it internalizes *only* "external economies" and external diseconomies and social costs of new ventures excluded is hardly possible. But the image behind it, says Hirschman (1958: 56), is what defeats it; it presupposes sectors that wont be touched by the process of development and a

> brave new sector to be built from the ground up in isolation; in this fashion, all those who might possible suffer losses in the course of the development process are effectively assumed away. (…) But in general economic development means transformation rather than creation *ex novo*: it brings disruption of traditional ways of living, of producing, (…) and (…) social costs.
> Thus, Hirschman's answer (1958:62-63; 71-72) is "unbalanced growth":
> Just as on demand side the market can absorb "unbalanced" advances in output because of cost reducing innovation, new products, and import substitution, so we have isolated forward thrusts on the supply side as inputs as redistributed among users through price changes, and at the cost of some temporary shortages and disequilibria in the balance of payments or elsewhere. In fact, development has of course proceeded this way, with growth being communicated from the leading sectors of the economy to the followers, from one industry to another, from one firm to another. In other words, the balanced growth that is revealed by two still photographs taken at two different points in time is the end result of a series of uneven advances of one sector followed by the catching up of other sectors. (…) this kind of seesaw advance over "balanced growth" (…) is that it leaves considerable scope to *induced* investment decisions and therefore economizes our principal scarce resource, namely, genuine decision-making. (…) An ideal situation obtains when (…), one disequilibrium calls forth a development move which in turn leads to a similar disequilibrium and so on ad infinitum. If such a chain of unbalanced growth sequences could be set up, the economic policy-makers could just watch the proceedings form the side lines.

Thus development presupposes a "chain of disequilibria". The retroactive decisions to invest will produce the possibility to jettison precisely those forces and disequilibria which brought it on. As Hirschman (1958: 66-67) explains:

> our aim must be to *keep alive* rather than to eliminate the disequilibria of which profits and losses are symptoms in a competitive economy (the task of development policy is to maintain tensions, disproportions, and disequilibria. That nightmare of equilibrium economics, the endlessly spinning cobweb, is the *kind* of mechanism we must assiduously look for (…)Therefore, the sequence that "leads away from equilibrium" is precisely and ideal pattern of development from our point of view (Hirschman, 1958: 66-67).

Although all investment can be considered as induced investment, the notion of the mechanism of the complementarity effect supposes that those investments are "*net beneficiaries* of external economies" (Hirschman, 1958: 71). Therefore, each induced investment should remind everyone of the multiplier effects: each new investment induces a series of subsequent ones, although not all investments will necessarily converge. Now, obviously external diseconomies will appear with new investments, damaging established plants, but its effects will spread over longer periods while the newer investment will bring forth the possibility of renewing a positive cycle of investment and positive external economies in a different sector. It is in this context that Perroux is brought to the attention of the reader as "closer to our viewpoint" (Hirschman, 1958: 74).

The election or "guidepost" of the optimal developmental strategies requires a reflection on the order or sequences of the investment pattern, which means that "profitability" *per se* cannot be assumed *a priori* to be the best way to generate a continuous reinvestment process. Thus the election process for Hirschman requires a more complex system in terms of a "jigsaw puzzle" (Hirschman, 1958: 81): "The fitting in of individual pieces would represent the taking of discrete development steps. The problem would again be to minimize the time needed to put the puzzle together". Since the "aim would be to surround the neighbors parts, the process becomes more determinate since you'll chose those pieces that take less time install. Thus "efficient sequences" will necessarily entail something variable depending with which pieces you have installed to start the process. The exercise is a way to establish that there is no preordained order or sequence that the productive chains should follow. This also takes Hirschman to discuss the issue as to the priority or otherwise of pushing the investment in Social Overhead Capital (SOC) *versus* Directly Productive Activities (DPA) and once again, no necessary order can be established before hand. Although investment in SOC is "safer" than in DPA, since it is supposed to materialize throughout the economy it can also be a burden because planners' are basically blinkered and thus unable to

articulate it to the DPA sectors. Thus only history and economic analysis can help us to see which would be the more "productive" sequence: "whether DPA investments lead to SOC or vice and versa, better still which "maximizes" "induced decision-making", as Hirschman (1958: 93) observes:

> *it is the experience of unbalanced growth in the past that produces, at an advanced stage of economic development, the possibility of balanced growth*.

What makes Hirschman much more than just the "traditional developmentalist" of the epoch is that he is willing to reconstruct a series of categories to fill the theoretical void once you question the basic notions implied by the maximizing agent. Thus the process of industrialization does not have a preordained sequence either in terms of the sectors or the factories. Within the DPA sectors, the derived demand can be thought in terms of "*backward linkage effects"* (Hirschman, 1958: 100), that is, the inputs needed for that unit of production, or output utilization products "foward linkage effects", in other words, intermediary inputs needed by other sectors or units of production.

Thus traditional complementarities and external economies, cumulative causation, etcétera, cannot help to think a "developmental path", even though we might have the input-output statistics at hand. But with the "well-known backward and forward effects" (Hirschman, 1958: 100) development policy can supersede traditional analysis and evaluate the strength of the stimulus between certain industries vis a vis each other. Interdependence of the input-output matrix is by definition a consequence of industrialization process, but some forms of linkages especially if they involved export and or import ties can be difficult to displace. But it's much easier to perceive backward linkage effects than forward ones. Forward linkage effects presuppose a backward linkage effect, which drives on certain demand, in contrast the forward linkage has no "independent inducement mechanism", and it "acts as an important and powerful reinforcement to backward linkage (Hirschman, 1958: 117).

Thus, Hirschman (1958: 118) states:

> The ability of underdeveloped countries to start industrialization in this fashion by giving the 'last touches' to imported materials is no doubt an advantage inasmuch as it permits industries to be started even in areas where markets are small and technical knowledge and organizational know-how are scarce. But it is also a disadvantage, for it builds resistance for every new step in the trickling down process. In dealing with backward linkage effects,

> we have thus far taken it almost for granted that as soon as domestic demand passes the threshold of minimum economic size, domestic production will be undertaken.

And yet given the resistance of various interests, importers or exporters for the establishments of new industries, gradualism may not be the best option.

On the other hand, paradoxically, protectionists and industrialization forces are oblivious to the connections between imports and industrialization and adopt self defeating policies instead of promoting certain imports which in turn builds the comparative advantage in the elaboration of these goods.

Yet the "cohabitation" of modern and preindustrial industries, sometimes even "neolithic techniques (Hirschman, 1958: 125) or so called dualism, is an important phenomenon to be understood in Hirschman´s perspective, because it is not just a question of technological discontinuities, it also has to do with important existential parameters relating "attitudes" and "ways of living" (Hirschman, 1958: 126).

Unlike the preindustrial experience in Europe, in underdeveloped countries the incorporation of new machinery and technological advances do not necessarily eradicate previous techniques or ways of doing things. Also the appropriate labor or capital intensity that the production functions should take has to be seen in the light of past and present process of industrialization because "today's underdeveloped countries" can concentrate on a wide range of useful and desirable products that are entirely new to the economy (Hirschman, 1958: 126), and therefore handicrafts and cottage industries are not necessarily involved in a tenacious competitive classic cycle such as it occurred during the industrialization in the west, which in turn means that wage differentials are not the best horizon to measure efficiency. Thus "dualism" may bring many tensions but also some rewards since it leaves be a whole set of sectors and firms untouched by the new capitalization evolution of some parts of the economy.

Orthodoxy's insistence on the market and competitive struggle among firms as inducement mechanism leaves out of the picture market size as well as all sorts of "collusive agreements" in custom driven economies. Thus there are reasons for imposing strategies to construct "complementary" and competitive relationships" (Hirschman, 1958: 135). Given certain practices,[22]

[22] In a very cryptic note Hirschman also mentions that the absence of "growth mentality" and difficulties in the administration of firms is also "found in advanced industrial countries" (Hirschman, 1958: 136).

lack of "proper" motivations, the underdeveloped countries produce an interesting cultural phenomenon: an "imbalance" between their ability to promote new ventures which fly way ahead of their capacity to run them efficiently.

Once the classic notions on "maximization" are left out, there is the problem to find the criteria for the decision to gauge the appearance or creation of new products as well as the inducement mechanisms. The question of "maintenance" seems to be one of the processes which could be most effective as a guiding hand: undertake[23] projects "which do not require it" (Hirschman, 1958: 141). Also following Chester Barnard, Hirschman would argue that "product-centered" industries does not contribute as much as "process centered" ones to enhance labor's efficiency because in the latter case technology imposes a logic and a specific process of coordination. In other words, the technology enhances management and with it labor's competence.

Given the apparent congenital instability of underdeveloped countries, the question of inflation and balance of payments difficulties is an obligatory theme. Having laid waste classical explanations on inflation ("long discarded theories") Hirschman concentrates on the "inflationary" impulses which are a consequence of certain types of "development sequences". A price rise, given the low short-run supply of underdeveloped countries, is bound to produce a disproportionate response and although it could be argued that it has always been the case in today's western nations' transitional period towards industrialization, Hirschman insists that they were "less powerful", and also the forces in question got matching response in terms of a periodic price decline. But in latecomers the pressure towards a downward price movement cannot be compared with those of the industrialized world, because the equipment in used has already gone through the competitive price/cost cut struggle. The benefit is in the "high" technological advances which most capital imports bring with them. Thus avoiding inflation in underdeveloped countries is much more difficult given the sectional price movements. But Hirschman seems to have forgotten his theses that not all of imports are manufactured goods vis a vis raw materials.

[23] "We have argued that economic development typically follows a path of uneven growth, that balance is restored as a result of pressures, incentives, and compulsions: that the efficient path toward economic development –and therefore the one that will often be instinctively taken if we can rely on the 'principle of least effort' – is apt to be somewhat disorderly and that it will de strewn with bottlenecks and shortages of skills, facilities, services, and products; that industrial development will proceed largely through backward linkage, i.e. will work its way from the 'last touches' to intermediate and basic industry" (Hirschman, 1958: 135).

Thus the relative high price rises make for better signals for investment in those sectors, but low supply elasticity's do not explain the whole picture because it also depends on the skill and "determination" of the monetary and fiscal managers (Hirschman, 1958: 161).

Of a possible scenario of four types of price and output behavior, the most convenient one is that which promotes investment in certain sectors where the price rise appeared and thus overcome those "imbalances" that brought on those price rises. As Hirschman (1958: 162) argues:

> But there is a real difference between an economy that solves *new* supplies problems in every round of inflation and one in which it is the same supply problem that is constantly causing prices to resume their upward course.

And yet in some areas Hirschman argues that price signals are not always the only or best inducement mechanism: "Fortunately the strategy of unbalanced growth does not stand or fall with the efficacy of price signals alternative methods for restoring balance between sectors whose uneven growth creates economic tensions" (Hirschman, 1958: 163).

Unlike Latin-American structuralists, Hirschman seems dubitative to say the least on shedding traditional notions of inflation: although the so-called "price-price spiral" is "*akin*" to the wage-spiral inflation of developed nations, its problems and difficulties are much more pronounced than the usual excess demand for "investment and consumption", although the latter explanation is "correct at times"[iii] As Hirschman (1958: 164) explains:

> Nevertheless, anti-inflationary policies must certainly be re-examined if excess demand is not considered to be the only or even the principal villain. In the first place, we can understand why both the commercial banks and the central bank are often taken aback by the admonition that they must not finance an investment boom. All they are doing, they will maintain, is adjusting existing credit lines to the higher prices that have come to rule for some commodities. We see now that this opinion may not be as naive as we usually tend to think. The role of the banking system in a price-price spiral inflation is far more passive than in a demand inflation. The banks merely permit their clients to pass on all price increases, in the interest (…) maintaining economic activity at previous levels, not of expanding it.

Having said that, he concludes that inflation in "underdeveloped countries arises principally from supply imbalances that are characteristic of the growth process" (Hirschman, 1958: 164).

On the other hand, balance of payments difficulties are seen as a consequence of excess demand. But in underdeveloped countries balance of payments difficulties, says Hirschman, could be a product of the typical growth sequences and not a reflection of domestic inflation. Shortages could be solved importing goods under that circumstance, if foreign exchange is available, the demand in question will not cause any rise in prices. In these cases it will be sane for a government not to allow the price to signal pressures in demand, especially if it cannot make sure that additional production will be forthcoming.

Thus a "respite granted" by an import surplus can be extremely valuable, provided it is utilized by the public authorities to push through some of the reforms required to increase supply elasticities" (Hirschman, 1958: 167).

Only as a footnote, the thesis that the balance of payment difficulties are seen as a consequence of "output-input imbalances and disproportionalities" during the growth process, becomes something close to the notion of "structural factors" as the cause of those difficulties' rather "than the inability of developing countries to live within their means"(Hirschman, 1958: 169).

Also fluctuations in foreign exchange earnings are endemic part of the underdeveloped economy given the fluctuations in the prices of their products and yet Hirschman does not waver an inch to bring in his support the Singer-Prebisch thesis.[24]

Whereas much of Hirschman´s argument of unbalanced growth can be seen in terms of interregional and international asymmetries, terms much more usually evoked in structuralists circles, he prefers the use of the "polarization effects" within and between different regions or sectors, or countries. But then power is central in his consideration. If a region could in some instances be "treated as *though they were a country* and in some others *treat a country as though it were a region*" (Hirschman, 1958: 199), it would be easier to create situations favorable to all parties in development.

Much depends on the mechanisms of transmission of growth which he labels the "trickling-down" and "polarizatrion effects". Instead of using the developed and underdeveloped couple or for that matter the center-periphery (Prebisch) one, Hirschman uses "north and south", a kind of spatial metaphor to portray the process of growth via their interaction and thus the policies necessary to limit the "polarization effect". One of the effects of the north's growth as a stimulating force on the "south" would be the stimulating "tric-

[24] The only appearance of "Prebisch" in Hirschman´s classic work can be seen in the longest footnote of the book: There he mentions that the Singer-Prebisch and its negative phenomena of the deterioration terms of trade: "need not be a losing proposition for the primary producing countries provided they industrialize" (Hirschman, 1958: 159).

kling-down effects" by certain demands for its products. But it could also be the foundation of the profound interregional polarization which in turn could drive the south to sponsor policies to counteract theses effects.

But the fact that the trickling-down effects and polarization effects can be confronted shows that what is needed is a sort of "sovereignty" for the south as a way to inhibit the polarization effects, but then mobility and interaction between the regions could block any trickling down effects. Therefore "the polarization effects will be stronger when there are no frontiers to cross, so will the trickling-down effects" (Hirschman, 1958: 197). In an international context between countries, the "trickling-down effects will mean an important force as a promoter of development if some sort of mutual dependency is involved. The problem is when a country has no goods or resources to articulate itself to the international transmission of growth,that can be seen when a region is integrated "into a larger country" (Hirschman, 1958: *Ibid*). Although interregionally the north might have the possibilities to acquire its necessities outside the shared space with the south, internationally the obstructions for the trickling-down effects are much "stronger, just as the trickling-down effects themselves are weaker, than in interregional relations" (Hirschman, 1958: 198).

In other words, we are "brought back to the political forces making for transmission of growth" (Hirschman, 1958: 198). Given the absence of an international entity, on balance, "forces making for interregional transmission of growth are likely to be more powerful than those making for international transmission" but in others "growth is transmitted more easily between nations than between regions"(Hirschman, 1958: 198-199).

But for Hirschman (1958: 200), there are no general optimal institutional arrangements. The mere posing of the question is a mirage because "closing the gap" between "north and south" requires the

> use of instruments that would ordinarily be thought to be disruptive of the very integration they are designed to achieve. While it is the purpose of these instruments to cut down the strength of the polarization effects, great care must be taken, of course, not to interfere with the efficacy of the trickling-down effects. Thus, economic policies (…) are designed to insulate the South sufficiently so that it may undertake certain industrial and export activities in competition with the North; but, at the same time, the complementary relationships that make the South a supplier of the North must be preserved and intensified.

In contrast, Hirschman (1958: 200) asserts:

> For *international* transmission of growth (…) The task here is to keep the polarization effects as weak as they normally are among independent nations, but to increase the strength of the trickling-down effects. In other words, the underdeveloped countries ought to retain the developmental advantages of sovereignty.

Nonetheless, Hirschman feels "uneasy" by the argument that "pressures", "tensions and disequilibrium" *are* virtuous, which is the extension of the argument that "economic growth creates profitable opportunities and the concept of disequilibria include these opportunities" (Hirschman, 1958: 208)[25] given that not all productive sectors and inducement investment have the same scope for growth.

Remembering the Future

It might be wrongly assumed that the recovery of structuralism as perhaps one of the earliest theoretical currents to engage on issues of development is just a part of Latin-Americans nationalist chauvinism or worse "fanaticism".[26] A case for its paternity can certainly be made. And it would take a Hirschman like attitude and yet its frowned upon in other quarters. Hirschman´s claim as the dependency grandfather appears in his revised version his 1945 book, *National Power and the Structure of Foreign Trade,* where he also argues for the priority on "Gini index or coeffcient" (Hirschman, 1945: XVIII).[27]

But what is at issue is a very distinct problem: the histories of the disciplines cannot but be made from certain questions or perspectives. And structuralism forms part of a very long tradition in social and economic thought that once in a while tries to reiterate the theoretical importance of power in social relations, and the examination of the calculating agent in specific historical contexts which in turn means that it would be silly to try to argue in favor of a "general theory of evolution" and/or of action. Perhaps Perroux´s and his followers had said something similar having also questioned the mechanical notions of general equilibrium, hence the study of inter and intra regional asymmetries ("poles of development", power asymmetries that underlie the exchange/production mechanisms among the various sectors and production units).

[25] "development also draws new strength from the tensions it creates" (Hirschman, 1958: 209).

[26] Term used in reference to Furtado in the conversation between Gudin and Harbeler (Furtado, 1985: 124).

[27] For an account of dependency theory see Kay, 1989.

Economic thought has been haunted constantly by this future: the return of power relations to think the economy: see the Schumpeter and the german historical debate,[28] or the early questioning in classical political economy (William Thomas Thorton) of the price and market mechanism as simple consequence of the supply and demand schedule (Mirowski, 2004); as well as Talcott Parsons (Parsons, 1937) strategy to leave out the question of power to "political theory" and simultaneously leave out of the discussion those who were till then his intellectual mentors: the institutionalists.

Structuralists in Latin-America certainly constructed the tradition from which they wanted to be free, and although their reading could be a source of debate, what was central was the need of a new vocabulary to present its policy´s. We mentioned that Furtado negated classical political economy as a comedy of errors because it did not address the question of "underdevelopment" and also Prebisch´s critique that the absence of the notion of "time" in economics was the cause of its downfall. Hirschman in turn with the question of the inherent "disequilibria" of the economy as its driving force certainly did not try to retrace these notions in economic thought but given that there was already, in its initial phase, a theoretical space in academic life that maintained that "underdeveloped countries" had to be treated with a different set of lenses perhaps it was futile. And yet much of his subsequent work is undertaken in the field of the history of social thought especially around the notion of the "market".

The most important part of this episode, in terms of Furtado and Hirschman alike, is that it became the laboratory which was to witness the transformation of a particular discourse that privileged its questions on a specific part of the world economy into a general conception. In this context, Hirschman (1984: 95) observed:

> It appears, therefore, that the very characteristics on which I had sought to build economics specially attuned to the underdeveloped countries have a wider, perhaps even a universal, range and that they define, not a special strategy of development for a well-defined group of countries, but much more generally valid approach to the understanding of change and growth. In other words, I set out to learn about others, and in the end learned about ourselves.

On the other hand, Latin-American development between 1950 and 1980 cannot be seen simply as the materialization of "structuralist" policies, a pe-

[28] Morishima, 1998.

riod of high rates of growth and development that cannot be compared with the subsequent under the so called neoliberal period.

The "black legend" created by neoliberalism on state intervention and closed economies of the region to engender changes in policies cannot be read in great part as the result of structuralists proposals during the fifties and sixties. ECLAC and Prebisch were the first to criticize the exaggerated level of protection in some industries and countries in the region. And perhaps what must be up to date the most misunderstood of the structuralist theses is the so-called state and market opposition (especially in Anglosaxon literature): the whole the whole objective of the structural reforms was to reconstruct the rules of the game, not state intervention: to recreate the relations of possession in separation of the units of production and between them which means, the "market". How you articulate the units of production is a different matter and debate. But structuralist analysis of the region's economies found that they were hardly organized as totalities or sometimes even regionally. State "intervention" not only meant facilitating financial help for potential entrepreneurs but also intervention in establishing the social and political conditions of the market. Which did not mean that the heterogeneity, technologically or socially speaking, would just evaporate with the reforms, but that was prescisely what a developmental perspective had in mind. Given the notion that structural heterogeneity is the product of diverse and distinct power conditions the more modern were those rules the better.

Another aspect of the history of the policies sponsored by structuralists has also been "misconstrued". Let's hear it from the man himself. For Prebisch (1959: 447), the option whether to produce locally certain industrial products or should be imported had to take into account how much of that income would stay in the local economy:

Let's clarify a very important point. The fact that industrial costs are higher than the import prices does not imply necessarily that the industry is anti-economic for the country, how it's generally believed. Obviously better the smaller the difference. The problem has to be considered from a different angle. Its not really about comparing the industrial costs with import prices but rather compare the increase of income derived from the industrial expansion with the one that would have been reached in the activities of exportation if its productive resources' would have been employed in them.

Also it was never recommended that countries should fill all their input-output matrix of a sector or product by local production: it was always thought that as economies evolved what changes is their "import composition"

and as it so happened the rate of substitution could not be kept up (foreign exchange wise) with the demand for certain other product parts: hence the inherent disequilibria of these economies and the need to think of rates of growth by sectors. Last but not least, industrial countries were not, and have not been a haven to the export of manufactures from economies "in development".

This brings us to another theme which was only to clear later in the sixties: "development" is the way economies evolve, how they transform themselves which in turn requires certain "rates of growth" but both don't necessarily coincide. If growth does not produce a decrease in the heterogeneity, socially, technically of the economy its not really development.[29] That is why structural reforms where thought as the generators of reservoirs of capital and social energy unaccounted for by our national statistics.

But tracing these problems and theoretical debates to Second World War "planning debates" as Arndt (1987) does leaves unaccounted the theoretical work done in the region. Is this to be blamed on the absence of reading of Spanish or Portuguese literature? Is it easier to confront structuralism if made out to appear as an anti-market discourse when what was at issue for structuralists was precisely how to think the market and reform institutions so that "markets" could be thought as precise "information" providers.[30] Thus the importance to analyze the specific social relations of the agents and the productive units, also the notion of heterogeneity in terms of social relations and technologies and the time horizons of the entities in question. The structural obstacles that could be seen as the causes of a series of what Anglo-Saxon theorists called "bottlenecks" could only be superseded by specific policies and structural reforms. But in the last instance all economies are ridden by structural obstacles in relative terms.

Before I conclude some readers must be wondering what happen with the whole deterioration of the terms of trade conundrum, the so called "Prebisch-Singer" thesis.[31] The point is that even if the deterioration could not be "proved" some structuralists would still argue that their conception of how to reorganize the economy and transform its technical division of labor

[29] Latin-American structuralists should appropriate for themselves Hirschman´s graphics (Hirschman, 1984: 107) on "balanced and unbalanced growth" and "antagonistic growth" to represent the process of development.

[30] I mean, has any body out there read Polanyi´s (1944) "*The Great Transformation*..? Is economic in such a state, that with all the respect that Chang´s (2002) work deserves, these works need to be produced?

[31] Luis Daniel Torres (2006) has reviewed the whole literature of the past 30 years, and incorporated new calculations and cross references of new data and the case for the deterioration of the terms of the periphery is difficult to avoid.

is much more efficient and integrative of the masses to its circuits of production than orthodox versions of economics. Given that the price mechanism is the reflection of power relationships and asymmetries these are always the object of struggle and can be changed with all sort of policies which are practiced in a day today basis in the industrial countries and last but not least it's plainly a matter of "sovereignty".

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