

## Structuralism\*

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Structuralism or Latin American structuralism refers to the approach that points out the importance of taking into account the structural characteristics in the analysis of the economic development process. These structures determine specific behaviours of the trajectories that are unknown a priori, and should be analysed considering the historical specificities of peripheral economies, as there are no uniform “stages of development”. Such an approach was developed mainly within Economic Commission for Latin America and the Caribbean (ECLAC) -the Spanish acronym is CEPAL-, the United Nations’ body established in 1948 at Santiago, Chile. It was primarily associated with the CEPAL’s Executive Secretary, Raúl Prebisch and the economist Celso Furtado, but also included the contribution of several economists and sociologists. Its importance stems from both the originality of its analysis on development issues as well as its policy-oriented feature, with influence in fostering industrializing policies in Latin America and other regions.

The pioneering work of Prebisch (1950), that develops the concept of centre-periphery and the thesis of deterioration of the terms of trade, was the embryo of Latin American structuralism. This approach seeks to understand the specificity of the "peripheral condition" and highlights the importance of technical progress for capital accumulation and the need to analyse the dynamics of developing countries in the context of their integration into the world economy.

The specificity of underdevelopment is primarily related to the asymmetry in the world economy in which *central economies*, producers of manufactured goods, are diversified and technologically homogeneous, while the *peripheral economies*, producers of primary-exporting goods, have a specialized and dual production structure: technical progress is introduced only in export sectors, which coexist with backward sectors of low productivity. In the periphery, the heterogeneity that results from the productive bipolarity generates lower average levels of productivity than in the centre. The differentiation in the levels of labour productivity is the basis of the differentiation trend of the average real income between centre and periphery.

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As stressed by Ocampo (2001), Prebisch, by showing that the diffusion of technical progress is a slow and uneven process, put emphasis on imbalances in the world economy and its persistence over time. These asymmetries tend to increase the difference in levels of development between centre and periphery.

In particular, Prebisch criticized the theory of comparative advantage, whereby the technical progress tends to be spread equally among countries' producers of primary goods (agricultural products and raw materials) and countries' producers of manufactured goods and may even favour the peripheral countries that would benefit from cheaper prices of industrial goods. According to this author, the secular decline of prices of primary goods relative to manufactured goods is mainly due to the following factors: (i) the demand for manufactured goods grows more rapidly than the demand of primary goods due to higher income elasticity of manufactured goods vis-à-vis the primary ones; (ii) the central countries tend to reduce the rate of expansion of imports of primary products as they continue to incorporate technical progress that spares primary inputs; (iii) the lower supply of labour and largest organization of workers in central countries leads to higher wages, which prevents the fall in prices of industrial goods during the downturn of the economic cycle, more than offsetting the gains realized by the periphery during the cyclical boom with the increase in the demand and prices of primary goods; in the periphery, the abundance of labour supply results in an expansion of production that contributes to depress international prices of primary products.

In conclusion, not only the central countries fully retain the fruits of technical progress in their industries, as well as they appropriate of part of the modest technical progress of the periphery. The invisible hand of international trade results in an imbalance in the trade between countries producers of primary goods and those producers of manufactured goods, invalidating the basic premise of the international division of labour. The conclusion is clear: if peripheral countries were left to the fate of free market forces they are bound to remain in an economic and social backwardness.

For Prebisch and ECLAC industrialization was the only way for the peripheral countries to overcome the constraints of the international order and to gain access to part of technical progress, allowing these countries to progressively raise the standard of living of the population. The industrial development policy would thus be the most efficient way to achieve an increase in productivity and national income, avoiding the deterioration of terms of trade and retaining the fruits of technical progress in the periphery. The State's role is seen as crucial to promote industrial development, for both

the creation of economic infrastructure and by channelling resources to industrial activities. "Programming development" is part of the State strategies to change the domestic structure of the country, in order to break down the obstacles to development (Ocampo, 2001:24).

According to structuralist analysis, Latin American peripheral economies had historically two stages of development: "outward development" (*hacia afuera*) and "development from within" (*hacia adentro*). In the outward development ("primary-export model"), the dynamics of the economy is linked to external demand, being merely an extension of the space of the central countries, that is they are dependent economies subject to economic oscillations of the centre. This is because it is the dynamics of the latter that determines the greater or lesser growth of exports of primary products. In the "development from within" phase, when the economic dynamism become increasingly based on domestic market growth and industrial production, starts an industrialization process induced by external bottlenecks, that was caused by the two world wars and the great crash of 1929. At this stage of development begins a shift of decision from inside to outside, starting a new era of the diffusion of technical progress.

It is worth noting that industrialization is seen initially as a spontaneous process that results from the balance of payments' crisis, which forced several Latin American countries to restrict their imports, contributing to trigger import substitution industrialization (ISI). This process begins with import substitution of nondurable goods, which involves simple technology and little capital, while new industries require increasing imports of intermediate and capital goods. This reinforces the insufficient capacity to import, which further stimulates import substitution, a process that tends to extend to durable consumer goods and capital goods. Thus, the ISI is a dynamic process, in which the coefficient of imports may even increase rather than reduce. External deficits are seen both as original stimulus for the ISI and as a barrier to the continuity of the process of industrialization (Bielchowsky, 2000:25-26).

While industrialization was seen as an event of great significance in the history of global diffusion of technical progress, CEPAL evaluated peripheral industrialization as an inherently problematic process. This is because it started already related to a modern and luxurious pattern of demand, which suddenly imposed on a less diversified production structure and with little vertical and horizontal integration.

In the historical evolution of the centre countries, the increase in real wages, due to the relative scarcity of skilled labour and the largest organization of workers, served

as the stimulus for the incorporation of technical progress that replaces labour by capital. There was thus a dynamic interaction between technical progress, capital accumulation and wage increases. In turn, Latin American industrialization made use of capital-intensive techniques available at the centre in completely different conditions of resources allocation. The use of such techniques involved in overuse of scarce resource, capital, at the expense of abundant resource, labour. Thus, modern industry was unable to absorb the surplus labour available in rural areas: while some workers were absorbed in high-productivity sectors, a much larger proportion was relegated to low productivity sectors. Therefore, the initial high degree of structural heterogeneity in the periphery is a key to explain the persistence of structural unemployment during peripheral industrialization (Furtado, 1964).

Pinto (1970), in an influential work about the problem of structural heterogeneity in peripheral economies, shows that the results of technical progress tend to concentrate both in terms of income distribution between social classes, distribution of productive sectors and also between regions within the same country. Latin America reproduced from renewed form the structural heterogeneity that prevailed in the agrarian-export period since industrialization did not eliminate the heterogeneity, only modified its format. Large segments of the population, of the productive structure and of the economic space were marginalised and apart from the modern segment of the economy; furthermore, there would not be any sign that the previous trend could be changed spontaneously. Thus, more than a progress towards the "homogenization" of the overall economic structure, it can be note an increase in the heterogeneity of the peripheral economies with the industrialization.

CEPAL argued that the pattern of development in the periphery had to be changed through better income distribution and structural reforms, such as land reform and tax reform. It also raised the need to reorient the style of industrialization to combine stimulus to domestic market with the virtues of pro-export orientation of manufacturing goods. Prebisch and CEPAL began from the late 1950s to defend a "mixed model" of growth that combine import substitution with promotion of new exports, especially of industrial origin. The export reorientation had the double role of providing allocative efficiency to industrialization and at the same time to reduce the external constraints to growth (Rodriguez,2006).

Another important contribution of Latin American structuralist approach was the "*structuralist theory of inflation*", elaborated by economists linked to CEPAL in the

second half of the 1950s, at which time inflation had accelerated in several countries of the region. According to the structuralist theory, inflation is not a monetary phenomenon, but a result of imbalances in production structures of the peripheral economies, generated by rapid economic growth. The money supply expands passively due to the response of the monetary authorities to the increase of the prices of structural origin, and thus it is wrong to consider the expansion of money supply as primary cause of inflation. Noyola (1956) introduces two concepts in the analysis of inflation: "*basic inflationary pressures*" and "*mechanisms of propagation*". The basic structural causes of inflation are mainly related to structural disequilibrium in the balance of payments, which generated the need for currency devaluation; and the rigidity of agricultural supply, due to the existence of a concentrated and pre-capitalist agrarian structure. The propagation mechanisms of prices, in turn, are varied and can be grouped into three categories: tax mechanism, the credit mechanism and the mechanism of price adjustments. The latter, of particular relevance, is directly related to the process of distributive conflict that generates a wage-price spiral.

The structuralist economists were critical of the adoption of orthodox monetary policy, for obstructing economic development. For this reason, CEPAL repelled stabilization policies by recessionary adjustment. Tackling inflation should be done through growth policies involving structural changes, i.e., seeking to change the structural conditions that cause inflation through an effort of planned and continuous growth.

Several criticisms were made to CEPAL's structuralist approach, among which include: the lack of an analysis of how the incorporation of technical progress occurs in the periphery, if by importing technology or domestic technological development; the absence of a clear vision of the increasing the participation of multinational companies in the peripheral industrialization, and its articulation with other capital (state and domestic private one); the lack of critical view with regards the recourse to external financing as an additional source of financing of the economy; and the difficulty of translating the structuralist view of inflation into concrete price stabilization policies. Some of these criticisms were eventually incorporated by CEPAL's analysis.

Finally, we highlight some developments and the relevance of the structuralist approach to analyse current problems related to developing economies.

Firstly, in the context of the phenomenon of high inflation in Argentina, Brazil and Israel in the 1980s, some economists developed what became known as the theory

of inertial inflation. This theory also criticized the effectiveness of conventional policy of price stabilization, and put emphasis on the propagation mechanisms of prices, following the old structuralist tradition. Bresser-Pereira and Nakano (1987), for example, emphasized the distinction between *accelerating* (demand or supply shocks) and *maintaining* aspects of inflation (inertia). In a high inflation regime, pricing takes into account future inflation expectations, which are incorporated in the firms' mark-up. The recovery of inflationary losses becomes the most important goal of the agents, who develop instruments to coexist with the effects of inflation, as indexed contracts. The suggested anti-inflationary policies included mechanisms for de-indexation of wages and prices and/or income policies.

Secondly, the "core" of the structuralist approach, which includes the centre-periphery concept and the notion of structural heterogeneity (productivity gaps between sectors, regions, etc.) as a central feature of peripheral economies, continues to have wide application in the analysis of regional development issues. A recent example of the application possibilities of this approach are the structural imbalances in the euro zone where it is evident that the problem of uneven development between countries is related to structural heterogeneity, in which the benefits of trade are unevenly distributed between countries favouring the centre over the periphery.

Thirdly, the so-called Prebisch-Singer thesis about the deterioration of terms of trade is the basis of the balance of payments constrained growth models, and of what became known as the Thirlwall's Law. This law establishes a relationship between the rate of economic growth of countries and the ratio between the income elasticity of imports and exports. The low income-elasticity of products of smaller aggregate value exported by developing countries vis-à-vis the greater income-elasticity of products imported from developed countries generate structural deficits in the balance of payments of the former economies. In the long run, a country cannot grow at a rate higher than what is consistent with its balance of trade equilibrium, as it cannot run a deficit in the balance of payments for a long period of time that has to be financed by short-term capital flows and increasing external debt under the risk of a currency crisis. According to this approach the only safe solution to increase the growth rate of a country in the long run is a structural change (Thirlwall, 2002).

Finally, the design of a world divided into two poles - centre and periphery - and the existence of asymmetries in the world economy, have recently been applied by some Keynesian economists to the analysis of the international monetary system. The

approach of the currencies hierarchy emphasizes the existence of a hierarchical and asymmetrical arrangement in the international monetary system: currencies are hierarchically positioned according to their degree of liquidity, so that key currencies (U.S.dollar, Euro, etc.) have high degree of liquidity (and lower premium risk) while peripheral currencies are non-liquids as they are incapable to performing the basic functions of money (medium of exchange, denomination of contracts and international reserve currency). Currencies hierarchy under the context of financial globalization imposes several constraints to the autonomy of economic policy of peripheral countries: higher interest rates, increased volatility in the exchange rate, limits on public debt, etc. (Fritz et al,2014).

Updates of the structuralist approach have been conducted over the past two decades. CEPAL in the 1990s, in what was called "neoliberalism", sought to regain the agenda of policies for development, adapting it to the new era of globalization. In general, such an agenda includes: (i) a new form of state intervention, different from that prevailing in the past, with its action focused on effectiveness and efficiency of the economic system as a whole; (ii) a gradual and selective trade liberalization, as a means to boost technical progress and increase productivity combined with technology policies and training of human resources; (iii) a set of policies that seek to integrate growth, employment and social equity (Bielschowsky, 2000).

During the 2000s developed in Brazil an approach known as "new-developmental", which shares the general lines of the neoliberal perspective, but adds to this an agenda of developmental macroeconomic policies. Under this approach, there are two fundamental macroeconomic problems in middle-income countries: the tendency of wages to increase below the productivity rate, due to the availability of an unlimited supply of labour; and the tendency towards the overvaluation of the exchange rate, which is derived from two structural factors: (i) the problem of "Dutch disease" in commodity exporters countries, which generates an appreciation trend of the exchange rate in the long run that is consistent with the balance in current account balance but renders economically not viable other tradable industries using technology in the state of the art.; (ii) an additional currency appreciation caused by net flows of foreign capital, stimulated by the policy of growth with foreign savings. Given these two trends, the new-developmental strategy supports the importance of an income policy that keeps wages growing in line with productivity, and an exchange rate policy that counteracts the tendency to currency overvaluation and that has as target an "industrial equilibrium

exchange rate”- which enables producers of state-of-the-art manufactured goods with the capacity to compete in foreign markets with a fair profit margin (Bresser-Pereira, 2011).

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