



Economic Development: A Latin American View

Patrícia Santos Carvalho

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In 2023, ECLAC – the Economic Commission for Latin America – celebrates its 75th anniversary. Since its creation in 1948, this institution linked to the United Nations (UN) has been concerned with the economic development of Latin American countries.

Keywords: ECLAC, Latin America.

1 INTRODUCTION

In 2023, ECLAC – the Economic Commission for Latin America – celebrates its 75th anniversary. Since its creation in 1948, this institution linked to the United Nations (UN) has been concerned with the economic development of Latin American countries.

In this sense, it is observed that Venezuela is a *suis generis* country whose economic formation has been the object of analysis by several theorists since the last century. Researcher Celso Furtado, one of ECLAC's members, analyzed in detail the positive and negative externalities that have influenced the country's economic growth and its impact on the economy as a whole.

The Furtadian view – as this author's view is called – dHe writes down the reasons why this economy remained in a state of underdevelopment. This pioneering analysis provided technical criteria, that is, an analysis methodology, used in different periods in Venezuela itself, as well as offering scientific tools for the case study of other countries that demonstrate a similar situation.

According to Medeiros (2010) in his article "*Furtado na Venezuela*", this researcher's analysis of the Venezuelan economy in the 1950s fostered the production of an approach to the maintenance of the state of underdevelopment despite the abundance of foreign exchange, which would be one of the peculiarities of Latin America in the 1930s. The author recalls that this country came to have the highest *per capita* income among Latin countries, as a result of the exploitation of its oil reserves (MEDEIROS, 2010).

Furtado (2008) will make a new analysis of the case in 1974, when the characteristics of the Venezuelan economy of the 1950s would be accentuated by the oil shocks:

"This is possibly a pioneering structuralist analysis and, on the other hand, prescient, since it was in the 1970s, with the two oil shocks, that the problems examined by Furtado about the "peculiarities" of Venezuela, later known in the development literature as the "Dutch disease" would reach their maximum expression. In 1974, in "Notes on the Venezuelan Economy", the author resumes the analysis of that country at a time when the extraordinary rise in oil prices radicalized and essentially confirmed the basic features of that model. (MEDEIROS, 2010, p. 3)



In his approach, Furtado identifies some sectors in his domestic economy: "*a natural resources sector (petroleum), a non-tradable goods sector (especially civil construction) and a tradable goods sector (agriculture and industry)*" (MEDEIROS, 2010 p. 4). As the (nominal) exchange rate was related to the price of oil (which was below the costs of production), its appreciation inhibited domestic industrialization. Thus, it can be observed that economic growth in Venezuela was the result of resources from oil exports and government spending (which were financed by the former) (MEDEIROS, 2010)

2 OBJECTIVE

In view of the paradox between economic growth perceptible by empirical data (such as GDP increase) in Latin American economies and, on the other hand, the maintenance, in some countries, of the condition of underdeveloped in the international scenario, this article aims to build a theoretical framework on the subject of economic development.

3 METHODOLOGY

As a research methodology, an exploratory qualitative research was adopted, through a search in the literature on debates about economic development. In this sense, we sought to filter researchers who focus on Latin America.

This research is characterized by being a descriptive survey. According to Gray (2012), this type of research is characterized by the systematic collection of data, with a specific focus. Furthermore, this type of research is defined as theoretical, usually qualitative.

In the data collection process, non-invasive measures were adopted, such as a review of the Latin American literature and consultation of the websites of non-governmental organizations. The research report will be presented in the Development section of this article.

4 DEVELOPMENT

4.1 THEORETICAL FRAMEWORK

4.1.1 Differences Between Economic Growth and Development

This part aims to offer theoretical tools for the analysis of the Venezuelan case. First, we should note the differences between "Economic Growth" and "Economic Development." According to the "*Brand New Dictionary of Economics*", the concept of economic growth refers to:

"ECONOMIC GROWTH. Increasing the productive capacity of the economy and, therefore, the production of goods and services in a given country or economic area. It is basically defined by the annual growth rate of the Gross National Product (GNP) *per capita*. The growth of an economy is further indicated by the rate of growth of the labor force, by the proportion of national revenue saved and invested by the degree of technological improvement. (SANDRONI, 2003, p. 141)



The concept of economic development, on the other hand, for Schumpeter, occurs through innovation (Moraes, 2023). In this sense, it is observed that economic progress is based on the presumption that there will be an unlimited path that will be followed by nations, in a vision of etapism and civilizational hierarchy until reaching economic development.

Still in relation to this meaning, the book *"Economic Development"* states:

"Economic development is defined, therefore, by the existence of continuous economic growth (g), at a pace higher than demographic growth (g*), involving changes in structures and improvement of economic and social indicators. It comprises a long-term phenomenon, implying the strengthening of the national economy, the expansion of the market economy and the increase in the degree of productivity. (SOUZA, 1999, p. 22)

Economic development is linked to economic growth and changes in the country's productive structure. This explanation is also present in the *"Brand New Dictionary of Economics"*, which emphasizes the improvement of the population's quality of life as an essential element in its conceptualization. In addition, there would be a search for greater stability and diversity of the economy, as well as a tendency to create internally factors that were previously absorbed from abroad, such as technological progress and capital formation (SOUZA, 1999, p. 22).

Still on the issue of development, in the opinion of Fernando Henrique Cardoso (1995), former President of the Republic of Brazil, in his speech in Washington at the Conference on *"Development: the most political of economic issues"*, he states that while in the 1960s it was believed that development was similar to economic growth, some authors were already betting on a more complex relationship. In which there would be a political game that would intervene in the economy, not allowing the realization of such an ideology.

"A ... A contemporary fact is that we imagined that dependence was a homogenizing factor in the possibilities of developing countries to get out of poverty. There would be, I recall, differences in the possibilities of growth basically due to the control of the process of capital accumulation. But, in their essence, central and peripheral capitalism were moving apart. Even if a peripheral country were to grow – and my book was controversial because it admitted the simultaneity of dependence and development – it would do so in a distorted way. It was as if the peripheral condition had become fatal, a destiny of injustice. Today, we know that this is not true. Countries that have been able to manage their economies with sensitivity to the transformations of capitalism's global production and social issues have had more favorable directions than others. The case of the Asian Tigers is notorious. (CARDOSO, 1995, p. 151)

In addition, in opposition to economic development, Souza (1999) presents the concept of underdevelopment in which most Third World countries are immersed, which is characterized by economic, financial and technological dependence on developed countries, with little bargaining capacity in foreign markets as competition in the international market increases.



On the other hand, there are divergences among the authors regarding the relationship between growth and economic development. For some theorists, the former is a factor that generates the latter, since the increase in the total production of a country would motivate the reduction of unemployment, in the first moment, and, in the next, the distribution of income indirectly through economic adjustments. This explanation was present in Adam Smith's theorization when he claimed that the decrease in unemployment was a relevant factor and conducive to economic development. This rate, by reflecting the increase in the proportion of productive workers in relation to unproductive workers, would have repercussions on the increase in GDP per capita and the redistribution of income in society would occur over time. (SOUZA, 1999, p. 16)

Another group of theorists argues that although growth is essential for economic development, the mere existence of growth is not enough to guarantee social repercussions in the community. Among the proponents of this theory are Prebisch, Furtado and Singer, who see "*economic growth as a simple quantitative variation of output, while development involves qualitative changes in the way of life of people, institutions and productive structures.*" (SOUZA, 1999, p. 21).

Most theorists distinguish development from economic growth. The first is a process of qualitative changes in the structure of the economy that lead to the improvement of the well-being of populations, while the second has only a quantitative connotation, translating into a global expansion of the production of goods and services available to a community, without appreciable effects on income distribution. In the interrelation of these concepts, it can be said that economic development encompasses and sustains economic growth.

Furthermore, SOUZA (1999) points out that income concentration is one of the dangers of the traditional interpretation of economic development based on *per capita* income, because, despite being an important indicator, it camouflages income distribution, not reflecting the level of well-being of the low-income population. An example is the oil-exporting countries of the Middle East that have high *per capita* incomes. Table 1 shows the perverse effects of traditional analysis.

Table 1 - "Perverse Effects" of Tying Growth to Economic Development

a. transfer of surplus income to other countries, reducing the ability to import and make investments;
b. appropriation of increasing portions of this surplus by a few people in their own country, increasing the concentration of income and wealth;
c. Extremely low basic wages limit the growth of sectors that produce food and other popular consumer goods;
d. traditional enterprises are unable to develop due to the lack of dynamism in the internal market sector;
e. and difficulties in implementing activities linked to the fastest growing companies, exporting or in the domestic market. (SOUZA, 1999, p. 21)

Source: Adapted from Souza, 1999.



Therefore, it is evident that the concept of economic development is more comprehensive than the concept of economic growth – since the latter essentially refers to the increase of domestic production while the former covers social and economic issues.

4.2 STUDIES ON ECONOMIC DEVELOPMENT

According to Colistete (1992), the importance of issues related to economic development grew significantly in the 1940s and 1950s, when there was an unprecedented interest on the part of academic circles and international organizations (previously discussed basically by Marxists) in the societies known to be underdeveloped in Latin America, Asia and Africa. The same allegation is present in the thought of Furtado (2008), who affirms the presence of a genuine theoretical effort in this period to try to understand the reasons for development and, consequently, the state of underdevelopment in which most of the world's population, concentrated in Third World countries, was immersed. The reflections on the economic, social and political problems of those peoples led to the emergence of a field of analysis of its own: "*Economic Development*" (COLISTETE, 1992)

"The study of economic and social development was based on the observation of the profound inequality, on the one hand, between countries that have industrialized and achieved high levels of material well-being, shared by broad layers of the population, and, on the other hand, those that have not industrialized and therefore remain in a situation of poverty and with marked social inequalities." (SANDRONI, 2003, p. 169)

In this process, it is important to highlight the fact that the development of each country is linked to its own characteristics, such as its geographical situation, historical past, territorial extension, population, culture and natural resources. (SANDRONI, 2003). Based on these parameters, it can be seen that after the Second World War there was a "*turn*" towards development, preceded by profound domestic transformations such as "*the conquest of political independence and the formation of governments that placed national development as the main objective*" (SANDRONI, 2003, p. 169) This process favored the conception of development as "*a process of structural transformation with the aim of overcoming the historical backwardness in which these countries found themselves and achieving, in the shortest possible time, the level of well-being of the countries considered 'developed'*". (SANDRONI, 2003, p. 169)

It was in this context that in 1948 ECLAC – Economic Commission for Latin America – emerged, which is a regional body of the United Nations that is linked to the Economic and Social Council that aims to seek "*alternatives for the development of Latin American countries.*" (SANDRONI, 2003, p. 90)

The theorists who work in this organization are called ECLAC and will question, in the middle of the twentieth century, one of the conceptions of international trade: David Ricardo's theory of comparative advantages. (SOUZA, 1999). While the theory of absolute advantage states that the country should



specialize in a certain product or service which has a lower cost price than the competitor, the theory of comparative advantage elaborated by David Ricardo will claim that "*each country should dedicate itself or specialize where the comparative costs are lower*" (SANDRONI, 2003, p. 628). For ECLAC, this conception would allow the prolongation of the state of underdevelopment of poor countries, by providing "*an economic foundation for political domination.*" (SOUZA, 1999, p. 19)

One of the main ECLAC theorists was Raul Prebisch, who critically analyzed the theories that questioned the stages of development that had prevailed until then. There was a questioning of the industrialization model for comparative advantages, in view of the deterioration of the terms of trade that would be one of the factors in the perpetuation of the underdevelopment stage. It was found that it would be necessary to develop a development model appropriate to the conditions of the Third World.

"This author noticed a clear trend towards the deterioration of trade relations against the underdeveloped countries: the agricultural price/industrial price ratio (P_a/P_i) (...) The deterioration of the terms of trade can be explained, according to Prebisch, by the theory of the cycle. In *the upward phase*, prices and incomes rise in developed countries, which increases international demand for food and raw materials. As a result, with favourable prices, peripheral countries increase their supply. It so happens that, in the case of primary products, such as meat, coffee and other permanent crops, there is a lag in the supply response of a few years and it is not possible to immediately obtain all possible gains, due to the rise in prices.

In addition, when prices begin to fall from the end of the upward phase of the cycle, underdeveloped countries are unable to immediately reduce their supply, which further depresses agricultural prices in the country. *Descending phase*. In this phase, although external demand shrinks and prices decrease, agricultural supply tends to fall less than proportionally, due to its rigidity.

On the other hand, the supply of industrial products is immediately adjusted to demand and prices. Moreover, in developed countries, the rigidity of wages downwards, through the action of the trade unions, prevents further reductions in the demand for industrial products. Through *unequal exchange*, this cost pressure is passed on to the periphery (Prebisch, 1949, p. 59)" (SOUZA, 1999, p. 199)

In the article "The UN and economic development: an interpretation of the teroric bases of the UNDP's performance", Machado and Pamplona (2008) discuss this concept for the United Nations Development Program (UNDP).

"In the 1940s and 1950s, the United Nations' vision of development was aligned with an interventionist strategy, in which state intervention and the strengthening of governments played a very important role. The dominant paradigm was closely linked to the historical context of the time, that is, to the influence of the Great Depression, World War II, and the Keynesian revolution. In addition, during this period, the contributions of Hans Singer (from the *UN Department of Economic Affairs*) and Raul Prebisch from the Economic Commission for Latin America and the Caribbean (ECLAC) stand out, in the sense of pointing out that the terms of trade varied in such a way as to penalize exporters of food and raw materials. benefiting exporters of manufactured goods. An obvious consequence of this was the need for developing countries to industrialise, which could only happen quickly with the help of the state. Finally, since the founding of the UN, there was a growing awareness that, in addition to "physical" capital, the lack of adequate human resources was also a major obstacle to development." (MACHADO and PAMPLONA, 2008, p. 56)



5 FINAL THOUGHTS

After reviewing the literature, it was observed that there are factors that influence economic growth, which are divided into internal and external factors, as shown in Table 2.

Table 2 – Factors influencing economic growth

Internal factors	External factors
<ul style="list-style-type: none">• Quality, variety and quantity of natural resources• Quality of the human workforce, which relates to the level of education, public health, and the efficiency of political, social, and economic organization<ul style="list-style-type: none">• Volume and capital utilization• Level of technological development<ul style="list-style-type: none">• Political stability	<ul style="list-style-type: none">• Level of global economic activity<ul style="list-style-type: none">• International trade• External investment

Source: The author.

Regarding economic development, the literature shows the existence of the main factors that hinder the achievement of this goal, especially in Latin American countries, as shown in Table 3.

Table 3 – Factors that hinder economic development

Lack of infrastructure and concentration of the economy in one sector as opposed to diversification of national production
Difficulty for the entire population to integrate into the national economy (among other factors, due to the lack of an efficient transport system that interconnects the country's regions);
Social, cultural or economic isolation, represented by linguistic and religious barriers between different sectors of the population and by economic subsystems alienated from the national economy as a whole (foreign companies, large estates, etc.);
Difficulty in directing the economy's potential surplus to priority sectors (basic industry, transport, energy, etc.), on whose growth the whole process depends; and
Lack of investment and high consumption rate.

Source: The author.

It is concluded that the emergence of the field of study about Economic Development emerged as a response to the reality of Third World countries that found common obstacles to overcome their stage of underdevelopment. In this sense, the creation of ECLAC aimed to help resolve these questions in the context of Latin America and continues to be a state challenge even today.



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