On the economic meaning of development

Sobre o sentido econômico do desenvolvimento

Sobre el sentido económico del desarrollo

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Abstract

The aim of this article is to discuss the concept of economic development, emphasizing that its essence lies in the advancement of the productive forces; an essence that has been distorted by the rise of neoliberal thought. Furthermore, it seeks to demonstrate the centrality of industrialization to development and the fundamental role of the State as its planner and driver.

Keywords: development; productive forces; industrialization; planning.

Resumo

O objetivo deste artigo é discutir o conceito de desenvolvimento econômico, destacando que na sua essência está o avanço das forças produtivas; essência esta que foi distorcida pela ascensão do pensamento neoliberal. Além disso, busca-se demonstrar a centralidade da industrialização para o desenvolvimento e o papel fundamental do Estado como planejador e indutor da industrialização.

Palavras-chave: desenvolvimento; forças produtivas; industrialização; planejamento.

Resumen

El objetivo de este artículo es discutir el concepto de desarrollo económico, destacando que en su esencia se encuentra el avance de las fuerzas productivas; esencia que ha sido distorsionada por el ascenso del pensamiento neoliberal. Además, se busca demostrar la centralidad de la industrialización para el desarrollo y el papel fundamental del Estado como planificador e inductor de la industrialización.

Palabras clave: desarrollo; fuerzas productivas; industrialización; planificación.

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1 On the concept of development

> *Nature does not build machines, nor locomotives, railways, electric telegraphs, self-acting mule spindles, etc. These are products of human industry; natural material transformed into organs of human will over nature or of human activity in nature. They are organs of the human brain, created by the human hand; the power of knowledge, objectified.* (Karl Marx, Grundrisse)

Economic development is a complex concept that has taken on various definitions depending on the author. In classical political economy, development was linked to the accumulation of capital. That is, for society to improve its living conditions, it was essential that its productive capacity also increased, and this is achieved through the advancement of the productive forces (land, capital, and labor), especially by increasing the capital/output ratio.

Similarly, the advancement of the productive forces plays a central role in the analysis of Karl Marx and Friedrich Engels. For them, the proletariat, as the ruling class, should "increase the total of productive forces as rapidly as possible," which would be achieved by centralizing the means of production in the hands of the State[1] (Marx; Engels, 2010, p. 57).

However, the use of the term economic development is more recent. As a specific field of economics, development emerged shortly after the Second World War (1938-1945), becoming a pressing subject among national governments. The United Nations (UN) itself, through a General Assembly Resolution, declared the 1960s to be the "decade of development." Similarly, the creation of the Economic Commission for Latin America and the Caribbean (ECLAC) happened precisely with the goal of overcoming underdevelopment in the region. None of this occurred by chance. There was fertile ground for ideas about development to emerge. In this sense, according to Bastos and Britto (2010), at least five elements can be cited as fostering this process:

1. The end of the liberal era, which had England as its main bastion, and the rise of the idea of an interventionist State, breaking with the dogma of the balanced budget;
2. The undeniable success of the industrialization of the Soviet Union between the 1920s and 1930s, practically with its own resources and decisive for the Allied victory over Nazi Germany in the Second World War;
3. The experience of the war effort with a high degree of state planning, which gained a scientific basis with Keynesian theory, supporting the implementation of interventionist economic policies;
4. The decolonization of Africa and Asia, and the necessary reconstruction of the new independent countries, was an important geopolitical element, creating a scenario conducive to development theories and policies;
5. The growing divergence between the per capita incomes of countries and regions that contradicted the theory of comparative advantages in international trade[2].

In particular, authors from the ECLAC tradition, such as Raúl Prebisch and Celso Furtado, elaborated their theories of development based on a critique of liberalism and the theory of comparative advantages that prevailed until the beginning of the 20th century. They understood that economic development would imply a transformation of the economic structure, which in turn would lead to changes in the social and political structure.

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[1] In the Critique of the Gotha Programme, Marx warned that socialism is not a doctrine primarily centered on distribution, contrary to what the vulgar socialism of his time believed, which separated distribution from the relations of production.

[2] It is important to remember that according to the theory of comparative advantage—expanded by the H-O theory (Heckscher-Ohlin), which incorporates differences in factor endowments between countries—peripheral countries would not need to industrialize in order to achieve economic development.

It is also through the transformation of the economic structure that the external constraint can be reduced and the capacity to import increased. After all, no matter how much wealth a country possesses, be it in natural resources, the size of its territory, or fertile land, it does not automatically confer the title of a developed country. It is not what one has, as Chang (2009) highlighted, but rather how one obtains it, that determines whether a country is developed or not[3].

However, over time, the concept gained a more qualitative aspect with multiple dimensions. And among these various dimensions – provision of basic needs, environmentally sustainable economy, gender equality, etc. – although one can discuss the greater or lesser importance of each, one seems to be simply forgotten: the dimension of production, that is, precisely the transformation of the productive structure (Chang, 2009).

Indeed, with the rise of neoliberalism, the importance of the productive forces became marginal within the concept of development. More than that, theories about "degrowth" in vogue will attempt to demonstrate that increasing productive capacity is antagonistic to development. This ideological framework is sustained by ideas of a self-regulating market, the praise of individualistic entrepreneurship, and a vulgar view of meritocracy.

2 The role of industry

Throughout history, the development of the productive forces generally occurred in a non-intentional way. Capitalism, in turn, is the first mode of production that moves based on the intentional pursuit of technological innovations. This is due to inter-capitalist competition and the way the capital valorization process occurs. After the first industrial revolution began in the second half of the 18th century, events of nature (prolonged drought, floods, etc.) that hampered the production of goods essential for social reproduction became increasingly less relevant.

However, even before the industrial revolution, the so-called mercantilists recognized the role of industry in producing goods with higher added value for export, going far beyond the mere idea of accumulating precious metals with which mercantilist thought is often associated. In turn, Adam Smith, the father of liberal economics, linked the advancement of the productive forces to the development of industry. For him, it is industry that generates economies of scale and increasing returns which would suppress the diminishing returns of agriculture, which in his time was still very dependent on weather conditions and soil fertility.

By the end of the 19th century, with the industrialization of Germany and the United States, it was already very clear that those countries that specialized in primary products would be condemned to relative backwardness. Contradictorily, also in the last quarter of the 19th century, the neoclassical (marginalist) theory of economics gained strength, more concerned with the allocation of resources they considered scarce, while the advancement of the productive forces was set aside, making it useless for development theories. Thus, as Bastos and Britto (2010) remind us, it is not surprising that a neoclassical growth model, the Solow model, only emerged in 1957, and even then conceiving growth in a steady-state position, which does not relate to the accumulation of capital, which is, in the authors' words: "one of the most robust economic results in economic history" (Bastos; Britto, 2020, p. 9). Furthermore, neoclassical theory advocates the possibility of industrialization driven by the spontaneous forces of the markets. But this is a premise that finds no support in historical reality: what empirical evidence corroborates is the fundamental role of the State as the planner and inducer of industrialization.[4] This is shown by the

[3] Chang (2009) cites the case of the Philippines, which exports many high-tech products but is not considered a developed country because these exports rely on technologies from other countries. If multinational corporations were to leave the Philippines, the country would immediately become a commodity exporter.

[4] Unfortunately, the neoliberal ideal of budgetary balance that has taken hold of several governments severely hinders the State's ability to develop industrialization policies or even any type of public policy.

successful cases of industrialization, in which Brazil itself was exemplary with the execution of the II National Development Plan (1975-1979).

A central justification for industrialization, especially for underdeveloped countries, which was explained by Prebisch in his early studies, as recalled by Medeiros and Serrano (2001), lies in the low income elasticity of primary products, in contrast with the high elasticity of industrial products. Prebisch says (2011, p. 269): "As real per capita income surpasses certain minimum levels, the demand for products tends to grow more than that for food and other primary products." Faced with this undeniable reality — which, moreover, is independent of the famous thesis of the secular deterioration of the terms of trade[5] — countries that specialized in exporting primary products and importing industrialized goods would inevitably have problems with their external accounts. This is because, with increasing income, there is a structural tendency for imports to increase more than exports. Given the constraint of the capacity to import, the solution would be to reduce the pace of economic growth in order to reduce imports. At a United Nations conference in 1964, Prebisch addressed the problem again:

> The tendency towards external imbalance in developing countries is above all an expression of the disparity with which primary exports and imports of industrial goods tend to grow in developing countries. While the former usually develop relatively slowly, with some exceptions, the demand for industrial imports tends to grow at an accelerated pace. (Prebisch, 2011, p. 466).

The only way out, therefore, for peripheral countries would be to modify their export basket in favor of industrialized products. This is not incompatible with increased agricultural production; on the contrary, industrialization would facilitate the mechanization of agriculture. Nor does it mean a defense of autarky. The issue for Prebisch was to use the capacity to import so that the country could advance in industrialization and avoid balance of payments crises that would halt this process.

Furthermore, when there is no advancement in industrialization, it is likely that improvements in the population's living conditions will not be sustained. As demonstrated by the recent case of Latin America, in the 2000s there was a significant improvement in living conditions with reduced poverty and increased consumption, resulting from governments more committed to social issues and a favorable external economic scenario. However, this improvement did not happen with an advancement in the region's productive structure. On the contrary, productive specialization in natural resources, such as food, energy, etc., deepened, leading to a process of deindustrialization and re-primarization of the export basket. (Pinto; Cintra, 2018, p. 173).

It is evident that we cannot return to the economic development of the 1950s and 1960s. There are important issues that were not considered at that time, such as the environmental agenda which has now gained centrality. But the industrialization process itself has also changed, as has the international division of labor, causing the classic division between central and peripheral countries to also change. In the mid-20th century, industrialization was characterized by the structuring of predominantly local value chains. Today, structuring occurs through global value chains in which peripheral countries also export sophisticated industrial products. Furthermore, it is unlikely that a country will manage to hold all the links of a complex industrial production chain; in the specific case of advanced semiconductors, this is virtually impossible. This poses the challenge for the country to position itself in the most dynamic points of the chain, something that will not happen spontaneously. The complexity of the innovation process within the so-called fourth industrial revolution has made the dependence on the state for technology investments much more unequivocal than it was in the past. Once again,

[5] It is evident that when the deterioration of the terms of trade occurs, the situation of peripheral countries becomes even more severe. Nonetheless, it is surprising how many commentators on Prebisch focus solely on the problem of the deterioration of the terms of trade.

large investments, studies, planning, and state decision-making are essential.

Therefore, a new correlation of forces is needed in Latin America that reclaims the central idea of development, which is the change in the productive structure of countries. Industry remains important, and the idea that developing countries can leapfrog into what is being touted as the post-industrial era is nothing but a fable. This does not mean restricting oneself only to the material aspects of development, nor neglecting the effects on the environment that developmentalist thought neglected in the past.

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