

# **Globalization, underdevelopment, and ruling classes: Latin America at the beginning of the 21<sup>st</sup> century**

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## **INTRODUCTION**

The research work of Celso Furtado was developed over more than half a century. During that time, Furtado not only carried out a broad, diverse and complex interpretation of Brazil, including its colonial history, but also contributed to the social sciences the theoretical notion of underdevelopment, which can not be founded only on the national level [De Oliveira (1998)]. What is known as Latin America is constituted in its relation with other areas and regions of the planet. Each of the current countries that conforms Latin America cannot be understood without examining the organizational forms of the international economy and the expansion of capitalist trade relations.

In his study of the reproduction mode of the societies being formed in Latin America, Furtado considered those aspects which allowed him to explain the process. The forms of appropriation and use of economic surplus are an aspect of the reproduction mode of societies which can only be studied if one considers the historical analysis. Furtado affirmed that: “The factors which allow a society access to a surplus — that is, an amount of product which will not be absorbed by ordinary daily consumption — and those which induce the transformation of

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that surplus into an instrument of increased production are those which should be revealed by historical analysis" [Furtado (2000a:154)]. Historical analysis is undertaken in order to understand the present, but also to plan the future. Furtado sought to understand the causes of underdevelopment in order to find the means that make development possible, means that are within reach of our societies.

From Furtado's perspective, understanding the underdevelopment problem implies ability to characterize the social groups that drive the process and the relations they establish with other ruling groups from other regions or areas. Upon observing the history and the ways of surplus use and appropriation in the economic space identified as Latin America, it is indispensable to consider each of the sides of their foreign relations which have been created a substantive content of the economic activity organization. Only in this way is the theoretical notion of underdevelopment worked out. But constructing the concept of underdevelopment also requires fighting against ideas and forms of interpretation of the social situation. Ideas of progress are firmly rooted in European and Anglo-Saxon philosophy after the Enlightenment. Based on those ideas, a particular manner of interpreting history is elaborated in which the ideal types are obligatory phases of the evolution of all societies. The studies of underdevelopment that dominated academic and decision-making spheres in the post-World War II era were elaborated from the perspective which explains it by historical retardation, secular poverty, or short of means. In response to those representations, Furtado proposed to look at the historical development processes in order to understand the diverse ways in which capital accumulation occurs, which constitutes the necessary condition of technical progress.

Understanding the Latin American economy and its societies implies establishing the productive conditions so that the existing social needs — including those which allow the production capacities reproduction of that population in accordance with the prevalent average technical level at a determined moment — are fulfilled based on the existing economic conditions. In other words, it implies having a development project.

In a strict sense, the Latin America foreign relations are part of its internal processes. At first, they were the European colonizers, then the trade companies of the continent, later, the foreign capitals which were controlling the commodities production, and more recently the transnational and financial groups that participate in the appropriation and

destiny of the surplus generated in the region. Those relations are constructed considering local social actors who have a relevant role in the social dynamic existing in each country. To reflect on Brazil, Argentina, or Mexico is also to study the evolution of the United States and that of the whole of Latin America. It is having a perspective based on history and in which economic considerations include the problems of power and culture. This is the proposed reading of Latin American societies which is presented in the following pages, with emphasis on the role of the ruling groups, on the elites who have driven the development of underdevelopment through our days.

### **LATIN AMERICA: WHERE WE ARE?**

In the year 2005, Latin America grew for the third consecutive year, following the poor economic performance of the 1999-2002. A 4.1% increase in GDP is estimated for the year 2006 and a per capita GDP increase will be produced, as also registered in 2004 and 2005. According to these estimates, 2004 per capita GDP was equivalent to that of 1997 [CEPAL (2004)], and with foreseen growth for 2005 it will surpass that reached in 1997 by 3% [CEPAL (2004)]. Foreseen growth for 2006 implies an accumulated per capita GDP increase close to 11% in the 2003-2006 period [CEPAL (2005)].

Contrary to the situation between 1994 and 2002, for the third consecutive year the region has a positive balance in the current account of balance of payments equivalent to 1.3% of GDP. Foreign trade registered a 75 billion dollar surplus, with three years under the same conditions, although this surplus is attributable to results in a few countries while others report deficits. On the other hand, net resource transfer out of the region registers an increase, reaching 67 billion dollars in 2005 [CEPAL (2005)]. As in other years, the distribution of resource transfer out of the region is highly unequal among the diverse economies of the area. Nevertheless, none of them is characterized by achieving a broad period in which capital inflows dominates.

Data on product and foreign economic relations reveals changes. However, that is not the case of other indicators such as the employment rate and capital formation. In 2005 the coefficient of investment was 18.6%, and this figure has remained under 20% since 1994. Latin America is a region in which capital formation in relation with GDP

has not reached proportions of 30% or more, as it occurred for many years in Japan and various south-eastern Asian countries, and it is currently the case for China. Under those conditions, growth rates above 7% were maintained in Asia, accompanied by various economic policy measures to promote agricultural development, complex and diverse industrialization, and the broadening of local currency credit, with which those countries were transformed or are in the process of transformation. Currently, growth in Latin America is inferior to that of developing countries as a whole, despite of the existence of a favourable international economic juncture. CEPAL points out the positive evolution that the region's terms of trade have had, mainly in oil and mineral prices [CEPAL (2005), p. 10]. The growth rates achieved during these years and the dimension and composition of investment have not taken substantive steps toward development.

However, in Latin America, changes and continuities in the economy take place within a democratic normality in which self-proclaimed progressive options, of the center-left or left, have triumphed. In Brazil, Argentina, Uruguay, and very recently Bolivia, parties and electoral coalitions which classify themselves as leftist or progressive have won elections, with proposals globally aiming to address the social needs of the majority of the population. In these and other countries, such as Venezuela and Ecuador, the conflicts among diverse social groups, including objections to the direction of economic policies take place without surpassing the political-electoral spheres and accepting the democratic normality. That does not imply the existence of any acceptance or support for the economic policies measures which have dominated over the past two decades.

In Brazil and Argentina, as in Uruguay, Ecuador, Bolivia and Mexico, there are social forces, popular organizations, citizen movements, political parties, and local or regional governments that for some time have insisted on economic policy change or broader change in economic transformation strategy. Between 1993 and late 2005, 14 presidents in several Latin American countries were unable to conclude their mandate [Latinobarómetro (2005)]. Several presidents and their respective parties are currently highly discredited and doubts are growing in the region about economic policies pursued over the past few decades. Unemployment is perceived as the main problem. A survey carried out in 18 Latin American countries in 2005 revealed that 59% of households included someone who had been unemployed in the previous twelve months, and the region's largest two economies have above-average unemployment rates [Latinobarómetro (2005), p. 66].

The results of more than twenty years of execution of the proposals of the Washington Consensus have not resolved Latin America's most serious social problems. On the contrary, inequality has sharpened, as have social disintegration and economically-motivated emigration, to both the United States and Spain, to mention just two significant examples.

The World Bank report titled *World Development Indicators 2005*, states that poverty reduction in Latin America has been stalled for several years. In the year 1981, the Latin American population living with less than a dollar a day numbered 36 million people, and that number had grown to 50 million by the year 2001. Those figures represented 9.7% of the total population in 1981 and 9.5% in 2001. If we consider those living on two dollars or less per day the situation is similar. In 1981 they represented 26.9% of the total population, and 24.5% in 2001, encompassing a total of 128 million people [World Bank (2005)]. In addition to data on the scale of poverty and of extreme poverty, other figures should be considered on the high degree of income concentration, the significant and increasing size of the population working in informal conditions, and other deep social inequality indicators.

The study of social inequality and its causes, and with them the causes of underdevelopment and social heterogeneity, was a concern and pursuit of Celso Furtado through to the final days of his life. In May 2004, at the III International Conference of the Celso Furtado Network, Furtado maintained that no correlation existed between economic growth and development, neither during the military dictatorship years nor during the following period in which democracy was established. It can certainly be understood that underdevelopment was further aggravated during the twenty years of military dictatorship. Nevertheless, the reasons must be explored as to why it is so difficult to promote changes now that the practice of democracy is incorporated in Brazilian society. Furtado proposed the following:

To outline a tentative response, it is not in vain to recall certain fundamental ideas: economic growth, such as we know it, is sustained in the preservation of the privileges of the elites that satisfy their zeal for modernization; while development is characterized by its underlying social project. Access of resources to invest is far from being sufficient condition to prepare a better future for the majority of the population. But when the social project prioritizes an effective improvement in the living conditions of that

population, the growth transforms—metamorphoses—into development [Furtado (2004: 2)].

The problem is how to advance capital accumulation without reproducing social heterogeneity. What actions should be carried out by the social actors so that the structural contents of the economic dynamic include the means which make possible the satisfaction of social needs? The strong idea is that development is a project. These are Furtado's themes and the force of his ideas within the current conditions of capitalism. Today, in the era of market efficiency, when allocation of resources is proposed as a matter of economic automatism — while ignoring the real economic processes — Furtado's proposals are not only important, but also pertinent. They call for reflection on the economy and society, placing humanity and the satisfaction of social needs in the forefront, and they allow the construction of the passage — using the Perroux [1964] formulation— from an avaricious economy to a human economy.

## **GLOBALIZATION AND RULING CLASSES.**

Between 1950 and 1970, Furtado observed that "... the participation of foreign groups in the recent Latin America development is much less a phenomenon of financial cooperation as it is of control of productive activities by groups which had already been supplying the market by means of the exportations" [Furtado (2001), p. 241]. Upon the conclusion of the Second World War, foreign capital, mainly US capital, was directed to several Latin American countries. In the case of Brazil for example, among the new industrial capitalist class there appeared to be a willingness to be associated with foreign capital.

Difficulties were encountered in order for State action in the economy to develop on a broad financial base and with pertinent planning. In addition, the economic policy developed in Brazil since the late 1940s was favourable to the foreign capital inflows. "Since the inflation allowed the foreign groups to appropriate a significant part of national savings at negative interest rates, and since the exchange policy gave discounts to the foreign companies by allowing them to re-import to the country at a preferential exchange rate the benefits they obtained here and remitted abroad, a broad process of denationaliza-

tion of the economy was consummated, which would lead inexorably to external strangulation, regardless of the action of other factors” [Furtado (1977), p. 123].

The course of the economy denoted that sectors of the new capitalists who had prospered in that country accepted the condition of partners or companions of an industrial process which soon encountered difficulties to finance development of the capital goods industrial sector, once the import substitution process was exhausted. In the 1970s, these were the conditions from which efforts were made to advance industrialization, and questions persisted on the reach of the project which the country’s large capitals aimed to promote.

In Mexico, the routes followed were distinct, but complacency toward the action of foreign capital was also present. The limited willingness of capitalist class sectors to finance industrial activities with long periods of investment maturity, the few capital goods projects, the impossibility to make progress in land ownership conditions, the no-modification in production methods of agriculture destined for the internal market and the prices themselves of farm products, all put a brake on the industrialization process. With time, diverse industrial activities were controlled by foreign capitals and industrialization with domestic determinations was cut short [Fajnzylber and Martínez Tarragó (1976) and Vidal (1996)].

The recent foreign capital dynamic and the role assumed by broad groups of large capitalists from the region lead to conclude that this situation has not changed but in fact has sharpened. Since the beginning of the 1990s, a noteworthy increase is appreciated in foreign direct investment (FDI) inflows. The increase in these flows is a constant until the year 2000. Despite its reduction, the FDI inflows between 2001 and 2005 are large and behave similarly to the previous years. The wave of internationalization of the past years is associated with a process of mergers and buy-outs between firms, and therefore the increased foreign investments do not necessarily constitute an impulse toward an enlargement of the production capacity.

The United States and some European Union countries are those which most contribute to the FDI outflows. A large part of these resources have been used to buy other companies or at least to acquire assets. In the period between 1995 and 2002, around 76-84% of the FDI was used to purchase other companies [Vidal (2005)]. The Latin American countries are mainly receivers of FDI. The large part of these inflows came to acquire companies, most notably companies which are undergoing privatization or were very recently privatized.

In Brazil, 58% of the 173.5 billion dollars in FDI which entered the country between 1995 and 2003 were designated to acquisitions, most notably of telephone service network, but also to buy companies dedicated to production, distribution and commercialization of electricity and some railway lines. In Mexico, in the years 1995 to 2002, approximately 50% was used to buy companies. The most notable operations in Mexico were those to acquire banks and other financial service firms and to participate as partners in the telephone company. The purchase of the oil and gas company, Yacimientos Petrolíferos Fiscales, stands out in Argentina, in a context in which more than 80% of the 67 billion dollars of FDI inflows was designated to acquire assets [Vidal (2005)].

Historical experience shows that no country has achieved industrialization and development through the FDI. The determining factors are the internal sources of the finance process and the use of economic surplus considering the dynamic of the domestic market. From 1998 to 2003, FDI represented during most years around 10% of the fixed capital formation in the world. Only in 2000 did the figure rise to 19.8%. While countries do vary sometimes significantly, figures surpassing 20% are exceptional and present themselves when the largest cross-border purchase operations take place. This is the situation currently faced by the Latin American economies. China, despite being the developing country which captures the highest amount of FDI, relies mainly on internal resources. Between 1992 and 2003, FDI represented only between 13.7 to 10.3% of capital formation.

By dominating the cross-border acquisition and merger operations, the foreign investment flows are a force of the investment rationalization process. The large companies, faced with processes of shrinking demand, linked to low GDP growth, high unemployment rates and low or null real wage increases in a large number of countries, opt to dispute existing markets. The corporations' growth strategies focus predominantly on the purchase of other firms, assets acquired or even entire firms are rationalized. Many plants close and some others reduce or reorient their production. New equipment is often introduced, outfitted with IT, robotic, accounting, and other elements. These investments do not necessarily foster increased production capacity, even when they may cheapen per-unit production costs of diverse goods, providing better competitive advantages to the firms in an environment of shrinking demand and the cancellation of restrictions to operate in the most diverse markets.

The FDI increase during the latter half of the 1990s and the proliferation of cross-border operations are an aspect of the domination of



rationalization investment. In telecommunications, despite the new firm's creation, there is a strong economic concentration process and various companies operate in the place of the old public telephone service companies.

In Mexico, exportations are highly concentrated in a few activities. Exports are mainly composed by electric and electronic equipment and appliances, automobiles, SUVs and trucks as well as automotive parts, and equipment for diverse industries. These three sectors account for more than 70% of total exports in recent years. The number of exporting firms is reduced and includes the largest producers of parts for the automotive industry; most of them are important producers of automobiles and other automotive transportation equipment; the largest names in television, sound and communications equipment; and the main firms of the IT industry parts production. In the case of the automotive industry, the transnational corporations have relocated part of their production to Mexico, from where they supply the North American market, reducing their activities in other locations including the United States itself. A somewhat equivalent scenario is found in the electric and electronic industries, which is aggravated by the fact that it is dominated by assembly-line manufacturing and the relation with other manufacturing activities located in Mexico, is insignificant. The participation of local industries is reduced in most cases to produce the packing materials and the supplying of energy. In the businesses of large real estate properties, banking and financial services, food and beverage manufacturing, and the iron and steel industry, the dominant scenario is acquisition of companies followed by operations to reduce workers, modify production lines, and close establishments. The domestic capitalists accept to sell most or all of their shares and sometimes remain as minority partners of the new firms, with no capacity to influence their direction.

During the presidential administration of Salinas de Gortari, various initiatives were presented to strength the business and financial groups, with the objective that these groups be the ones to build a new relationship with the international economy. In this line, the participation of domestic capital in the privatizations was favored. The regulations established for the sale of *Teléfonos de México* required that the company be directed by local capitals. The same is happened to the banks privatizations, which were also sold to Mexican businessmen and financial interests.

Following the crisis of 1994-1995, restrictions on foreign capital participation were gradually abandoned, and a large number of assets

were sold to transnational companies. The most outstanding cases were the banks and financial services, most of which are controlled by capitals from the United States, Spain, England, Canada and The Netherlands since the beginning of the current decade [Vidal (2001) and Vidal (2002a)]. Some domestic business groups purchased companies abroad and made acquisitions in the country. Several of them have been selling assets, concentrating their investments in one activity and shifting to complementary activities with the foreign capital [Vidal, (2002b)]. Several of the country's largest corporations such as Modelo, FEMSA, and Gruma have important foreign capital participation; while control is maintained by domestic capital in a reduced group of firms such as Bimbo, Cemex, Televisa, and Carso, which includes Telmex and América Móvil. But they also must advance in their internationalization, which does not necessarily foster a broadening of markets in Mexico.

In Argentina, there was a broad process of asset sales to foreign firms. In the case of the privatized companies, sales take place to firms in which there is large participation or control by foreign governments, such as the cases of Telefónica de España e Iberia. In addition to the privatizations of public companies, other private firms are sold to foreign capitals. Some investment societies acquire real estate properties, especially commercial developments. There are also sales of agricultural properties and wine production companies. All of this takes place amidst a process of de-industrialization, with increasing precarious employment and informality. The business groups observed the process without producing any reaction until the monetary and exchange rate crisis erupted in 2001. In the following years, within the most deeply economic and financial crisis in his history and the flight of investments of some foreign groups, the crisis was faced with an important negotiation of the public debt, and given another public expenditure direction. The propitious favorable change in the terms of trade allowed reaching the domestic credit recovery, high growth rates and reductions in the unemployment rate.

The process presented other characteristics in Brazil. The privatization program in its first phase contemplated the sale of some large industrial companies with the objective to give a support the growth of various local corporative groups, without considering the sale of the state banks to foreign firms [BNDES (1998) and (1997) and Vidal (2001)]. With the fall of the Collor de Melho government, the privatization program halted and it was not until the second half of the 1990s that Brazil proceeded toward an indiscriminate privatization process, without distinction between domestic or foreign capitals. It is under

these conditions that Brazil went on to privatizing the telephone company and electric energy production and the commercialization firms in some regions. Progress was also made in the sale of state banks. However, in recent years, Brazil's largest private banks, Bradesco, Itau and Unibanco, have been grow, acquired others banks, and now they have the head of the sector. There are also some industrial groups carrying out acquisitions abroad, such as Sadia, Gerdau, Votorantim, Embraer, Petrobrás, and CVRD. Other firms maintain their presence abroad, such as Embraco and Odebrecht. However, there is no important production growth, a high interest rates policy is maintained, and the fiscal surplus target is exercised year after year with no discussion, even when it implies an excessive reduction of public investments, whose greatest effects are felt in the most backward regions. "To force a country which has not yet addressed the minimum needs of a large part of the population to paralyze the most modern sectors of its economy, to freeze investments in basic sectors such as health and education, in order to fulfill the goals of payments balance adjustments imposed by the beneficiaries of high interest rates, is something which escapes any rationale. It is understood that those beneficiaries defend their interests. What is not understood is that we ourselves do not defend with identical determination the right to develop the country" [Furtado (2004), p. 4].

Latin American history records various moments in which the power structures have been controlled by groups whose incomes do not come directly from their participation in productive activity. The increase of their incomes is the result of export activities which do not hold deep and complex relation with the rest of local economic activity. Several of these groups have had their head companies in certain developed countries. They appropriate and use the surplus without need of a sustained increase of production capacities. In other cases they are and have been partners of foreign capitals, which control the most dynamic productive activities. Several of the country's large capitals are in fact holders, living off of their financial movements. The objectives of these groups are not compatible with the collective interests and do explain the largest obstacles for the development of the now underdeveloped countries [Furtado (1999)]. The appropriation and use of the surplus in the Latin American economies in the current conditions appears to once again configure a situation of this type, with growing domination of foreign capitals in association with large Latin American financial groups. The exceptions are the local business groups that depend of the broadening regional domestic markets.

## SOCIAL HETEROGENEITY AND DEEPENING UNDERDEVELOPMENT

High levels of poverty and income concentration persist in Latin America. In the cases of the region's three largest economies, the 10% of the population with the highest incomes obtains: 38.8% of total income in Argentina, 46.9% in Brazil, and 43.1% in Mexico. In each of these countries, the 10% of the population at the bottom of the income scale receives 1% or less of total income. In the world's developed countries, even with the income concentration processes which have taken place in recent years, similar figures are not found and per capita income is higher than in Latin America. For example, per capita incomes in 2003 were \$900 USD in Bolivia, \$2,140 USD in Peru, and \$2,720 USD in Brazil. The same figures in some developed countries were \$40,680 USD in Switzerland, \$34,180 USD in Japan, \$24,470 USD in Canada, and \$37,870 USD in the United States.

A study of incomes would also reveal high regional concentration in each Latin American country; small and vulnerable middle class sectors; insufficient health and education services which are concentrated in a few cities and regions; deficient nationally integrated communication and transportation networks; and, important gaps in electricity, drinking water, drainage, and sewer services in various areas of the subcontinent.

This data, together with other social indicators, put in evidence the profound social heterogeneity characterizing the region. One more tragic reference which illustrates our case is the drastic inequality between children mortality rates, under five years of age, between the one-fifth of the population at the highest income levels and the poorest one-fifth of the population in many of the countries of the region: 33 versus 99 in Brazil; 18 *versus* 93 in Peru, and 32 versus 147 in Bolivia, to name just three examples.

The composition of the employed population is also a sign of the deepening of social heterogeneity. It is common in Latin American societies to observe increasing incapacity to generate formal job positions. Structural underemployment is consolidated, as well as multiple forms of self-employment. There are vast contingents of workers with scarce productivity, working with poor techniques and with very low income levels. It is remarkable, that economic changes implemented in recent years did not modify this situation.

In Brazil, during the periods of recession and stagnation of the past two decades, the population occupied in informal activities increased. However, during the economic growth periods, it was not observed capacity to absorb this informality and improve the balance of formal jobs [Burgueño and Rodríguez (2002)].

In Mexico, during the 1990s and up to now there has been significant growth of the informal occupation [Vidal (2004)]. Based on data collected by INEGI, between 1991 and 2002, while the formal occupation grew 20%, the informally-occupied population grew 47%. The economically active population grew by 9,767,911 persons during this period, with 64% of that growth due to informal occupation. As in the case of Brazil and other Latin American economies, the percentage of informal occupation increases during periods of economic recession or contraction. Subsequently, when economic recovery and growth are achieved, it is difficult to return to the distribution pattern between formal and informal employment found at the point of highest growth of the previous cycle. With the increased overall economically active population, the informal occupation sector is increasingly consolidated.

Furtado noted the following:

The technical heterogeneity is most sharply configured in the expansion phase of the manufacturing sector linked to the internal market. Needing to substitute imported products, the internal producer is naturally led to copy the industries with which he intends to compete. The equipments he acquires were designed in function of the more advanced economies state of development: they have the objective to allow large labor savings. This reproduces, aggravated in the industrial sector, the situation we diagnosed in the export sector: every effort aiming to elevate productivity tends to hinder the absorption of the structural surplus of labor [Furtado (2000a), p. 207].

In the largest Latin American economies, the process of sale companies and their subsequent modernization does not contribute to net creation of formal jobs. Investments in export activities, to the degree that they do not require products generated in the countries of the region, have little impact on the general level of formal jobs. In the case of the export companies which function with high levels of imported materials making up their exported products, nothing is added in the area of manufacturing activities. Furthermore, indiscriminate trade

liberation leads a large number of firms to bankruptcy and supports a consumption pattern with high imported-goods content. The correlate of these processes is the proliferation of economic activities with low productivity levels, without incorporating technical progress and based over an unstable labor relationships characterized by informality. All of these factors further deepen social heterogeneity and underdevelopment.

### **ECONOMIC CONCENTRATION, REGIONAL CONCENTRATION, AND CULTURAL DEPENDENCY**

The income concentration gradually defines the market structures. It is a force which influences the industrial supply composition, the infrastructure and public services characteristics, the type of urbanization, and the cultural offerings. Income concentration is accompanied by industrial and regional concentration. These processes are not specific to the underdeveloped countries; on the contrary, they are trends toward capital accumulation which should be confronted by the social actors whose interests are not expressed in the process. Furtado affirmed: "The trend toward regional concentration of income is a universally observed phenomenon, with the widely known cases of Italy, France, and the United States. Once the process is initiated, its spontaneous reversion is practically impossible" [Furtado (1974a), p. 242].

In countries with continental dimensions, such as Brazil, the problem is more serious and may enlarge itself indefinitely. The basis is the natural resources unequal distribution among regions, which translates in differentiated productivities sanctioned nevertheless by one sole price system. Other processes are then linked to it, such as labor flows, the regional displacement of capital, and finally the higher capacity acquired by one of the regions to secure the means through which to advance its growth.

The point raised by Furtado is particularly relevant, even to understand the dialectic between market and society or perhaps between market and State. In the European Union (EU), as it was integrated up to the beginning of the current decade, despite the diverse financial agencies and compensatory funds, the trend toward concentration persists unabated, as a monotonous trend in capitalism. A territorial section measuring 1,500 kilometers long and 300 kilometers wide, stretching

from northern Italy through continuous areas of France, Germany, Belgium, Holland and southern England and encompassing 30% of EU territory, currently concentrates 45% of the population and 60% of production. *Per capita* income in this region is between 120 and 180% of *per capita* average income for the overall EU [Correa and Vidal (1998)].

In the Latin American countries, industrialization and concentration which accompanied it advanced amidst a very unequal assimilation of technical progress. Nevertheless, innovations which directly influence lifestyle are those mainly incorporated and disseminated. Furtado emphasized that "... the two methods of penetration of modern techniques are supported in the same vector, which is the accumulation. A parallelism between accumulation in productive forces and in consumption objects exist in developed economies" [Furtado (1982), p. 56]. Underdevelopment is configured in the case where these two processes are disarticulated.

Under these conditions, the incorporation of technical progress, which begins from the imports themselves, continues from there to advance considering the substitution of some imports. Over the following years import substitution deepens, but always in the sphere of consumption goods. Nowadays, the equipment production, tool-machinery, and instruments used in the production of other goods, is reduced in Latin America, and their subsequent use is even lower. Furtado maintains that "... in the 1970s studies [Furtado (1974b)] we called this form of technical assimilation progress almost exclusively in the lifestyle: *modernization*, with scarce counterpart in productivity system transformation" [Furtado (1982), p. 3]. Spontaneously, the process has not been otherwise, and it is therefore not surprising that certain attempts to generate a capital goods industrial sector have been pursued by the governments.

In the current conditions, it may be sustained that the composition of Mexico's manufacturing exports and imports provides clear proof of a *modernization* process. A considerable portion of total exports are automobiles, automotive parts and electrical appliances. In addition, the imported content itself of these goods is extremely high and continues growing [Vidal (2000)].

The situation was different in the late-industrialization countries at the end of the 19th century. Those countries presented an intense accumulation phase, with high economic concentration, quick new techniques incorporation and a noteworthy State role. However, as soon as a capital goods production sector was built, the consumption goods

sector developed. The distinction between the Latin American cases and the noted late-industrialization countries also helps us understand the role of the state which under certain circumstances and in some countries became a state which promoted development. Ignacy Sachs affirms that the contribution of Furtado and others who he refers to as Latin American who designed the concept of *Developer State* is highly significant [Sachs (1998)].

In Latin America, the *modernization* continuity and the maintenance of high levels of income concentration reinforced the adoption of consumption patterns imitated from societies with much higher levels of wealth. Over time this fact contributed also to social fragmentation and the advance of social heterogeneity, with the emergence of what Furtado called social dualism [Furtado (1982)].

Since 1964 Furtado's conclusions on this point were radical. He affirmed that *modernization* had engendered a cultural dependency that conditioned the economic and social structure and influenced the social formation of businessmen [Furtado (1993)]. Projects to create compatibility between the development of accumulation in the consumption goods sector and the development of the capital goods sector were not assumed by the ruling classes and the task was executed without a specific plan by the state. More recently, broad segments of capital have acceded to sell their assets to foreign capitals, and other segments capitals have located themselves in bond-holder activities. In Brazil, a group of banks benefiting from the high interest rates have been notably strengthened, but also exporters segments. In other economies, groups with investments in the marketing sector have been strengthened and fortunes linked to urban real estate holdings are multiplied. In addition, the consumption pattern of the highest-income social groups has imitated widely the pattern of developed countries, dispending part of the surplus with which accumulation could be financed.

Furtado affirmed many years ago that "... the formation of a business class with a clear national project has been generally interrupted" [Furtado (1993), p. 40]. Businessmen relocate toward secondary or declining activities; they don't have a project sustained in industrialization with broad dissemination of technology and systematic improvements in real wages and increased formal job posts. Decisions are displaced toward other interests. "... The social organization forms prevailing in the peripheral countries lead to an acculturation of the dominant minorities, which integrates the internal domination structures with the external structures and, in consequence, excludes the majorities from the benefits of accumulation" [Furtado (1999), p. 61].



## IN CONCLUSION: CAPITALISM, GLOBALIZATION AND DEVELOPMENT

Latin America has been unable — and will be much less able in the context of current economic reform strategies — to create the conditions for the generation of social homogenization. Furtado stated that “the concept of social homogenization does not refer to unifying models of life, but that the members of a society adequately satisfy their needs in the areas of food, clothing, shelter, access to education, to recreation, and to a minimum of cultural goods” [Furtado (1982), p. 50-51].

Social homogenization implies that a society offer the capacity for men and women to satisfy the needs which make them fully productive. Part of consumption is directly productive consumption in a broad sense. Sufficient and convenient food generates pertinent conditions for productive labor and is an indicator of the systemic production capacities of the economy. Perroux asserted that “... the cost of subsistence of wage labor is a part of the general expenses or fixed costs of the nation. Fixed in a double sense: 1) These costs do not vary proportionally with the national product; 2) These costs are considered as priority costs regardless of the amount of the national product” [Perroux (1964), p. 307-308]. Perroux stated these ideas in his reflection on the humanization of the economy. Among his conclusions he sustained that in underdeveloped countries; broad fractions of their populations die or languish. The consumption by the population which allows it to adequately participate in the production process is “development consumption” and as such generates greater and better conditions for accumulation. A developed society is that which can positively address the problem of the costs of the people [Perroux (1964)].

More recently, Furtado expanded on this thesis and affirmed that “the increase of the purchase power of the masses of workers unequivocally has played a fundamental role in the development process; it is a role comparable only to that of scientific innovation. Thus, the dynamism of the capitalist economy derives from the interaction of these two processes: on one side the technical innovation (which translates in growth of productivity and reduction of labor demand), and, on the other, broadening of the market, that grows with the mass of the wages” [Furtado (1998), p. 170-171].

In the course of the crisis that began in the late 1960s and early 1970s, Latin American relations with the international economy were

newly disarticulated, and from this region diverse social groups promoted processes that paved the route to deepen both ruptures and options of change, but also generated new tensions. For example, during those years the region's primary economies and their governments and large state companies contracted credits in the private international markets. Later, without any substantial progress in the areas of industrialization or development, the external debt problem emerged. The conditions had changed, always as result of the action of diverse economic agents and social groups mediated by state maneuvering. But even under these circumstances, Furtado insisted in the strength of the projects and the need for creative human impulse to advance the path to development.

In the following years, the process transited toward an indiscriminate economic opening in most of the Latin American countries. Restrictions on the actions of transnational companies were suppressed, balance of payments capital accounts were liberated, and bilateral agreements were celebrated with the United States government providing guarantees on foreign capital. Deregulation was advanced, the minimum welfare state was dismantled, and public companies were sold. The discourse of the minimal state gained acceptance, with no consideration of the situation of deepening social heterogeneity.

With globalization, the power of the large corporations increases. This is precisely the substantive theme of discussion. The advance of the large firms provides impulse to accumulation, incorporates techniques, but concentrates wealth. Furtado affirmed that the large firms are key indicator of the dynamism of the capitalist system, but also of its instability. "It is in the predomination of those forces where the trend toward income concentration is found, as well as the crisis of insufficient effective demand and structural unemployment." Furtado furthered his conclusions and considering the existing situation of Brazil affirmed that "if the strategic target is to conciliate a high rate of economic growth with the absorption of unemployment and the deconcentration of income, we should recognize that the orientation of investments can not be subordinated to the rationality of the transnational companies. We should start from the concept of social profitability in order to consider the substantive values that embody the interests of the collectivity as a whole" [Furtado (2000b), p. 9-10]. In his message to the participants at the III International Conference of the Celso Furtado Network, his opinion contrasts with the accumulation trends. "Development is not only a process of accumulation and growth of macroeconomic productivity, but primarily the path to

access to social forms more apt to stimulate human creativity and respond to the collectivity yearnings. It is common to say that the agrarian reform constitutes an advance in the social sphere, but bears an elevated economic cost. That is a mistaken opinion. The true objective of the agrarian reform is to liberate the farmers, so they transform into dynamic actors in the economic plane" [Furtado (2004), p. 3]. Once again the substantive ideas: development is an invention; it includes a project and the social actors capable of carrying it forward. Economics is about relations between men and with development those relations in transformation allow them to satisfy their social needs in conditions of certain homogeneity and in accordance with prevailing average technical levels. With development, a time for political imagination is opened in which exists space for utopia.

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