

**DEVELOPMENT ECONOMICS
AND THE STRUCTURALIST SCHOOL***

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ABSTRACT

Early structuralism had strong economic implications in development policies until 1970s, particularly in Latin America. Its theoretical roots can be traced back to classical economists, which follow a deep study of structures and institutions of the economy at hand. The analysis draws on fundamentals in development economics, such as income distribution, surplus, structural change over time, and the distinction between productive/non productive sectors, the role of money in a 'real' economy, just to mention a few. Its proposals, as part of a diverse set of the heterodox thinking, have been ignored by orthodox theorists. Sorting wisely among different perspectives requires a clearly diagnostic approach that distinguishes that the binding constraints on growth are singular from setting to setting. In the current era of globalization and financial deepening, these proposals along their coherent framework represent a valid alternative to understand the economic bottlenecks that developing countries face, and better inform policy-makers, to enhance inclusive economic growth towards social and economic prosperity.

Key Words: *Development, neo-structuralism, structuralism*

JEL Classification: *B0, E1, E60, O1*

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stances. Policies that are supposed to work rightly, they just have weak or unintended negative effects on others¹. The key aspect is to understand deeply the binding constraints on economic activity that affects a determined economic setting.

The purpose of this paper is twofold, first underline the contributions of classical authors to development economics and second, understand structuralism as a pragmatic theoretical construction that analyses the limitations and constraints facing developing countries at their stage of development, as classical economists did. This more realistic approach, which is perfectly suitable with the less developing country context, still constitutes as an adequate alternative to better inform policy makers in order to solve the structural problems present in economies that market forces cannot solve.

The remainder of this paper is organized as follows. In the second section, is briefly summarized the historical antecedents of development economics. In the third section are presented the beginnings of the “modern” views of development economics. Fourth section, presents the work of early structuralists, its origins, apogee and subsequent fall. Fifth, the main characteristics of modern structuralism and its economic features are introduced. Finally, the document ends with some final remarks.

A LITTLE BIT OF HISTORY

Development economics it is not a recent strand in economics. Historical aspects of development economics constitute an important source of views, theories and notions which are of great importance for current’s development policies and theories. In fact, many great classical economists had strong interests on development issues, not because that in some particular time of past history, England and France were developing countries, but because with the fact that for classical economists was the theory of the increase in national wealth the central aspect (2). In today’s mainstream economics, the very foundations of classical political economy have been rather ignored, as points Vaggi in 2008 (2): “... from surplus and reproduction to structural change and to the distinction between productive and unproductive sectors. However these aspects have always played a central role in development economics and above all in development policies...”; particularly designed to boost economic sectors in modern times.

¹ The prominent Chicago economist Arnold C. Harberger (1) declared: “when you get right down to business, there aren’t too many policies that we can say with certainty deeply and positively affect growth”.

The so-called Mercantilist "school"², can be considered as the first producing an analysis of development and growth of the wealth of nations, and it is relevant given their influence in Europe in that time. Mercantilists considered mainly as national wealth, the stock of some metals (s.a. gold and silver), but also considered the size of the population, and the availability of basic and luxury goods. They initially emphasized that the direct control on the flows of gold and silver across borders was fundamental to increase national income, or what is known in current times, as the surplus in the capital account. The unpleasant economic results of Spain (the country with the highest reserves) suggest that development processes can go from one way to the other. By this, mercantilists supported the fact that not only foreign trade was needed but economic improvements depend on a surplus in the balance of trade. Thomas Mun (31) suggested the availability of a wide range of policies to improve wealth and development by trade balance management: the capital account flows depend upon the trade balance and any exports increase over imports would lead capital inflows to the country as payments (in precious metals)³. He argued that was particularly relevant the role of interest rates for merchants' finances and wages (as cost) for production in order to keep prices low. Indeed, he argued that keeping low the price of exports would increase foreign sales allowing overall revenues to increase.

The consequences of constant and more radical mercantilist policies put in continuously conflict England and France. This is how Sir William Petty introduced the notions of division of labour and surplus; this division of labour is possible because of the productivity of agricultural workers who produce more than they may need, and given this surplus they maintain the rest of the society (4). This notion of agricultural surplus played a fundamental role in classical development and it is considered in the modern views of development. Given that foreign trade was not the cause of development, Francois Quesnay and the Physiocrats gave a clear statement: prosperity forces have to be searched in the production processes and particularly in agriculture, as being the latter, the producer of the means of subsistence for the whole population. He suggested that to introduce France in a virtuous circle of development were needed economic reforms to increase capital accumulation of poor agricultural producers by abolishing taxes and taxing only landlords' rents. The central

² Mercantilism cannot be defined as coherent theory or school of thought given the contrasting views of its supporters.

³ In fact, nowadays are still present different policies to protect certain national industries or sectors: exports subsidies, import tariffs and quotas, and accessible credit to exporters, as some examples.

message was the important role of the primary sector (agriculture) and its modernization, as a strategy for development purposes (5). The main contribution is Quesnay's *Tableau Economique* which set the basis for the analysis of structural change in the sectors' composition of output; this is an essential legacy not only to following development theories but to planning and to unbalanced growth views.

Adam Smith accepted the idea that there are either productive and non productive activities, or labour, but more crucially to him was the role of industry and its output which he did not consider as a sterile occupation as the Physiocrats did. In fact, manufacturing becomes the driving sector of the economy, because it is inside industry that technical division of labour is maximized, by subdividing complex production operations enabling average productivity per worker to increase (6). According to Smith, in order to promote development, there was a 'natural order' of investments: firstly, a country must invest in agriculture to make it productive and self-sustained; secondly, capital accumulation moves to industry where the division of labour plays a major role leading to an economic burst; thirdly, investing in domestic trade (e.g. transportation) is crucial to facilitate exchange; and finally, capital accumulation moves into foreign trade. These last aspects entail the importance of effective demand on capital accumulation (6), by this foreign trade allows improvements in the productivity of labour and accumulation. In the absence of monopolistic power, the entrepreneur becomes the main actor in the production process, moved mainly by profit and being able to introduce innovations which lead to technical progress. But it is important to consider that the lack of free competition is not the only cause that limits growth and development. However, structural change cannot be dismissed when considering processes of development, even in Physiocracy but equally relevant in Adam Smith and F. Quesnay analysis where institutional and social change are fundamental in the pathway of prosperity (7).

Malthus and Ricardo, on the other hand, focused on demographics and crisis, while the latter analyzed the role of income distribution, natural resources and foreign trade⁴ (8).

Industrial development is associated with the rise of capitalism, based mainly on technological and scientific innovations, with the relations of production (capital-labour) fundamental for that transition. Marx's view of labour as a commodity implies that the capital-labour relation is a so-

⁴ In fact, Rostow (8) presents an analysis of growth theories in 19th and 20th centuries.

RESUMEN

El estructuralismo tuvo importantes implicaciones en las políticas de desarrollo de América Latina hasta los años 1970s. Sus antecedentes teóricos se remontan a economistas clásicos, quienes estudiaron a fondo la estructura e instituciones de la economía en cuestión. El análisis se basa en fundamentales de la economía del desarrollo, como ser, distribución del ingreso, cambio estructural, excedentes, la distinción de sectores productivos y no-productivos, y el rol del dinero en la economía "real", por mencionar algunos. Sus nuevas propuestas, como parte integral de la denominada economía moderna y de la heterodoxia han sido ignoradas por la mainstream. Distinguir sabiamente entre las diferentes perspectivas requiere un enfoque de diagnóstico que establezca claramente que las restricciones del crecimiento son particulares para cada economía. En la actual era de globalización y financiarización de la economía, estas propuestas junto con su marco conceptual representan una alternativa válida para comprender las limitaciones que enfrentan los países en desarrollo e informar adecuadamente a los policy-makers, y así poder conseguir un crecimiento económico inclusivo que permita alcanzar la prosperidad económica y social.

Palabras Clave: *Economía del Desarrollo, Neo-estructuralismo, Estructuralismo*

Clasificación JEL: *B0, E1, E60, O1*

INTRODUCTION

Structuralist economics represents one strand of the heterodox approach. As it is usually referred to ECLAC and Prebisch's work, this approach has originated and benefited by an academic construction process during the Post World War period. The interaction of prominent scholars set the basis of a more coherent approach to development economics. Structuralism, the first doctrine entirely elaborated by economists from developing countries, was dominantly present in Latin America until the 1970s achieving some good results, but degenerated into strong protectionism that undermined growth and equity. To catch up, most countries embarked on a series of reforms to promote a higher pace of growth, at least, similar to those Asian.

Most economists would agree that the standard policy reforms included in the so-called Washington Consensus have the potential to be growth promoting. However, the recent experiences tell us that the impact of these reforms is heavily dependent on countries' limitations and circum-

cial one; by this, the production of wealth, comprise social contradictions that produce conflict in the industrial society. For Marx, an important impediment for capital to accumulate was land, as the scarcity of land and rent would keep wages up and squeeze profits (as Ricardo pointed); but being more optimistic regarding technical progress in agriculture to prevent diminishing returns, proposing that through imports, land reform, or capitalist investment, rents would prevail (7). But the main impediment is its intrinsic contradictions that would end up collapsing the capitalistic mode of production.

Marx's analysis follows Quesnay by describing the economy in terms of different sectors (see *Das Kapital* Vol. II), and his main contributions to development theories are, his view of different modes of production⁵ in historical perspective characterized by different economic structures or stages of development, and his 'reproduction schemes'⁶ that considers two major economic sectors (2). Under his perspective, countries present different levels of development mainly characterized by their composition of output and the prevailing modes of production at different stages of development. The legacy of classical economists to modern development is obvious: surplus and reproduction notions, inter-sectoral analysis, and the process of structural change through time (2). Along this line of thinking, Schumpeter (8) held technological competition (through innovation) to be the driving force of economic development⁷ as the introduction of an important innovation would be amply rewarded by a higher rate of profit, and its spillover effects will induce other innovations in the same field or related fields. In this way, this process of innovation-diffusion becomes a creative one in a capitalist economy given that i) technological competition is the major form of competition and ii) innovations open up possibilities for new opportunities and continuing change (10).

WHAT ABOUT DEVELOPMENT ECONOMICS?

More intensive interactions and influences among economists took place just after the World War II, in an international context with countries, such as the Soviet Union (and China), others characterized by Keynesian

⁵ The ancient one, the feudal one, and the capitalist one.

⁶ Characterized of being a multi-sectoral model with one sector producing the wage goods (consumption) and the other produces various types of inputs (from raw materials to machines), and eventually opens the way to modern Input-Output analysis à la Leontief.

⁷ The Marx-Schumpeter model primary purpose was to explain long run economic change and it was not intended as a model of industrial dynamics (10).

interventionism and state intervention due to wartime, including those developing ones newly independent with strong willingness to promote policies to foster economic growth, and the increasing role of International Organizations. These severe political changes put the development agenda as priority with different political backgrounds for ideological assumptions, but all led to planning and interventionist ideas likely.

There are present three overlapping phases, as identified by Dutt (11) and Ros (12), the first phase (1945-mid 1950s), a second one (1950s-1960s) a third one starting around the mid-1960s, and a last that can be defined as the fourth one (after 1990).

The first phase

The main representatives of this period are the classic works of Rosenstein-Rodan (13) and that of Nurkse (14), where underdevelopment was characterized by low levels of savings, high rates of population growth, and low levels of investment caused by market failures due to scale economies. Underdevelopment implied a stagnant economy unable to enter the typical growth pattern of the developed economies, and if present, it concerned a small part of the economy with weak linkages to the rest of the economy. In the underdevelopment context the missing elements were capital and technology; and in the case of land and crop production, the abundant labour supply constrained sector's capacity to raise productivity. Balanced growth emphasized that a parallel establishment of a group of industries could break the cycle of underdevelopment to enter in a sustained process of industrialization. The work of Lewis (15) emphasized on a dual economy with a backward agricultural sector and a modern industrial one, with the latter as the engine of growth and the former as a source of labour surplus. Later work, inspired on Lewis, emphasized on changes in the sectoral composition and intersectoral interactions (between agricultural and industrial sectors), and between on different types of industries (those producing consumption and investment goods) (16). The essential aspect relies on how the "backward" sector was to be integrated in the process of modernity.

The second phase

This phase is associated to the work of many economists both in the 'north' and in the 'south', as the work of Latin American economists in order to later construct the structuralist approach at ECLAC thanks to the academic interactions among H. Chenery, N. Kaldor, M. Kalecki, J. Noyola, C. Furtado, O. Sunkel, R. Prebisch, among others. There were five funda-

mentals upon this approach was built: manufacturing as the best engine of growth, through import-substituting industrialization (ISI), commodities cannot provide a dynamic export sector, inflation results from structural supply-bottlenecks and class conflict, and the need for discretionary government policies and complementary investment to 'make structures right' (17). Also, there was a general argument that trade was not the engine of growth, given the possibility of inelastic world demand deteriorating the terms of trade due to trade exposure (18-19). This led to argue that economic relations between north and south through trade would result in an unbalanced international development supplemented with the recognition of "market failures" increasing rather than decreasing regional inequalities (20). The latter approach was less optimistic of Rostow's institutional reforms to promote peripheral industrialization within a liberal economic framework.

Third Phase

This period is characterized by the resurgence of the neoclassical approach to development and its critics to earlier theoretical developments such as surplus labour, development planning and export pessimism, with a strong intellectual change towards monetarism in disregard of Keynesianism. This was endorsed by some episodes of development failures contrasting with the successful cases of the so-called NICs (Newly Industrialized Countries) that neoclassicals viewed as a result of export-oriented and free-market policies (21). Another challenge resulted from the criticism of focusing mainly on growth and capital accumulation instead of human development, inequality and poverty alleviation, but without stating that the earlier proponents of growth viewed it as a mean to reduce poverty and human development through structural change; in the end, this represented in a change in the strategy of development. Along Schumpeterian lines emerged a number of important contributions that explored the potential of innovation for explaining differences in growth patterns, at different levels of technological and economic development, given that innovation enhanced the difference between countries, and imitation, tended to reduce it (22). Particular emphasis was made on explaining such differences in economic growth across countries at different levels or stages of development. A weakness of this approach was the very stylized representation of the distribution of innovation: mainly concentrated in the developed world, particularly in the US. According to evidence, a successful process of "catching-up" in technology and income is not guided only by imitation but on innovation to a large extent, as the evident differences in economic performance between NICs and Latin American countries (23-25). This reliance on innovation is valid from a Schumpeterian perspective that considers it a pervasive phenomenon (26).

Another strand, a more radical one, began with the raise of the dependency school, which emphasized in the early development economics proposals, regarding the relation of less developing countries and those advanced (trade, aid dependence, and the role of transnational corporations as Marxist economists focused). Hirschmann (1981) interpreted these aspects as a decline in the discipline of development economics.

Fourth Phase

A fourth phase may be identified at the end of the 1980s with at least 4 branches (27): a) applications of neoclassical microeconomic theory to examine issues such as agrarian relations, income distribution, poverty, and more broadly institutional issues; b) at the macro level, increasing interests on long term growth thanks to the revival of neoclassical growth models and their interest on new growth theories (emphasizing income inequality, natural resources, and increasing returns); c) At the same level, the growth of the neo-structuralist approach to development based on the work of classical economists such as Marx, Keynes and Kalecki; to analyze the determinants of growth, income distribution, fiscal and balance of payments restrictions; d) The re-examination of the experience of east asian countries (or NICs) has shown that their success cannot be interpreted as a an accomplishment of free market economics, and that the state played a key role in the development process. Not to focus on extreme positions such state intervention and free market policies, suggests that both have played a key role in the development process.

Development economics is an area that where different approaches coexist. For example, the American development economist Hollis Chenery in 1975, distinguished between Neoclassical, Marxist and Structuralist approaches. The first two tried to adapt systems of thought of developed economies to developing countries, while the latter “attempts to identify specific rigidities, lags and other characteristics of the structure of developing economies...” (p. 310); usually ignored in the neoclassical approach. According to Bardhan’s view (28) neoclassical theory focus on maximizing individuals, while Marxists make emphasis on class conflict and structural constraints, and finally, structuralist theory relies on the particular structure of individual countries and between economies (such as the presence of oligopolies and inter-sectoral interactions).

THE STRUCTURALIST APPROACH TO DEVELOPMENT

The work of several economists during the 1950s and 1960s set the origins of the structuralist school (also known as the Latin American Structural-

ist School) and ruled the economic thinking in LAC until the 1970s. The work of Lewis (15), Singer (18), Nurkse (29), Noyola (30), and Myrdal (20) along to that of Prebisch constitute the early structuralists. As pointed out by Gibson (31), Prebisch stated that the world economy was determined by the fact that Europe and the US were already industrialized and trade under comparative advantages narrowed the industrialization process of less developed countries given the actual structure of the global economy. By this, most of Latin American countries followed the so-called ISI approach to promote technological upgrading but were rapidly abandoned because it 'de-generated' into a form of strong protectionism that contrasted to the successful cases of East-Asian countries who followed more profound reforms towards trade exposure and liberalization. In fact, capital, technology and labour became the issues of debate between two clear strategies: the export-led strategies (emphasizing foreign investment, liberal economic policies, free trade, and monetary stability; and the import-substitution strategies (emphasizing tariff protection, credit orientation and state industrialization) where the path followed by most countries has been a combination of the two (32).

'Structuralism' is associated to other fields or social sciences that pre-existed structuralist economics. In fact, Levi-Strauss (33) in anthropology and sociology, Piaget (34) in psychology, Chomsky in the study of language (35) and Foucault in philosophy (36) are good examples. Some authors argued that structuralist economics emerged as an extension of earlier work in other fields. Prebisch identified the 'deep structure' of the world economy as divided in center and periphery, as in other approaches, but without developing further the argument (Jameson (35); Gibson (31). Jameson (35) identified five characteristics attributable to structuralist economics from the analysis listed in the *Social Theory as Science* (1975) of Keat and Urry: any system is organized as a framework of interrelated elements; the existence of a structure where lies the surface of reality; the observed meanings of things are shaped by the present structure (not natural); the system should be studied as a characteristic of dualistic oppositions; and that structures evolve through time where a phenomenon may have different meanings in different periods of time.

Little I. M. D. argues in his book *Economic Development: Theory, Practice and International Relations* (1982) that exist two broad categories in development economics, the neoclassical one and the structuralist one. And he suggests that the word 'structuralism' is not mentioned in any earlier work related to development. But he quoted Chenery (37):

The initial set of structural hypothesis was formulated in the 1950s by writers such as Paul Rosenstein-Rodan, Ragnar Nurkse, W. Arthur Lewis, Raul Prebisch, Hans Singer, and Gunnar Myrdal. (p. 301)

Little (38) also suggests that structuralism originated in the post-war planning debate in Britain:

The main structural arguments for planning became clear. These were the presence of large disequilibria and inflexibility of response to price incentives. These arguments have carried to the LDC context, it being frequently claimed that resources are peculiarly immobile in LDCs. (p. 35)

The roots of structuralist economics can be traced at the end of the nineteenth century and in the twentieth were capitalism was severely criticized specifically in two grounds: capitalism was unjust and exploitative, and more importantly that it was unstable and doomed to collapse (39). Another line of criticism is the so-called doctrine of market failure developed in Britain during the 1930s and 1940s that emphasized the wrong signals of prices due to distortions of monopoly or other influences, the responsiveness of factors of production to price changes, and their degree of mobility. In fact, Pigou (40) was one of the first addressing 'signaling' components in his book *The Economics of Welfare*. During the 1920s and 1930s well-known economists criticized the assumption of perfect competition and demonstrated that price signals are distorted by imperfections (monopolistic or oligopolistic) (41-43).

On the other hand, the interpretation of Rosenstein-Rodan (13) which emphasized on the major role that externalities have on development economics of the 1950s⁸ and Keynes' *The General Theory* (1936) become the most influential critique of the price system, questioning its working in the capital and labour market with relevant prices (interest rates and money wages) which are less flexible than assumed by neoclassical theory, and adjustments occur through changes in quantities (39), influencing many economists in both developed and less developed countries.

Regarding the responsiveness of factors of production to price changes, it has focused more on developed countries where traditional societies do not respond to economic incentives, or respond perversely, playing a key

⁸ In fact, it was the theoretical foundation for the strategies of 'balanced growth' and 'big push' (39).

role in theories of economic dualism (44). On the criticism regarding the mobility of factors of production, it emerged during the 1930s and 1940s. In fact, an economic history written during the inter-war years and influenced by Rosenstein-Rodan and H. D. Henderson contains what it may be called the first full exposition of the doctrine that later would be known as structuralism. The first chapter⁹ (45), explained that:

the world war had meant a violent breach in the continuity of economic change.... The upheavals...were greatly aggravated by the fact that war conditions had prevented the normal piecemeal adjustments of production and trade...to long-term trends in economic development, such as changes in population trends, in economic tastes, or in the rate of economic progress of different countries or industries. These changes, which in the absence of war would have led, through the free play of market forces, to a series of small adjustments, had now in some instances resulted in major maladjustments of production and trade. Some of these problems were resolved during the years of post-war reconstruction. But some others had grown too large to be corrected by market forces, supplemented occasionally by uncoordinated and often misguided efforts of national governments (p.9).

During and after the war a group of economists at the Oxford Institute of Statistics led by Michal Kalecki (which was schooled in Marx) worked on similar issues with Rosenstein-Rodan and Nicholas Kaldor¹⁰ as group members (among others), who emphasized that "the regulation of the economic process by market forces...must be supplemented by conscious and deliberate regulation of public authorities" as stated in their book *The Economics of Full Employment* (1944); contributing to the debate and critique of the price mechanism. Little pointed out that what was almost a common aspect among economists was the skepticism of the efficacy of the price mechanism and the major role of state planning to overcome these 'market failures'. But what was agreed by all is that the price mechanism work even less well in underdeveloped countries than those more developed and that neoclassical theory was largely inapplicable to the less developed country context (39).

⁹ H.W. Arndt was research assistant to a Committee on Post War Reconstruction (at the Royal Institute of International Affairs) of which Rosenstein-Rodan was secretary and H.D. Henderson an influential member.

¹⁰ After the war, Nicholas Kaldor joined G. Myrdal at the UN Economic Commission for Europe as Director of the Research Division.

In fact, the terms 'monetarist' and 'structuralist' were first introduced by the Brazilian economist Roberto Campos (46) in his influential survey of the debate¹¹:

The 'monetarists' hold that...inflation has ceased to promote development and in fact has become incompatible with it...Inflation must be stopped quickly, before it degenerates into explosive tensions, and the only effective method seems to be curbing of excess demand through a prudent combination of monetary and fiscal policies supplemented by international finance assistance...

The 'structuralists', on the other hand, hold that...inflation is a natural accompaniment of growth; inflation cannot be curbed through monetary and fiscal means without provoking unemployment or stagnation of growth because of supply rigidities; the instability of exports proceeds, generating a capacity-to-import bottleneck, as well as supply inelasticities inherent in the growth process, renders it impossible to curb inflation in the short run (p. 211).

Early Structuralists are known by their structuralist theory of inflation¹² which states that,¹³ particularly in less developed countries, inflation is not a monetary phenomenon but a disequilibria in the real side of the economy. Inflation emerges as the result of interaction of two factors: 'basic inflationary pressures' due to structural rigidities and the 'propagating mechanism' of competing income claims accommodated by monetary expansion (30). He made his point clear by comparing the Chilean case of chronic inflation and the Mexican case. The 'basic inflationary pressures' originate mainly in the disequilibria of the agricultural and the external sector (mainly the performance of exports); while the 'propagating mechanisms' may vary but can be grouped in the following categories: the fiscal mechanism, the credit mechanism, and the income-price adjustment mechanism¹⁴.

¹¹ Campos (47) introduces also the terms 'structuralism' and 'monetarism'. This monetarist-structuralist debate preceded the monetarist controversy that occurred in US and Europe that dominated macroeconomics.

¹² Close related to those Latin American Scholars, or Latin American Structuralists.

¹³ Developed by Javier Noyola Vasquez, a Mexican economist. After a brilliant academic career, left CEPAL and joined the Government of Fidel Castro; he died at the age of 40 in a plane crash.

¹⁴ He concluded that in Mexico the 'propagating mechanism' was weaker in Mexico due to its huge labour surplus in agriculture, by a far less rigid food supply curve (due to a 'vigorous' land reform), and by constant Government policies to support the agricultural sector.

Further developments occurred in Santiago, Chile at ECLAC with Raul Prebisch as Executive Secretary (1950-1963) who was in line of the Rodan-Singer-Myrdal school of development economics. While Prebisch's contributions were important, they were made at a later stage (39). The crucial aspect relies that under his period at ECLAC, prominent economists arrived to Santiago to debate and further develop the structuralist theory. In an article published in 1958, the Chilean economist Osvaldo Sunkel stated the central proposition of structuralism:

Basic inflationary pressures. These are fundamentally governed by the structural limitations, rigidity or inflexibility of the economic system. In fact, the inelasticity of some productive sectors to adjust to changes in demand - or, in short, the lack of mobility of productive resources and the defective functioning of the price system - are chiefly responsible for structural inflationary disequilibria (p. 110).

These important contributions were made possible with Celso Furtado (a brilliant Brazilian economist) as Head of the Development Division for the period 1950 to 1957¹⁵. In fact, Furtado (48) was probably the first to relate the inflation to the pattern of growth in LAC since the 1930s, whose main feature was import-substituting industrialization. His work of inflation dynamics in Brazil (49) brought the notion of passive money as well as the effects of inflation on intersectoral income distribution in an open economy, at the point to argue that inflation had a positive role in the industrialization process of Brazil. Furtado also stated that the recurrent problem of inflation in LAC was essentially caused by the disparity between the rates of growth of income and the capacity to import (50). By working at ECLAC, he indeed had some crucial influence on later works regarding the structuralist approach to inflation (those of Noyola and Sunkel). It is intriguing that both Noyola and Sunkel also referred to an article of Kalecki (51) published in Mexico (based on his 1953 lectures at the Colegio de Mexico) about structural factors that stressed the importance of the rigidity of supply and the degree of monopoly in the economic system, and on the contributions made by Henry Aujac¹⁶ regarding inflation as a particular case of the conflict among classes (30). In fact, Kalecki argued that in less developed countries the supply of food is inelastic and that an increase in aggregate demand would raise food prices having unpleasant effects on real wages creating an inflationary spiral (39).

¹⁵ Noyola and Sunkel joined ECLAC at the beginning of the 1950s.

¹⁶ Henry Aujac (52): "Inflation as a Monetary Consequence of the Behavior of the Social Groups: A working hypothesis".

Furtado (53) stated the most influential and coherent structuralist argument against the application of the monetary approach (led by the IMF) to developing countries: that external disequilibrium was not caused by domestic inflation or excess aggregate demand, but by structural changes that are part of the industrialization process itself. In fact, his argument of 1954 stated that LAC inflation was caused by the disparity between the rates of growth of income and the capacity to import (as repeated by Seers in 1962). Actually, Furtado formulated and tried to implement the first structuralist stabilization plan¹⁷, which emphasized the roles of the balance of payments in the connection of growth and inflation, and of fiscal deficit; he suggested a 'gradualistic' approach instead to the 'shock' treatment proposed by the IMF staff (50). Most Latin American scholars in that time favored the 'gradualistic' approach because any attempt to eliminate inflation, would generate an unpleasant contraction in the growth rate of the economy, since structuralists based their position on the assumption of a non-vertical Phillips curve with relevant tradeoff between inflation and growth, and not unemployment (50).

Despite that the structuralist approach is associated to the ECLAC revolution; Furtado (56) reminded that the debate itself regarding growth and inflation took place inside ECLAC when Prebisch¹⁸ was skeptical about the developments of the approach proposed by Furtado and Noyola¹⁹. In fact, Furtado argues that Prebisch's influence within ECLAC was diminished by his unsuccessful participation in the Argentinian Stabilization Program for the years 1955-1956 (58); therefore the work of other economists became relevant for the debate inside the institution. In a revealing letter²⁰ of Noyola to Furtado in 1955, he stated that

I've prepared a few notes about the study of inflation and development in Chile, according to what we have discussed, and advanced the main lines of the theoretical interpretation. From a methodological point of view, I have shown to this people that one can analyze inflation without mentioning "means of circulation", "means of payment", and other pure twaddle that still "circulate"

¹⁷ Furtado's Three Year Plan (1962-1963) for Brazil.

¹⁸ Prebisch had a more 'conventional' interpretation of inflation in terms of cost-push and demand-pull elements: "I frequently dealt with inflation in my writings... My treatment of this matter was rather conventional, however, with some occasional incursions into structural factors and external vulnerability" (54).

¹⁹ This ECLAC 'transformation' from an orthodox perspective to a more heterodox approach is documented by Craven (55) and Toye and Toye (57).

²⁰ Presented in Boianovsky (50).

at CEPAL. Prebisch's reaction was very unfavorable. He thought he could avoid publication ... He accepted – at last! – that in order to analyze inflation it is not necessary to use monetary figures, asked me again my interpretation of Chilean inflation condensed in 5 pages, did the same to Jorge Ahumada and Oswaldo Sunkel... So, in less than 3 weeks, I've almost finished the production of the great theory of inflation (letter from Noyola to Furtado, 4 May 1955, Celso Furtado archives; translation in Boianovsky, 2009)

In the same year, Noyola finished a first draft of his work on Chile's inflation, and argued that the contraction of copper exports had inflationary pressures in the economy, given the shift of labour to others sectors with different levels of productivity (59). This was the first statement regarding that inflation is affected by the relative growth rate of wages despite the productivity differentials across sectors (known in the 1970s as the "European" structuralism²¹). Furtado emphasized that the 'external constraint' which means that the growth of the economy is accompanied by unbalances in the balance of payments was caused by the disparity of income growth and the capacity to import, suggesting that changes in the production structure to increase exports or to find substitution for imports are the only possible solutions (49).

Later he emphasized that the main source of inflationary pressures were the required time for aggregate supply to adjust to changes in the pattern of aggregate demand, and supported the view of planning to solve the problem of external disequilibrium and inflation (61), akin to what Little (38) and Balogh (62) stated about market failure and the inefficiency of the price mechanism under the presence of rigidities.

Furtado's approach was not influenced by that of Kalecki; was the work of Lewis (15), of labour surplus that set up the limitations of both neoclassical and Keynesian models when applied to less developed countries, which influenced him. Because of this, he discussed the relation between the agricultural sector and economic growth. It is clear the influential role of Furtado on other Latin American and European scholars, and his contributions are not only related to the Early Structuralism, but to modern Heterodox economics.

In 1956, Nicholas Kaldor became a consultant to ECLAC to undertake a study of Chile's economic problems and attributed many of the problems

²¹ Canavese (60) makes a comparison between 'european' structuralism and that of Latin American scholars without mentioning the work of Noyola (59).

to overregulation of the economy, but also followed Kalecki's argument more formally (39), by considering that productivity increases in non-agricultural sectors (and not in agriculture), with an inelastic demand for food (with respect to relative prices) that depends only on real wages, then an increase in the money supply and GDP would raise money wages causing increases in the prices of food offsetting the increase in wages (p. 155).

During 1957, the American economist Hollis B. Chenery²² visited Santiago to give the ECLAC lectures. He obviously focused more on stimulating the interest in input-output analysis, and also on linear programming for investment planning in developing countries. He made an important statement regarding structuralism (63):

A central problem of development policy is the adequacy of free market forces in allocating investment resources...The traditional view of economic policy in Western countries is derived from the classical theory of competitive equilibrium...The main policy implication of this model is that, under static conditions of perfect competition, market forces will tend to bring about the best use of a country's resources (p.51-52)

He pointed out that the Keynesian revolution challenged successfully the classical theory, at least in the short run. Citing the work of Rodan, Nurkse, Lewis, Prebisch and Myrdal, reflected the inadequacy of classical assumptions in less developed economies identifying competition, dynamic causes and equity considerations as the main defects of the free-price mechanism to achieve the maximum social welfare (39). In fact, "Serious structural disequilibrium in the use of labour, natural resources or foreign exchange represents one of the situations justifying state intervention in investment decisions" (63).

At the beginnings of the 1960s, the Hungarian Thomas Balogh and Dudley Seers visited ECLAC and made important contributions to the theory. Particularly, emphasizing on the negative effects of the liberalizing approach as a mean of restoring efficiency of the economic system through the free-price mechanism in LAC. The failure of this approach is even worst in less developed countries because of the defects of that mechanism (64). Considerations were made about technological upgrade and shifts of labour and capital towards secondary industries, suggesting that economic transformation is not an automatic process through the normal interaction of market forces. Inflation is not just a cost or demand phe-

²² Prof. Wassily Leontief was his PhD Thesis supervisor at Harvard University.

nomena, it has structural features and trends characteristic to less developed economies (64). In fact, he tried to draw to the attention of western economists stating that the structuralist theory was “the first indigenous school of economics in an underdeveloped area ... could acquire in the 1960s an interest comparable to that of Keynesian economics during the 1930s” (64).

Later work relates that of Prebisch (65), and the studies of Campos, J. Grunwald and D. Felix published together in Hirschmann (66). Global interest on Structuralist proposals reached its peak with the international conference on “Inflation and Growth in Latin America”, where eighty economists of all over the world attended the meeting in Rio de Janeiro (almost all mentioned in the present document)²³, and generated an academic debate around the topics pursued by ECLAC scholars with prominent Chicago economists such as Arnold Harberger.

In LAC, Prebisch’s centre-periphery theory and the structuralist theory of inflation represented the starting point for more radical ideas regarding development. Particularly, the re-interpretation of structuralism towards class structure (e.g. class conflict) instead of production or trade structures has been made up by Latin American neo-marxists. Also they critique that ECLAC overlooked class conflict, an aspect particularly relevant in the region, and the role of US in that conflict (39).

Given that the ISI regime was not achieving the expected results, and under the presence of excessive protectionism in the region, it started to decline given the increasing role of the Asian miracle under the idea that trade liberalization was the cause for this to happen. Several aspects such as debt and inflation crisis in LAC, contributed to reject structuralist policies since the region could not performed as well as those Asian “tigers”. Particularly in the region, the outstanding performance of Chile at the beginning of the 1990s under neo-liberal prescriptions (summarized in the so-called Washington Consensus) seemed to be the end of the structuralist proposals.

Unfortunately, successful cases under Washington Consensus represent few examples. And the majority of developing countries have presented unpleasant results under the suggested set of reforms (67), and these aspects have raised many issues regarding the future of development economics (68) such as the role of institutions to define the level of development of any country (69). Despite that today is widely accepted that

²³ Including W. Arthur Lewis, Dudley Seers, Arnold Harberger, Osvaldo Sunkel, Mario H. Simonsen, Albert Hirschmann, Nicholas Kaldor, Friedrich Lutz, Roy Harrod, Roberto O. Campos, and Celso Furtado.

development it is not only related to economic growth (70-72) and that the failure of many programs of structural adjustments applied in the developing world showed how limited and pathological is the neoclassical approach to the “real” context of developing countries (71). Washington Consensus policies that aimed to achieve stable sustainable path of growth were not able to achieve its main purpose, by this reason there is room for a new set of policy alternatives that could better fit the context of developing economies.

NEO-STRUCTURALISM AND ITS ECONOMIC FEATURES

After the decline of the structuralist proposals and the hegemony of the neoclassical thinking, emerged what it is called the neo-structuralism or “late structuralism” as defined by Gibson (31). This school of thought has clear differences with the mainstream and builds up on the basis of earlier developments, with Lance Taylor²⁴ as the maximum interpreter today. This school of thought comprises not only Latin American structuralism but also that of European scholars and that Anglo-Saxon one (31). It draws from classical structuralism emphasizing on the constraints shaping human choice rather than the choice itself. As stated by Gibson (31), modern structuralism follows the major themes: *Wholeness, Transformation, and Self-regulation*.

Wholeness relates to the scope of investigation. It is most fully expressed in the analysis of the world systems, center and periphery together, integrated in such a way that microeconomic analysis of agents on the globe becomes a secondary matter. This is represented more clearly in the north-south models developed by Taylor (74) that showed how growth and distribution in one side of the system affects the other. Indeed, late structuralists obtain their results based on Keynesian one-sector macro models, two-sector variants of aggregate models or disaggregated multi-sectoral computable general equilibrium models, and as a key feature, the introduction of financial variables in their models (31). Wholeness also is related to how structuralists analyze the economic behavior of agents, constructing usually models that contain a wide range of social classes that differ in their behavior, even when controlling for wealth and income

²⁴ In fact, when Lance Taylor initiated his career as a development economist, he was not been labeled as heterodox economist. He dealt with changes in sectoral production structure in the course of the development process under the supervision of Hollis Chenery at Harvard, but was while working in Chile in the late 1960s where he was exposed to heterodox structuralist ideas of ECLAC and had the opportunity to observe how distributional conflicts affect the economy. Once teaching at Harvard, he started to learn more about Kaldor, Kalecki, Robinson and Sraffa (73).

(74,77), particularly relevant when analyzing the real economy, and contrary to neoclassical models where agents behave identically.

Transformation was embraced by classical structuralists as fundamental to the program, since it represents the idea that economic structures do not ossify and change over time therefore structures are necessarily dynamic. By this, structuralist models are essentially dynamic but oriented to the short and medium-term, since it is merely impossible to analyze the institutional settings in the long run (even in ten years from now), so considering longer time frames goes in contradiction to the structuralist tradition. In the structuralist analysis, instability plays a major role than stability, by the fact that some of the given parameters of the model are changing therefore modifying the entire economy.

The last aspect entails what is called Self-regulation, an essential component of the classical structuralist program, which means that there is no external force that causes the system to follow a determined path (31). In many applied structuralist models, the central variable that entails self-regulation is capacity utilization, given that simultaneously registers supply-side (and demand-side) effects, therefore many adjustments processes in the goods and labour markets are keyed to the rate of capacity utilization.

In terms of economic policy structuralists may follow historical analysis to understand patterns of behavior of agents that is why they reject the assumption of strict optimization. If in an economy there is evidence of some behavior such as mark-ups, structuralists will emphasize this aspect instead of assuming that agents should behave otherwise. Finally, there is some skepticism to extend the rational model to political economy and policymaking.

Economic features of Neo-Structuralism

Neo-Structuralism²⁵ along the broad range of Marxian, Keynesian, and Post-Keynesian models of growth and distribution constitute in a broad sense the so-called "Heterodox" school of thought, an acronym introduced in contemporary economics to differentiate it from the representative-agent rational-expectations based school of mainstream macroeconomics (76).

The main economic insights that entail the approach of the heterodox school are summed up in the following lines to show the common aspects that are shared by the different heterodox schools of thought in order to present a coherent framework. The key insights that unify modern structuralist and heterodox economics are the following: the first one is, the

²⁵ Or "Late Structuralism" as pointed out by Gibson (31).

role of the functional distribution of national income between wages and profits; the second one, no assumption that would imply full utilization of labour or full employment; the third one, is the distinction between capitalists and workers' consumption, including the same distinction regarding their savings decisions; fourth, the adoption of an investment demand function independent of savings; and finally, the distinction between firms' decisions as agents despite their owners (households). These main insights rely on the work of many heterodox scholars such as Kaldor, Kalecki, Keynes, and Bhaduri²⁶.

Focusing on the deep structure of the economy at hand, factors such as the distribution of income and wealth, land distribution and tenancy, type and degree of specialization in foreign trade, market power and concentration, control of means of production, the functioning of financial intermediaries, and other aspects related to the society organization, are fundamental to understand and describe the economic and social relations present in an economic structure (77). The real focus of structuralist theories, "is not prediction but description and explanation" (78).

The methodological approach followed by late structuralists to generate their models is always the well-known Social Accounting Matrix (SAM), which shows the flows of payment among all economic agents in an economy. This analysis, and the macro-models constructed based on the SAM, is highly country-specific and by no means represents that policy descriptions are suitable for other countries; theory and policy descriptions must reflect the actual situation of each specific economy in its historical development (78).

TABLE 1.1. SCHEMATIC SOCIAL ACCOUNTING MATRIX (SAM)

	OUTPUT COSTS	USES OF INCOME	CHANGES IN CAPITAL STOCKS AND FINANCIAL CLAIMS	TOTALS
OUTPUT FLOWS		Output Demand		Value of Output
SOURCES OF INCOME	Production Costs	Transfer among income recipients		Total Income
FINANCIAL BALANCES		Savings Flows	Flows of Funds	"Zero"
TOTALS	Value of Output	Total Income	"Zero"	

Source: Baghirathan et al. (78), p. 309.

²⁶ In fact, Foley and Taylor (76) constructed an open capitalist economy: six different sectors (wagers, rentiers, government, financial institutions, and ROW), four types of assets (physical capital, domestic short-term debt, domestic equity, and a foreign asset), and a commodity.

The advantages on working using a SAM approach allow introducing effective demand and investment functions, to analyze diverse impacts such as exchange rate devaluations, or to construct a determined theory of inflation and distributive conflicts and explore the role of financial markets and cycles. Simulation methods, widely used in other sciences, are the most suitable to structuralism needs to follow a full information approach: different economic actors and institutional settings needed to validate the complex macro-models. Late structuralists are skeptical regarding the use of econometric techniques to explain economic and social phenomena: given the strict requirement on data requested by statistical theory, seldom met in developing countries; the assumption of stability required (considering a dynamic economy where both institutions and structures change over time); and the use of reduced-form equations (with one or two variables) to explain complex systems or economic phenomena ((31), (76), (78)).

Economic dualism is an important principle of the heterodox thinking. In fact, the work of Lewis represents the seminal insights of dualism and segmentation; while Kalecki, emphasized on the supply constraint of the agricultural sector caused by the semi-feudal class structure of developing countries, lack of capital, and a external gap due to lack of foreign currencies (79). The modern combinations of these models are known as the dual-dual model (80) that emphasize that 'backwardness' is not only related to the agricultural sector, but on how modern techniques of production could prevail in different economic sectors both rural and urban.

Another 'dual' classification is made by structuralists/heterodox economists. The profit-led and the wage-led regimes classification based on the works of Bhaduri and Marglin (81)²⁷ with the former referred as the case where investment and profits play a dominant role led by the enthusiastic response of capitalists to wage reductions; and the latter as a regime where wage increases boost aggregate demand and capacity utilization. According to Barbosa-Filho and Taylor (82), econometric evidence suggests that developed economies are generally profit-led while in developing countries aggregate demand is generally wage-led²⁸. The second classification is the one between Marxian and Kaldorian economics, which is related to income distribution issues: the long term relationship between capacity utilization and the wage share. It is a Marxist economy when increases in capacity utilization lead to a decrease in the profit share, increasing the

²⁷ Bhaduri and Marglin (81) present the "stagnationist" and "exhilarationist" regimes.

²⁸ Above all because of the short run contractionary effects of devaluation due to lower real wages.

growth rate of labour share of income; or can be of the Kaldorian type, when the demand curve is downward sloping and the growth rate of labour share income decreases during upturns (83).

Modern structuralist models can be suitable to better represent the starting condition of successful East Asian countries by a simple flex price/fix price model. In fact, that is what Taylor (84) did and applied it to the Indian case; the flex side is the agricultural sector which is generally price inelastic and demand-driven, which only the relationships between demand and supply determine the food sector prices (85). The Fix side is the non-agricultural sector, and market clears through variations of output, given that state-owned or private firms enjoyed sufficient market power to maintain fix price. This model can be improved as stated by Khan (86), by including formal/informal producing sectors, and rigid/flexible wage setting mechanisms; by including modern/traditional sectors (87); or by including gender differentiation²⁹ (88). In fact, the analysis is truly suitable for many countries where informality has increased after structural adjustment policies during the 1980s and 1990s, where conflict and land concentration³⁰ brought massive urban migration that augmented both urban and rural informal activities, which cannot be considered an engine of growth (89-90). Moreover, the development of the informal sector increases the demand for wage food, without giving any prospect of rising productivity of the food and crops sector.

In the case of Latin American countries, these dualisms are judged to be of great importance. As pointed out by old structuralist scholars and still confirmed by contemporary ones, agriculture bottlenecks remains as the main obstacle for the development of industrial activities, both in the short and long run. This kind of dualisms, during the 1980s and 1990s, brought periods of stagflation following the mechanisms explained by Bhaduri (85). In fact, higher industrial growth compared to those agricultural ones, caused an increasing demand for wage food, and therefore a higher demand-determined price of wage agriculture goods. As a result, nominal wages increased to maintain real wages constant, that under mark-up pricing behavior of industrial firms, prices adjusted accordingly. As Love (91) underlines, many structuralist scholars argued that the domestic structures of the Latin American agricultural sector constrain agriculture productivity growth and provoke stagflation. On the other hand, inflation was caused by distributive conflict between owners of mean of pro-

²⁹ In fact, evidence suggests that women low wages represent an important element to achieve an export-led growth, which may entail gender discrimination.

³⁰ Instead of Agriculture-Led development.

duction and salary workers. In the process of industrialization present in most countries and under an exaggerated protectionism that favored certain industrial groups, exacerbated old domestic dualisms and society as a whole (92). Additionally, it also intensified the dependency on imports and intermediate goods, being unable to eliminate the recurrent external gap (93). Weak institutions have also contributed to the slow pace of development³¹. The decline of structuralist's recipes allowed implementing more radical ideas towards extreme openness of both trade and financial sectors. Considering that countries are natural resources abundant, policies impacted negatively on labour markets, increasing dualisms and exclusion of unskilled workers from formal employment; produced some kind of de-industrialization favoring capital intensive sectors with weak linkages (backward or forward) to the rest of the economy; and limited the capacity of the economy to create employment opportunities for the growing population therefore worsening income distribution.

Today's development agenda has to deal also with the recurrent process of external liberalization, such as, free trade areas and agreements, elimination of Government's supports to boost production (price controls or input subsidies), privatization of public utilities and assets, Central Bank's inflation targeting towards flexible exchange rates, to mention some of them. Nevertheless, developing countries also face a process of financial liberalization through deregulation of financial asset markets, free interest rates, and also capital account (94). The CGE mainstream approach has been limited to analyze these aspects, mainly to the clear gap in understanding the economic structure at hand and recurrent dualisms. Their models are able to work only with real variables (given their Walrasian origins) while money is considered neutral. In the structuralist approach (following Taylor's work), the models are an extension of Leontief's Input-Output to measure short-run income distribution consequences, sectoral growth, and trade balance effects of exogenous shocks or of different economic policy options (95), with non-neutral money as a fundamental aspect to understand the functioning of financial markets. In fact, one attempt to integrate financial accounting with the larger economy has been flow-of-funds analysis, as in Backus et al. (96) and subsequently many authors³² applied this analysis to developing countries. Easterly (100) made

³¹ In fact, Institutionalists and Structuralists have a close way of thinking (92).

³² Work done on developing countries by Darvis, de Melo, and Robinson (97), Bell and Srinivansan (98), Taylor, Sarkar, and Rattso (99), Easterly (100), Rosensweig and Taylor (101), Bourguignon, Branson, and de Melo (102), Jemio (103), Lay, Thiele, and Wiebelt (104), Kahn (105), Schweickert, Thiele and Wiebelt (106), Yeldan, Voyvoda, and Telli (107). For Neoclassical Applied General Equilibrium AGE models for developed countries, see Shoven and Whalley (108).

an effort to integrate flow-of-funds analysis within the more powerful social accounting framework for the Mexican case.

The main issue to develop such models relies on the fact that the financial part of economy in any country has become and constitutes a fundamental part of the economic system. On the other hand, financial income has an important effect on the distribution of income in any economy with a not so sophisticated financial system. Other important aspects that cannot be addressed under a 'real' model are the fact that money is an 'asset', and the long term role of monetary policy.

Structuralist and Heterodox scholars in general are rather skeptical about financial liberalization and capital account openness, given internal fragility, segmentation between informal and formal activities and the presence of rigidities that could lead to detrimental consequences. CA account deregulation could create a credit boom by capital inflows due to higher interest rates, stimulating even more interest rate increases and appreciation of the local currency, with unpleasant results on domestic firms' investments (94).

Although a unified doctrine seems to dominate current economic debates and policies, many critical voices from both developed and developing countries have questioned the existing orthodoxy: the limits of natural resources-based growth, more pronounced concerns about "inclusive" growth towards equity and income distribution even in successful countries, the needs to better understand the true effects of globalization and assert its positive and negative impacts, a comprehensive analysis of the role of institutions on development, a deep understanding about trade practices of the developed world. Aspects tackled not only by modern structuralists but also by heterodox scholars, as an effort to reconstruct the meaning of socio-economic development.

FINAL REMARKS

It is clear that economic theory evolves through time, but what it is evident is the role of classical economists and their contribution to development theory, which is more than the role of accumulation and investment processes. In fact, development was conceived as a complex process of social dynamics, institutional change, and economic growth. Classical economists showed that modernization implied not only economic reforms but also social and political innovations. Some aspects, such as the role of institutions and social capital, are now part of the so-called post-

Washington consensus. But modern development thinking would greatly benefit from using and including the notions of structural change.

The structuralist approach to development has always intended to fill this gap. But it is not an easy task to establish the specific characteristics of modern structuralism, since it is a country and context specific analysis. But its economic background traces the legacy of classical authors and modern development theorists from all over the globe, which is fundamental to better understand the structure of peripheral countries. Their applied models underline the role of structural change, income distribution, surplus and reproduction, the role of money in the real economy, and the distinction between productive and unproductive sectors, aspects that have been ignored by mainstream economics, but play a key role in development economics and policies, where market forces are unable to solve.

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