

## METHOD AND PASSION IN CELSO FURTADO

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*In* Luiz Carlos Bresser-Pereira e José Márcio Rego, orgs. (2001) *A Grande Esperança em Celso Furtado* [The Great Hope in Celso Furtado]. São Paulo: Editora 34: 19-43.

**Abstract.** The method that Celso Furtado utilizes is essentially historical; his passion – a measured passion – is for Brazil. In the second half of the twentieth century no intellectual contributed more than him for the understanding of Brazil. He was committed to its development, frustrated with its incapacity to achieve it, and always acute in analyzing the economic and political challenges that the country successively faced. In order to demonstrate these ideas, the paper presents a broad review of Furtado's work.

If there was an intellectual who, in the second half of the twentieth century, gave a most decisive contribution to the understanding of Brazil, I wouldn't hesitate in stating that this intellectual was Celso Furtado. He didn't just offered economic explanations for our development and underdevelopment. More than that, he situated Brazil in a world context, analyzed its society and its politics, offered solutions for the major problems it faced. In order to achieve this task, as ambitious as frustrating – because, ultimately, Brazil fell short of his great expectations – Furtado used method as well as passion. He was rigorous in his method, but this didn't prevent him from viewing with passion the subject matter of his study, which has always been a republican project of life as well: the development of Brazil.

One of the books by Carlos Drumond de Andrade is called *A Paixão Medida* [The Measured Passion]. This oxymoron, so deftly used by the great poet, helps us to understand Celso Furtado. The passion is strong, making his work and life full of energy and desire of economic and political transformation, but it is a measured passion, which weights costs and trade-offs – as economists usually do – and doesn't overlook political restrictions.

Celso Furtado is an economist devoted to development theory and to the analysis of Brazilian economy. In those two areas he always thought independently, using mainly the historical method rather than the logical-deductive one. He has a powerful ability to infer and deduct, but he always starts from the observation of reality, avoids starting from general assumptions on human behavior – and tries to infer the theory from this reality and its historical movement.

In this paper I will not make a general evaluation of Celso Furtado's work. I will only focus on three issues of that work. One issue is well known – his independence of thought – the other one hasn't been much studied – the method – and another one is somehow present in all the analyses of his work – the passion – but it always appears in a measured way, through expressions such as love for Brazil, personal and intellectual integrity. Furtado is all this, but is more than this. His struggle for the development of Brazil and for overcoming backwardness in his homeland - the Northeast of Brazil – was conducted with such an intensity and determination that only passion could explain.

## THEORETICAL INDEPENDENCE

Celso Furtado is a development economist. He was part of the group of ‘pioneers’ of the modern development theory, along with Rosenstein-Rondan, Prebisch, Singer, Lewis, Nurkse, Myrdall, and Hirschman.<sup>1</sup> His theoretical contributions focused on the understanding of the process of economic development and underdevelopment. And to achieve it, he used in the first place, as we will see, the most suitable method to the study of development: the historical-inductive one. But, before examining the method he uses, it is important to point out the theoretical independence that characterizes his intellectual path.

He makes use of the economic theory he learned with the classics, among which Ricardo and Marx play an outstanding role, together with Keynes. Little he owes to the neoclassics. Furtado, however, is not to be taken for a Marxist, or a Keynesian. He learned with the classics and with Keynes, but he has an independent thought, and has always

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<sup>1</sup> - The identification of the ‘pioneers of development’ was made by Gerald Meyer and Dudley Sears in two books (1984, 1987).

absolutely prized this independence. He is identified with Latin-American structuralism, to the extent that he was one of its founders.<sup>2</sup> But we must have in mind that structuralism is not nor has it intended to be an all-encompassing economic theory. It was an influential economic doctrine in Latin America in the 50s and 60s because it offered an interpretation for the underdevelopment of countries that, in mid-twentieth century, experienced the transition from pre-capitalist or mercantile forms to industrial capitalism, and presented to their government leaders a consistent development strategy.

The theoretical independence of Furtado's thought enables him to use the theories he considers relevant to solve the problems presented by the interpretation of the economic facts that he should face. Marxism is important for him to the extent that it offers a powerful view of history and capitalism, but Marx's contribution to the economic theory is less significant. When describing his Marxist learning, in France, in the late 40s, he states:

The remarkable view provided by Marx on the genesis of modern history cannot leave indifferent a curious mind. Yet his contribution in the field of economics seemed less important for someone familiar with Ricardo's thought and acquainted with modern economics.<sup>3</sup>

On the other hand, he doesn't believe in a pure economic theory, whether neoclassical or Marxist. Furtado has never been interested in this aspect of economic theory. For him, economic theories exist to solve actual problems. From his point of view, economics is “an instrument to penetrate social and political realms and further the understanding of history, particularly when it was still displayed as present before our eyes.”<sup>4</sup>

But how does Furtado intend to understand the world around him? Not by applying without criticism any system of economic thought. Nothing is more opposed to Furtado than the stereotyped thought of orthodox intellectuals, whatever orthodoxy they adopt. He wants to see the world with his own eyes. To use the instruments of economic analysis without losing his own freedom of thought and creation, which is his greater asset. As

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<sup>2</sup> - The work of Joseph Love included in this book incisively postulates Furtado's role as co-founder of Latin-American structuralism, although Furtado has always insisted on paying his tribute to Raul Prebisch.

<sup>3</sup> - Furtado (1985: 31).

<sup>4</sup> - Furtado (1985: 15 e 51)

observed by Francisco Iglésias, “it is absurd to point him as neoclassical, Marxist, Keynesian, labels that are frequently assigned to him. From every author or trend he takes what is, from his point of view, correct or adaptable to Brazilian or Latin-American reality. He adopts the models that seem correct to him, without trying to apply them mechanically to different cases, without orthodoxy”.<sup>5</sup> Furtado doesn't intend by that to reconcile those theories, nor is he being undefined, as suggested by those who wish a single and integrated view of economic theory: he is only saying that, according to the problem we face, one school of thought or the other may be more useful. As for Keynes, Furtado is, as observed by Bielschowsky, an ‘atypical Keynesian’ because he classically characterizes underdevelopment as a problem of savings shortage.<sup>6</sup> The shortage of demand would apply primarily to developed countries. Notwithstanding, when describing the development process, Furtado, instead of adopting the attitude, which was typical among the pioneers of development, of imagining that the concentration of income was a condition for the beginning of development, assigns to wage growth a fundamental role in ensuring the increase of aggregate demand and capitalists' profit itself. At this point he is already being fully Keynesian.

His concern with the independence of his thought appears clearly when he decided to leave Rio de Janeiro and work in Santiago, at the CEPAL, that had just been created. CEPAL was then still an empty project. Furtado didn't know Prebisch, who hadn't yet formulated his view of the development of Latin America. Even so, he decides to leave, in order to “escape the siege, gain an open horizon, even if he had to wander in search of a lost Atlantis”.<sup>7</sup> He makes this statement in *A Fantasia Organizada* [The Organized Fantasy] (1985), and afterwards manifests his conformity to Sartre and his philosophy of responsibility, according to which if we based our real choices only in reason, there would be no choices, everything would be predetermined.

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<sup>5</sup> - Iglésias (1971: 176). It may seem amazing to consider Furtado also as a neoclassical, but this is what we see, for instance, in Mantega (1984: 90): “In the first place, there is a certain imprecision and even a good dose of indecisiveness in this thinker, who wavers between classical and neoclassical fundamentals, for me irreconcilable”.

<sup>6</sup> - Bielschowsky (1980: 60).

<sup>7</sup> - Furtado (1985: 50).

By deciding to go to Santiago, Furtado was telling himself that his own life was not predetermined. And he was thus consistent with his broader view of society and economy. Since he never believed that a single economic theory was able to explain everything, he always rejected all kinds of determinism as well: whether Marxist determinism, based on the ‘laws of history’, or the neoclassical one, based on the principle of rationality, which, by postulating the maximization of interests, leaves no room for decisions, for choices.<sup>8</sup> On the contrary, if in the debate between determinism and voluntarism Furtado committed a sin, it was the sin of voluntarism, expressed in the belief in the ability of human reason of imposing its will on economy and society through planning. And, more broadly, in the key role he always attributed to decisions when it comes to thinking the macroeconomic system. The market has a fundamental role, but the decisions taken are no less important. This view is very clear in *Criatividade e Dependência na Civilização Industrial* [Creativity and Dependency in Industrial Civilization] (1978):

The profile of an economic system is defined from the identification of the centers from which are issued those decisions, destined to harmonize the initiatives of the multiple agents, who exert power in different degrees.

This refusal of determinism, including market determinism, is related to the individualism and idealism of the great intellectual who decides to intervene in reality. He started from the conviction that he was part of an intellectual elite, of an *Intelligentsia*, that would be able to reform the world. In this field, his master was Karl Mannheim. As he says:

By following Mannheim, I had a certain idea of Intelligentsia's social role, particularly in periods of crisis. I felt to be above the determinants created by my social insertion and was persuaded that the challenge consisted in inserting a social purpose in the use of such a freedom.

Gerard Lebrun, in his analysis of *A Fantasia Organizada*, points out Furtado's idealistic voluntarism, expressed by his unshakeable belief in planning – a planning that

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<sup>8</sup> - The deterministic nature of neoclassical thought was shaken only when microeconomics textbooks included the game theory – that is, the decision theory. But its authors were then healthily making relative the maximizing postulate of neoclassical theory.

<sup>9</sup> Furtado (1978: 18).

would totally eliminate the unpredictability of decisions. Well, observes the philosopher, “his idea of power (in a democracy, of course) seems so abstract, so well adjusted, *a priori*, to his ideal of a neutral planning, that he apparently hardly conceives that the planner might become a technocrat”.<sup>10</sup>

As a matter of fact, this outstanding economist is a scientist, but is also a bureaucrat in the best sense of the word, a man of State, a public policymaker who only ceased to be inserted in the State apparatus when military dictatorship suspended his political rights. Celso Furtado started his professional life at the DASP [Public Service Administration Division], as a public administration technician. He overcame that phase, became an economist and a University teacher, but never gave up believing in the rationalizing power of bureaucracy, including medium bureaucracy. He often said that the sole social group that was able to act as an interlocutor with international powers was the State bureaucracy. And for him it is essential to strengthen bureaucracy in democratic regimes in order to maintain public policies and the very effectiveness and legitimacy of the State power. As he says in *A Fantasia Desfeita* [The Faded Fantasy],

The process of bureaucratization doesn't just mean the growth of the State apparatus, it also means significant changes in political processes. By increasing the effectiveness of power, bureaucratization consolidates it at lower levels of legitimacy.

With this thought, Furtado is faithful to what he learned from such different thinkers as Mannheim, Sartre, and his teacher Cornu.<sup>12</sup> In capitalist democracies intellectuals may free themselves from ideologies and use their freedom to intervene in the world in a republican way. He knows that this is always a relative freedom, that we may build our own lives, but we cannot have any illusion regarding social and political determinants to which we are subject. For great intellectuals such as Furtado, the dialectics between freedom and socially conditioned behavior can be more conscious and, if accompanied by the virtue of courage, as in his case, it will be more favorable to freedom, but just more favorable: nobody escapes his circumstance.

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<sup>10</sup> - Lebrun (1985, *Jornal da Tarde*).

<sup>11</sup> - Furtado (1989: 185).

<sup>12</sup> - Quoted by Furtado (1985: 31).

Intellectual courage is expressed primarily in moments when it is necessary to differ from one's environment and group. In 1962, right in the middle of the country's political radicalization, Celso Furtado publishes *A Pré-Revolução Brasileira* [Brazilian Pre-Revolution]. After praising the humanistic nature of Marx's work, Furtado doesn't hesitate in declaring:

Since Marxism-Leninism is based on the replacement of a class dictatorship with another, it would be a regression, from a political point of view, to apply it to societies having reached<sup>13</sup> more complex forms of social coexistence, that is, to modern open societies.

Likewise, in the *Triennial Plan* (1963) he didn't hesitate in proposing a fiscal adjustment and a strict monetary policy, although he knew that he would be called 'monetarist' by the groups that supported the Goulart administration.

The use of freedom gains full meaning in Furtado because it is marked by the gift of creativity. Furtado's contribution to economic theory and to the analysis of Brazilian and Latin-American economies may be explained in terms of method, but it is, in the first place, the result of an enormous personal ability to think and create. Furtado knows it, and it is certainly not by chance that the epigraph of one of his books is a quotation of Popper in which he acknowledges that "scientific discovery is impossible without faith in ideas which are of a purely speculative kind, and sometimes even quite hazy".<sup>14</sup>

Creativity will be one of the bases of his intellectual independence from orthodoxy. Lebrun, writing on *A Fantasia Organizada*, remarks: "It is the odor of heterodoxy that makes this book even more fascinating and makes Celso Furtado a great writer, as well as a thinker". As observed by Bourdieu, if in economic theory there is a *doxy*, "a set of assumptions that antagonists regard as evident",<sup>15</sup> there is also an orthodoxy and an heterodoxy. The heterodox intellectual doesn't deny his science's most general assumptions, but refuses to subordinate his thought to the dominant one. The right and the conventional economists insist on giving heterodoxy a negative meaning, identifying it

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<sup>13</sup> - Furtado (1972: 27).

<sup>14</sup> - Epigraph to the *Prefácio a Nova Economia Política* [Preface to New Political Economy] (1976).

<sup>15</sup> - Bourdieu (1976: 145).

with economic populism, but, in fact, to innovate in economic theory and analyses almost always involve some heterodoxy. To be heterodox is to develop new theories, often from the identification of new historical facts that modify a certain economic and social setting and make pre-existent theories inadequate. When Celso Furtado opted to use mainly the historical-inductive method, and when he became one of the two founders of Latin-American structuralism, he was opting for heterodoxy and for independence of thought. In the next section, I will briefly present my view of the two methods in economic theory, and next I will continue the analysis of the method in Celso Furtado.

## TWO METHODS IN ECONOMICS

Orthodoxy, or neoclassical mainstream, is primarily logical-deductive. It intends to deduce the balanced operation of market economies from the sole assumption that economic agents maximize their interests. If we classify sciences as adjectival or methodological, there is no substantive science more logical-deductive than neoclassical economic science, in spite of the statements that it is a positive science. Paradoxical as it may seem, not even physics is as logical-deductive. The supremacy of the logical-deductive method is such, that I always recall the observation of a former student, who returned from a scholarship in a foreign university. When I told him that, for me, in certain fundamental areas, such as macroeconomics and economic development, the economist should use predominantly the historical-inductive method instead of the logical-deductive one, he immediately replied: “but in economics, the logical-deductive method is always dominant; we don't study history, we study economic theory”. For him, as for the whole neoclassical thought, economic theory is by definition logical-deductive.

Economic theory is abstract by definition, and cannot be confused with history. In economics we try to find models, theories, which should explain the stability and variation of economic aggregates, the short-term economic cycle and development, inflation or deflation and the balance of payments, the variation of relative prices, of interest rate and of exchange rate. The subject matter of economic theory, therefore, is clear, as it is clear that the aim is to generalize with respect to the behavior of relevant variables, and, through this generalization, to be able to predict the behavior of economic variables. Therefore, it is important to acknowledge that, according to the subject discussed, the most applicable

method will sometimes be the logical-deductive one, sometimes the historical-inductive one.

In another paper, I advocated the idea that macroeconomics is irreducible to microeconomics because the former uses predominantly the historical-deductive method whereas the latter uses the logical-deductive method. The statement that the advance of knowledge depends on the connected use of the two methods is part of philosophy's introductory classes. In the process of knowing, individuals make permanent use of induction and deduction, one following the other and vice versa. Induction and deduction are not, therefore, methods of knowledge, or, more precisely, opposite mental operations. They are complementary. This doesn't mean, however, that sciences use one method or the other with the same intensity. Mathematics, for instance, is only logical-deductive, and sociology, mainly historical-inductive. In mathematics everything is deduced from a few identities; in sociology and in the other social sciences, with the exception of the neoclassical variant of economics (recently extended to political science), the observation of the social fact and its evolution in time is the fundamental method of research, although the researcher is permanently forced to also use the deductive method to perform his analysis.

Therefore, I am not corroborating the dominant belief in the nineteenth century that the use of the inductive method would distinguish the true science. This latter would begin with the observation of facts and with experiments to ultimately reach general laws. As Hume's 'problem of induction' made clear, we may infer general laws from induction, but the inferences thus performed do not become logically demonstrated.<sup>16</sup> The historical-inductive method doesn't exclude the logical-deductive one. In macroeconomics and in the theory of economic development, however, it takes precedence over the logical-deductive method, whereas the opposite is valid for microeconomics.

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<sup>16</sup> - See Blaug (1980: 11-12). He uses Hume's problem of induction to reduce its role in economic theory. As most economists, he presumes that there is only "one" economic theory, and therefore the predominant use of one method or the other depending on the approach - microeconomic, macroeconomic, or of economic development - makes no sense for him.

I consider the neoclassical theory of general equilibrium a remarkable contribution to the understanding of how market economies operate. But this doesn't mean that the whole economic theory may be subordinated to it. A second branch of the economic theory – macroeconomics – cannot be reduced to microeconomics because one deals with the behavior of economic agents, and the other, with economic aggregates – this is only a definition. Microeconomics, or, more precisely, the general equilibrium model that provides its basis, approaches economy from a logical-deductive perspective, deducing the way by which resources are allocated and income distributed in a market economy from a single assumption, the agents' rational behavior. Macroeconomics, on the other hand, was born and continues to bear its bigger fruits when it observes the behavior of economic aggregates, verifies how this behavior tends to repeat itself, and generalizes therefrom, building models or theories. Subsequently, macroeconomists try to find a logical reason, a microeconomic fundamental for the behavior of macroeconomic aggregates, but at most they will find *ad hoc* explanations. The neoclassical hope of reducing macroeconomics to microeconomics cannot be achieved, because the methods prevailing in each of those branches of economic science are different.<sup>17</sup> As it is impossible to reduce the third major branch of the economic theory – the theory of economic development – to microeconomics or to macroeconomics. The core of the thought is still classical in this case, as is neoclassical the core of microeconomic thought, and Keynesian, the core of macroeconomic thought.

The economic theory tries to explain and predict the behavior of economic variables. It is necessary, however, to determine the variable in which we are interested. If we want to understand and predict the behavior of prices and the allocation of resources in the economy, the microeconomic theory, with its logical-deductive basis, will be more effective; if we want to understand the distribution of income in the long run in the capitalist system, the reversion of the classical theory, by placing the profit rate as given and the wage rate as a residue, will have a higher predictive power; on the other hand, if we want to understand the behavior of economic cycles, the Keynesian-based macroeconomics will be the instrument par excellence; finally, in order to understand the dynamics of development, the classical historic-based development theory will be the one with the highest power of explanation and prediction.

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<sup>17</sup> - See Bresser Pereira and Tadeu Lima (1996).

According to this reasoning, it is impossible to have an absolutely integrated view of economic science. Economic science has three major branches: microeconomics, macroeconomics and the development theory. Each one of them provides us with a view of the operation of the economic system from a certain perspective, and using one prevailing method. Of these three branches, only in microeconomics the logical-deductive method is and must be dominant. It was this method that made it possible to build the microeconomic models of partial and general equilibrium, which constitute one of the major scientific achievements of the universal thought. Through it we can understand how a market economy allocates resources. Yet the theory of economic development, that explains the growth process of capitalist economies in the long run, and macroeconomics, that shows how economies behave in the economic cycle, although they use the logical-deductive method, were built from the observation of historical phenomena. Smith and Marx, who found the former, observed the transition from pre-capitalist forms to capitalism, and theorized on the basis of this observation. The classical theory of income distribution also has a historical nature, although, with the change in the behavior of the wage rate, from the mid-nineteenth century on, it only continued to make sense when it was inverted: the long-term profit rate proved to be stable enough to be considered constant, and therefore it is possible to predict that the wage rate will increase with productivity as long as the technical progress will be neutral. Keynes and Kalecki, who were responsible for the appearance of macroeconomics, began with the observation of the economic cycle after the First World War, and theorized from there on: they also primarily used the historical-inductive method. Ricardo's great contribution to the theory of economic development – the law of comparative advantages in international trade – was a great logical-deductive effort, but even in this case it was based on the observation of what happened in England and took into account its business interests, rather than the rational behavior of economic agents.

Friedman's criticism of the Keynesian macroeconomic policy – the discovery that through adaptive expectations the economic agents would partly neutralize that policy - started rather from the observation of reality, although it has an obvious microeconomic foundation. This criticism didn't invalidate macroeconomic policy but limited its scope. When, however, macroeconomic theory detached itself from reality and radicalized the logical-deductive approach, as it happened with the rational expectations hypothesis, we have an absurd and empty theoretical construct, despite its apparent consistency, which

transforms economic theory in a mere ideology. According to this distortion suffered by the economic theory, macroeconomic policies would be completely ineffective, since they would be neutralized by the agents' rational expectations. Well, this assertion contradicts daily experience, in which we see the economic authorities of all nations actively involved in economic policy. The radical use of the logical-deductive method led theory to ignore historical reality. The economic policymakers, in the ministries of finance and in the central banks, for some time in the 80s, accepted the radical version of monetarism proposed by rational expectations, but since the beginning of the 90s they abandoned monetarism and started to adopt the pragmatic strategy of inflation targeting.

Another common distortion that arises from the pretension of using the logical-deductive method to explain all economic phenomena is the one resulting from the insistence on employing a certain model when reality does not conform to it. At that moment, economic theory becomes an obstacle rather than an instrument for the analysis of what is happening. When he manages to overcome this obstacle and actually think, analyzing the new facts that demand new analyses, he is forced to abandon the pre-existent models. In this case, as observed by Tony Lawson, “the only thing that remains intact is an adherence to formalist and, therefore, deductivist closed systems of modeling”.<sup>18</sup>

Therefore, I see with skepticism the attempts to unify microeconomics, macroeconomics, and the development theory. Those approaches are not mutually reducible because they start from different methods. To want to unify them is a mere intellectual arrogance. An arrogance that results in the impoverishment of economic theory. There is no need to find a model that unifies everything. We may perfectly use one theory or the other, according to the point that we are trying to explain. A strictly neoclassical macroeconomics is a contradiction: it is macroeconomics without the very object of the discipline: the economic cycles. A purely neoclassical theory of economic development makes still less sense, since the general equilibrium model is essentially static. When the neoclassical economists finally reached a compatible model of development – the Solow model – this model advanced substantively little as compared to

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<sup>18</sup> - See Lawson (1999: 6-7). Lawson adds: Mainstream's insistence in the universal application of formalist methods presumes, for its legitimacy, that the social world is closed everywhere, that event regularities are ubiquitous”.

what Smith, Marx, Schumpeter, and the ‘pioneers of the development theory’ of the 40s and the 50s had taught us on development. The same may be said of the Keynesian model of development of Harrod and Domar. Both models had, as a great merit, the fact of being consistent with their corresponding theories, rather than the fact of explaining the development process. The Solow model eventually proved to be more profitable, not due to that logical-deductive consistency, but rather because, since it was based on a Cobb-Douglas function, made it possible to conduct a great deal of empirical research, not precisely historical, but predominantly inductive.

## THE METHOD

One way through which Furtado evidenced his independence of thought was keeping faithful to the historical-inductive method, despite the fact that orthodoxy, in these eighty years, became more and more logical-deductive. Of course, he used abundantly his logical-deductive ability, but he always did it from the historical facts and their tendency to repetition, not from the presumption of a rational behavior. As an economic historian, it was natural for him to use predominantly the historical-inductive method, but this is also true when he takes on the role of a development and underdevelopment theorist.

Therefore, I am not suggesting that Furtado belongs to Gide's German historicist school, or to Veblen's American institutionalism. Those schools were characterized by the refusal of economic theory, and by the search for the analysis of economic facts on a case-by-case basis, whereas Furtado uses the available economic theory and tries to make it advance in the understanding of economic development.

Even as an economic historian, Furtado was, above all, an economist rather than a historian. He doesn't recount the history of Brazilian economy, he analyzes it. No one made use of the economic theory more brilliantly to understand the evolution of Brazilian economy than Furtado in *Formação Econômica do Brasil* [Economic Formation of Brazil] (1959). As remarked Francisco Iglésias, a historian, although this is a book on economic history, it is a book from an “economist's point of view... in this analysis of economic processes one arrives at a great simplicity, at an ideal model, at forms that sometimes look as abstract. This is what happens in many excerpts of Celso Furtado's book; the rigor of

construction of this book is such that... it makes the reading difficult for those who lack a vast historical information and a certain knowledge of economic theory.”<sup>19</sup>

Along the same line Lebrun points out: “history, as it is practiced by Celso Furtado, is only worthwhile for its extreme *accuracy* (author's emphasis)... This is his method: no assertion that isn't based on facts or on statistical data”. But, I would add, data that are used with great intelligence and inference ability. One of the features that makes *Formação Econômica do Brasil* (1959) a masterpiece of history and economic analysis is Furtado's ability to deduce, from the scarce available data, the other variables of the economy and their dynamic behavior. But, by doing that, Furtado is not abandoning the primacy of the historical-inductive method. He is only being able to combine his creativity with his logical rigor in order to present, from the available data, a general picture of the historical evolution of Brazilian economy hitherto unsurpassed. *Formação Econômica do Brasil* is for me the most important book published in the twentieth century on Brazil because in it Furtado was able to use the economic theory and the other social sciences not to describe, but to analyze the economic history of Brazil.

I'll give an example of his independence and method in that book. From the chapter 16 on Furtado writes about the nineteenth century. First of all, although he had just participated in the foundation of Latin-American structuralism in Santiago de Chile, he is not led by imperialist explanations of our underdevelopment, and declares, with respect to the 1910 and 1827 privileged agreements with England: “the common criticism made to these agreements, that they precluded Brazilian industrialization at that stage, seems to be unfounded”.<sup>20</sup> From the country's exports data and exchange relations, he observes that the century's first half was a period of stagnation: in fact, the per capita income must have fallen from US\$ 50 to US\$ 43 (at the exchange rate of the 50s). The next fifty years, however, show a great expansion, thanks to the exports increase and to the substantial improvement in the exchange terms. Once again the analysis starts from some historically verified facts, in order to infer the economy's general behavior. And, of course, to connect it with the social aspects. The landowners are not undifferentiated, as it is usually seen. The new ruling class of coffee growers is very different from the old patriarchal class of

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<sup>19</sup> - Iglesias (1971: 200-201).

<sup>20</sup> - Furtado (1959: 122).

the sugar plantations. It has commercial experience, and therefore the interests of production and trade are intertwined. On the other hand, he dedicates four chapters to the problem of labor, stressing the importance of immigration and wage labor. This fact may seem obvious, but it deserves the emphasis from someone who doesn't transform the economy into mere abstractions, and thinks it as a historically situated political economy.

The second example, I'll pick it from his leading theoretical book: *Desenvolvimento e Subdesenvolvimento* [Development and Underdevelopment]. (1961). In chapter 1, he summarizes his broader methodological view, and remarks that economic theory must be at the same time abstract and historical:

The effort towards higher levels of abstraction must be followed by another effort, which tries to define, based on historical realities, the validity limits of the inferred relationships. The fundamental duality of economic science – its abstract and historical nature – appears, therefore, in its entirety in the theory of economic development.

The fact that economics is taking on a more and more abstract nature, according to Furtado, is due to the fact that, from Ricardo on, its aim has been virtually limited to the study of product division, leaving in the background the issue of development. And, however, he points out, “economic development is a phenomenon with a sharp historical dimension”.<sup>21</sup> He will repeat this statement numerous times throughout his vast work, because it is a key issue to his thought. After introducing the “mechanism of development”, in which are presented a few abstractions required to the understanding of development, we have in chapter 3 one of the most remarkable texts I know on “The historical process of development”. In this chapter, which was no longer reissued - in my opinion, due to a mistaken judgment - and which was lost during the transformation of *Desenvolvimento e Subdesenvolvimento* into another one, more systematic and didactical, *Teoria e Política do Desenvolvimento Econômico* [Theory and Politics of Economic Development] (1967), Furtado shows how the way of using the economic surplus will determine the emergence of the development process. In pre-capitalist formations, the surplus was primarily used for war and for religious temples. With the advent of capitalism, the surplus obtained by merchants will be transformed into capital accumulation, which will now be intrinsic to the economic system. With the industrial

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<sup>21</sup> - Furtado (1961: 22).

revolution, however, capitalism extends itself to the sphere of production. In a world in which technical progress starts to speed up and the competition is widespread, the reinvestment of profits no longer satisfies the businessman's wish for increased profits, but becomes a condition for the survival of enterprises. Development acquires a self-sustainable nature. In his words:

When the production surplus of the social organization becomes a source of income, the accumulation process will tend to become automated... The strategic points of this process are the possibility of increasing productivity<sup>22</sup> and the appropriation of the fruits of this increase by minority groups.

The idea is simple and powerful. But we should not imagine that Furtado will present it unfleshed. He is presenting a historical process through which we watch development emerging along with capitalism, and with all the complex changes of social, institutional, and cultural nature that are inherent to it. The economic phenomenon of productivity increase is a key issue, but it is intrinsically connected to the emergence of new social classes and new institutions.

The importance of institutions, which became a key issue in the 90s for the study of development, is already clear for Furtado in *Desenvolvimento e Subdesenvolvimento*. He explains, for instance, the economic decline that follows the collapse of a pre-capitalist empire such as the Roman Empire in terms of the collapse of the Roman State apparatus, of its military power, and of its long matured institutions. The surplus was appropriated by Roman citizens, and particularly by its patricians, through the collection of tributes on the colonies, and gives birth to a large trade warranted by Roman law. When this whole system collapses, economic decline is inevitable.

The destruction of the enormous administrative and military machinery that constituted this Empire had profound consequences for the economy of the vast area it occupied... Once the administrative and military system was dismantled, the security conditions that made trade possible disappeared; on the other hand, tributes having disappeared, the main source of income of urban populations, who lived on subsidies or rendering services, was over.

Institutions are, therefore, a fundamental thing, but they didn't occur alone. First of all, they are part of the State, which, in the Roman case, took on the form of an Empire. Second, it is not just a question of ensuring economic activity - trade - but of making

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<sup>22</sup> - Furtado (1961: 120-121).

feasible a way of appropriating the surplus. Since we still don't have capitalism and surplus value or capitalist profit, the surplus is appropriated by force, by means of tributes.

Development in the historical sense of the word only occurs when the expansion of Islamism forces Byzantium to turn to Italy. Powerful trade economies are then formed in the Italian city-states, and alongside aristocracy, or in its place, a new bourgeois class appears. And this trade promotes political integration, which would eventually lead to the emergence of national states. Institutions in this case emerge rather as a consequence than as a cause of development. Furtado is explicit about it, and remarks that whereas in the Roman Empire political integration led to trade and development, in Europe it was long-distance trade, adventurous and insecure, that will cause political integration. This latter, however, will soon become a decisive factor of development itself.

Institutions and their stability are a fundamental issue to development – especially the greatest of them all, the nation-state, from which the others depend. In this case Furtado was not being original, since there is a broad consensus about it. He adds, however, that the capitalist system will produce not only the nation-state, but will tend to adopt democratic institutions. This view appears clearly in Furtado's following book, *A Dialética do Desenvolvimento* [The Dialectics of Development] (1964), in which he criticizes the Marxist idea that in bourgeois society the limitations to freedom derive from the need to defend the privileges of the class that has the ownership of capital goods. On the contrary, says he, democracy arises from capitalism and from the increasing institutional stability it provides. Such an stability not only leads the bourgeoisie to adopt democracy as the political regime, but will also ensure the system's economic dynamism. According to Furtado:

The reason for the progress of liberties in democratic capitalist societies was their increasing institutional stability. The revolutions that were directly caused by class struggles in Western Europe completed their cycle in the third quarter of the last century (the nineteenth)... Now, this institutional stability is due to the existence of a powerful class – the owner of the capital goods – with broad created interests to protect... The progress of civic liberties in bourgeois societies resulted less from the effective participation of

the working class in political decisions, than from the confidence<sup>23</sup> that the capitalist class acquired in a setting of flexible political institutions.

Furtado's political economy, always based on the historical method, is remarkable. Not only development, but also democracy derives from capitalism. The workers' struggle will play in it a fundamental role, not only in furthering democracy but also in ensuring, through the fight for better wages, the growth of aggregate demand, as the profits grow. In the process of developing bourgeois democracy, which is initially just liberal, the essential role lies with the bourgeoisie itself and with the institutional stability it achieves. Perhaps the institutional stability is less due to the broad created interests to be protected, and more to the fact that the bourgeoisie is the first social class that was able to appropriate the surplus without direct use of the force of levying tributes and enslaving colonized populations - which led it to become an agent of the liberal rule of law and to become open to the advance of democratic institutions. But in any case it is remarkable to observe the connected analysis of the role of the capitalist class in achieving institutional stability, a stability that promotes development, which, in turn, strengthens the democratic trends existing in society, thus establishing a virtuous circle of self-sustainable development.

For Furtado, the historical method is a key issue for his analysis of development, to the extent that it enables him to combine the great view of the historical process with the specificities of each moment and each country. To the extent that the ability of predicting facts, which is required from every social theory, is present here through the analysis of the historical process of development. To the extent that the abstract definition of development, as the increase of productivity from the capital accumulation and from the incorporation of technical progress, acquires historical substance, that is, is complemented by political, institutional, and social elements. Development is not just capital accumulation, but it is also the incorporation of technical progress, which depends on the class structure, the political organization, and the institutional system. Therefore, there is no development outside history, there is no economic development without political and social development.

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<sup>23</sup> - Furtado (1964: 45). In 1976, in the *Prefácio à Nova Economia Política*, Furtado once again attributes to the classical concept of economic surplus a fundamental role in his analysis of the process of capitalist accumulation.

By adopting the historical method, Furtado approaches Hegel's dialectics and Marx's historical materialism, although remaining independent from them, primarily because he attributes a greater role to human will. "The importance of dialectics for the understanding of historical processes derives from the fact that history... cannot be reconstructed from the multiple phenomena that are part of it". However, through it man "intuits in the historical process this all-encompassing view that is able to give multiplicity a unity". Marx has boldly adopted this dialectical principle when he divided society into infrastructure and superstructure, and into two social classes. This strategy "had an extraordinary importance as a starting point for the study of social dynamics... However, it is necessary to admit that, at this level of generality, an analytic model is hardly worth it as an instrument of practical orientation. And the purpose of science – he concludes, evidencing the pragmatism that has always guided him – is to produce guides for practical action".<sup>24</sup>

I extracted those passages from *Dialética do Desenvolvimento* (1964), a book that Furtado writes amidst the crisis of the Goulart Administration, after resigning from the Special Ministry of Planning, and again only in charge of SUDENE [Northeast Development Agency]. Among his autobiographical books this is perhaps the book that deserved his greater attention: a full summary.<sup>25</sup> In *A Fantasia Organizada*, Furtado clearly states that one of his purposes was to delimit the utilization of Marxism and dialectics in the analysis of development. And by doing it, he restates his commitment to the rigor of scientific method:

The second goal (of *Dialética do Desenvolvimento*) would be to determine the scope of dialectics, which had come into fashion again with Sartre's *Criticism*, but manifesting that its use wouldn't exempt us from<sub>26</sub> applying the scientific method with rigor in the approach of social problems.

To adopt the scientific method with rigor, however, doesn't mean to adopt analytic models based on the assumption of the stable equilibrium, as it is so common in economics. To analyze development we need dynamic models, such as the 'cumulative principle' proposed by Myrdal. More generally, Furtado concludes:

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<sup>24</sup> - Furtado (1964: 14-15 and 22).

<sup>25</sup> - Furtado (1989: 182-190)

<sup>26</sup> - Furtado (1989: 182).

Even if we had made progresses in modeling, we must admit that, to build models, we always start from a few intuitive hypotheses on the behavior of the historical process as a whole. And the most general of those hypotheses is the one provided by dialectics, by which historical is something that necessarily is in course of development. The idea of development appears as an hypothesis that organizes the historical process – as a ‘synthesis of several determinations, unity in multiplicity’, in Marx's expression – from which it is possible to achieve an efficient effort of identification of relationships between factors and of selection of<sup>27</sup> those factors in order to reconstruct this process through an analytic model.

With this exemplary text – which shows Furtado's elegance and ability of synthesis to express his thought – he makes clear his conception of the historical and dialectical nature of the scientific method he adopts. I could have begun the analysis of his method by this quotation, but I preferred to use it in the end. I conclude therefore my analysis with his words.

## PASSION

In the way Celso Furtado worked with economic science there is not only a rigorous method, there is also passion. There are great expectations, and the corresponding frustration. Usually reason and emotion are seen in opposition. However, this is a misguided way of understanding the process of thought. Great scientists were very often people passionate about their work, their research. The really great economists hardly failed to be passionate not only about their science, but also about its results. Some of them fell in love with the achievement of economic stability, others, with a fairer distribution of income, and most of them, with the development of their country.

Furtado's passion was the development of Brazil. A passion that was fed by the belief that this development was within the reach of his country in the historical moment when he graduates as an economist, in the late 40s. World War II had just come to an end. New theories of economic development appeared. A great hope was beginning to take shape before the eyes of the young man from Paraíba who had just achieved his Ph.D. in economics in France (1948): Brazil, already in course of accelerated industrialization,

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<sup>27</sup> - Furtado (1964: 22). Marx's quotation is from the *Contribution to the Criticism of Political Science*.

would overcome the structural imbalances of its economy, and with the help of economic theory and economic planning, would reach the stage of a developed country.

Only this passion – the passion for the idea of the development of Brazil – explains the strength of his thought, particularly in his first books, from his first fundamental paper on Brazilian economy – “Características Gerais da Economia Brasileira” [General Characteristics of Brazilian economy] (1950) – and his first book – *A Economia Brasileira* [Brazilian Economy] (1954) – up to *Dialética do Desenvolvimento*, written in a moment when hopes began to be shattered by the imminence of the crisis. All these works have a theoretical strength and a power of analysis that do not derive just from creativity, from a great culture, from the independence of thought, and from the preferential use of the historical-inductive method: they are clearly related to a life project identified with the project of development. In *Os Aires do Mundo* [The Airs of the World] (1991) he makes clear that his life project was directly related to the conviction that he developed in the late 40s that “a favorable international scenario – a consequence of the Great Depression of the 30s and of the world conflict of the 40s – had opened a crack through which perhaps we could sneak in to achieve a qualitative change in our history”.<sup>28</sup>

This qualitative change was the industrialization and the development of Brazil. But, says Furtado, recalling 1964, when he arrives in Chile as an exile, already in that year he was persuaded that, although “the intellectual has, as a characteristic, the boundless ability of devising reasons to live”, his life project, which was based on the existence of that crack, was, ultimately, “an illusion... that was now vanishing”.<sup>29</sup> The fantasy was gone.

There had been a great hope, but the disenchantment and the frustration are even greater. Frustration and disenchantment that are going to be expressed in his next book, *Subdesenvolvimento e Estagnação na América Latina* [Underdevelopment and Stagnation in Latin America] (1966) - a dense and pessimistic book, that later proved to be mistaken, as Latin-American economies enter a new development cycle. The mistake, however, will eventually prove to be a relative success. The development cycle, that was then beginning, was artificially financed by the foreign debt – a debt that made Latin-American economies

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<sup>28</sup> - Furtado (1991: 63).

<sup>29</sup> - Furtado (1991: 45 e 63).

prisoners of the international financial capital, and that eventually led them to the great crisis of the 80s, and to the near-stagnation that continues to date. I say a “relative success” because the book's key assumption, which is influenced by Marx and Keynes, still seems to me to be ill-placed. The stagnation or the development at very low rates would be due, on one hand to the increase in the capital-labor ratio, and on the other hand to the decrease in the product-capital ratio, as a result of the capital-intensive nature of investments and their allocation to consumer durables. Capital productivity would then be falling.<sup>30</sup> This theory underestimates, in my opinion, the increased technical progress, which saves not only labor, but also capital, that is, it is a technical progress that increases the efficiency of capital.

In *Subdesenvolvimento e Estagnação na América Latina* already appears the idea that the concentration of income was preventing the operation of capitalism's virtuous circle, caused by the rise in wages as productivity increases. In two books, Furtado answers indirectly to his critics. In *Análise do Modelo Brasileiro* [Analysis of the Brazilian Model] (1972) he incorporates to his thought, with great elegance and accuracy, the new-dependency theory that had come out from the critique of his works. This doesn't prevent him from clearly restating, in *O Mito do Desenvolvimento* [The Myth of Development] (1974), his theory on the consumption shortage in the long run. The concentration of income of the middle and upper classes didn't solve the problem of demand in the process of development. In his words:

My basic assumption is that the system hasn't been able to spontaneously produce the profile of demand that could assure a steady growth rate, and that long-term growth depends on government exogenous actions... Although those two groups (the big companies and the modernized minorities) have convergent interests, the system is not structurally prepared to generate the kind of expansion of demand that is required to ensure its expansion.

Now, this theory, as Keynes showed when he criticized Say's law, is valid in the short run, to explain the economic cycle. And it is only valid for me in the long run to the extent that the development rate attained in that time lapse depends on keeping the demand at a constant tension with the supply in the short run. The new model of technobureaucratic-capitalist development that was then being established in Brazil, producing an

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<sup>30</sup> - See Furtado (1966: 80).

industrialized underdevelopment, eventually failed, but not due to a problem of lack of demand, but rather to an irresponsible excess of foreign indebtedness.

Hope would still be present for Celso Furtado when, in 1968, before the Institutional Act # 5, which definitely established dictatorship in Brazil, he is invited by the Brazilian House of Representatives to present his view of what could be done. He couldn't resist, and wrote *Um Projeto para o Brasil* [A Project for Brazil] (1968), in which he proposes the resumption of development from a substantial increase in tax burden and public savings. However, if again there is hope – the refusal to accept dependency and underdevelopment – pessimism is still the same. The pessimistic analysis of Brazilian situation was consistent with the one in *Subdesenvolvimento e Estagnação da América Latina* – so much so that the first criticisms to this perspective, showing that the resumption of Brazilian development was taking place thanks to the concentration of income in the middle and upper classes, which created a demand for luxury consumer goods, were made from the analysis of those two books.

The optimistic passion that fed the action became now the great frustration of someone who recognizes not only that he no longer directly influenced the country's destiny, but that the country itself had lost the ability of endogenous development. The economic theory he now used became debatable as it involved a twofold pessimism: regarding the ability of underdeveloped economic systems to have capital-intensive technical progress, but a capital saving progress or at least a neutral one (not involving, therefore, a decrease in capital productivity), and regarding the ability of supply to create demand in the long run.

His pessimism appears in the quotation below, extracted from *Os Ares do Mundo*, in which he recalls his first months in Santiago after the exile:

I couldn't escape the idea that history is an open process, and that it is naive to imagine that the future is absolutely contained in the past and in the present. But, when every relevant change is a result from the intervention of external factors, we are confined to the setting of a strict dependency... “The trends that appeared in Brazil led to the thought that the significant<sup>31</sup> changes would no longer be the result of the action of endogenous factors”.

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<sup>31</sup> - Furtado (1991: 63).

*Um Projeto para o Brasil* was Furtado's last clear manifestation of hope.<sup>32</sup> His work, from then on, according to Francisco de Oliveira, “may be called ‘philosophical’”.<sup>33</sup> I would say that it becomes serene, to the extent that the exile, first in Chile, then in the United States, in England, and finally, for a long time, in France, imposes an emotional detachment. On Latin America, Furtado would still publish in 1969 a fundamental work, *Formação Econômica da América Latina* [Economic Formation of Latin America], but afterwards he became once again interested in the analysis of the historical process of development, and in the changes that international economy underwent. He returns to the development process in *O Mito do Desenvolvimento* (1974), *Pequena Introdução ao Desenvolvimento: Enfoque Interdisciplinar* [Small Introduction to Development: Interdisciplinary Approach] (1980), “Underdevelopment: to Conform or Reform” (1987a) and in many other works. Yet the changes in world economy are analyzed in a 1968 paper, “A Preeminência Mundial da Economia dos Estados Unidos Pós-Guerra” [The Global Pre-eminence of the United States Economy in the Post-war Period],<sup>34</sup> In 1981, in the first issue of the *Revista de Economia Política*, of which he becomes one of the patrons (along with Caio Prado Jr. and Ignácio Rangel), appears “Estado e Empresas Transnacionais na Industrialização Periférica” [State and Transnational Companies in Peripheral Industrialization]. All his other works on the subject will be later gathered in *Transformação e Crise na Economia Mundial* [Transformation and Crisis in Global Economy] (1978b) and *O Capitalismo Global* [Global Capitalism](1998).

In the 70s Furtado once again takes part actively in international meetings in which the developing countries demanded “a new international division of labor”. This movement was successful for a while, but, with the foreign debt crisis, and the neoliberal wave that took over Washington and the world from the beginning of the 80s, also that project didn't bear the expected fruits. It was the beginning of the great crisis of the 80s for

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<sup>32</sup> - In *O Brasil Pós-Milagre* [Brazil After the Miracle] (1981a: 56-90) there is still hope, when, after mentioning the bad governments of the 70s, he writes two sections in which he looks to the future: “Os Desafios dos Anos 80” [The Challenges of the 80s] and “Esboço de uma Estratégia” [Outline of a Strategy].

<sup>33</sup> - Oliveira (1983: 23).

<sup>34</sup> - In Furtado (1968).

Latin America. And in its presence, Celso Furtado's passion strongly returns, as indignation. His books *Não à Recessão e ao Desemprego* [No to Recession and Unemployment] (1983) and *Brasil: A Construção Interrompida* [Brazil: The Interrupted Construction] (1992), are the evidence of such an indignation.<sup>35</sup>

The return from exile and the participation in the Sarney administration, as Culture Minister, didn't allow him to modify his feelings of frustration and indignation.<sup>36</sup> But in 1999, when stabilization is reestablished, and when there are signs of some resumption of development, hope returns, although he remains a strong critic of the economic policy of the Cardoso administration. In his last book up to the moment when I write this paper, *O Longo Amanhecer* [The Long Sunrise] (1999), he points out strongly his disenchantment: "In no other moment in our history was it so big the distance between what we are and what we intended to be". He restates his criticism of globalization, that, through an irresponsible foreign indebtedness, led the country to the great crisis, but he observes that globalization itself and its lack of control are not responsible for our inability to resume development, but rather the way our elites have reacted to it, by deciding to "acritically adopt an economic policy that privileges transnational companies, whose rationality can only be assessed in a setting of a system of forces that goes beyond the specific interests of

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<sup>35</sup> - Between those two books he wrote his already mentioned three remarkable autobiographical books: *A Fantasia Organizada* (1985), *A Fantasia Desfeita* (1987), and *Ares do Mundo* (1989).

<sup>36</sup> - In 1984 Furtado publishes a collection of essays under the title *Cultura e Desenvolvimento em Época de Crise* [Culture and Development in a Era of Crisis], whose key subject is still the crisis of Brazilian economy, but that should have inspired President José Sarney to invite him for the Ministry of Culture. I was then his fellow ministry, between April and December 1987, when I occupied the Ministry of Finance. He was enormously concerned about the failure of the democratic government to cope with the crisis, and to deepen it, instead. As concerned as he felt impotent in view of the facts – since he was located in a ministry that made it possible for him to support me decisively when I needed, but which didn't allow him to modify the directions of Brazilian economy. Eventually, I served little time in the administration, and I was also unable to stabilize Brazilian economy.

the countries that are part of it”. An example of this alienation is the proposal made by CEPAL itself, in February 1999, for the dollarization of Latin-American economies, a process that, according to that international organization, would already be advanced.<sup>37</sup>

In his short speech in a seminar conducted in São Paulo in his honor, “Reflections On Brazilian Crisis” (2000), his criticism is not only directed against governments, but more broadly against Brazilian elites. He particularly rejects the “explanations (for the nearly-stagnation) that pretend to ignore the moral responsibilities of the elites”. In face of words favorable to dollarization that were then current in the press (today probably forgotten in view of the Argentinean crisis), he remarks that “if we surrender to dollarization, we will revert to the semi-colonial status”. But, as in his last book, in this paper we see that hope is back at last. In the book, in which there is a section whose title is “What To Do?”, he stresses the need to revert the process of concentration of income, to invest in human capital, and, above all, to cope with the problem of globalization by strengthening the national State, which is “the privileged instrument to deal with structural problems”. In his brief speech he restates one of his key ideas: the importance of political creativity. “Only political creativity impelled by collective will shall engender the breaking of the impasse”.<sup>38</sup>

The great master continues to think along that line. I don't always agree with him, as I should have made apparent in a few moments of this paper, but I always admire him. Celso Furtado was one of my masters, when – still very young – I became interested in economics. I still learn from him. His contribution to the understanding of Brazil is

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<sup>37</sup> - Furtado (1999: 18, 23, 26).

<sup>38</sup> - Furtado (1999: 32-44; 2000: 4). In this paper I wasn't concerned about eliminating prejudices regarding Celso Furtado. This last quotation, however, leads me to alert that one shouldn't infer from it that Furtado is a partisan of state control – the usual accusation the right uses to make to someone who defends the importance of a reconstructed State, able to promote the country's economic and political development. There still are a few partisans of state control, but this is definitely not the case. In a debate promoted by the newspaper *O Estado de São Paulo*, for instance, Furtado said: “The point is, therefore, to abandon the old idea that the State should solve all problems. We know perfectly well that when the State controls everything, few control the State” (1976b: 39).

unparalleled; his analysis of development and underdevelopment, a landmark in contemporary thought. In this text, which is not a general overview of his work, I only tried to define a few points regarding the author, the political economist: Furtado has never made compromises with respect to his independence of thought; his method has always been rigorous and mainly historical-inductive; he never ceased to see and think with passion Brazil and his Northeast.

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