Underdevelopment, development, and the Dutch disease: the seminal and still relevant theory of Celso Furtado

Subdesenvolvimento, desenvolvimento e a doença holandesa: a teoria seminal e ainda relevante de Celso Furtado

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RESUMO: Furtado, um dos fundadores da Comissão Econômica para a América Latina e o Caribe (CEPAL), das Nações Unidas, pode ser considerado tanto um desenvolvimentista clássico quanto um cepalino. No entanto, face à independência e originalidade com que ele analisou o problema do subdesenvolvimento, enfatizando ao máximo as particularidades históricas, econômicas e sociais na formulação de teorias explicativas do desenvolvimento e da tendência à estagnação em países periféricos, é aceitável render-se ao pleonasmo de que Furtado legou uma teoria furtadiana de desenvolvimento. Este artigo analisa as principais teses de Furtado sobre subdesenvolvimento, desenvolvimento e estagnação. O estudo contém duas contribuições principais: primeiro, enfatizar que, ao formular uma abordagem analítica em que subdesenvolvimento e desenvolvimento são fortemente condicionados por fatores históricos e sociais, a teoria de Furtado é, ainda, relevante para entender muitos problemas econômicos de países periféricos como o Brasil e outros países da América Latina na atualidade; e segundo, mostrar que foi Furtado (e não outros economistas) quem, ao investigar a questão da abundância de recursos naturais na economia venezuelana no final dos anos 1950, elaborou pioneiramente uma teoria refinada sobre o fenômeno que mais tarde seria denominado "doença holandesa" e "maldição dos recursos naturais".
PALAVRAS-CHAVE: Celso Furtado; subdesenvolvimento; desenvolvimento; doença holandesa; maldição dos recursos.

ABSTRACT: Furtado, one of the founding fathers of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), can be considered both a classical developmentalist and an ECLACian. However, in view of the independence and originality with which he analyzed the problem of underdevelopment, leading to exhaustion his empha-

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sis on historical, economic, and social particularities in the formulation of explanatory theories of development and the tendency to stagnation in periphery countries, it is acceptable to surrender to the pleonasm that Furtado bequeathed a Furtadian theory of development. This paper analyses Furtado's main thesis on underdevelopment, development, and stagnation. The study has two main contributions: first, to emphasize that, by having formulated an analytical approach in which underdevelopment and development are strongly conditioned by historical and social factors, Furtado's theory is still relevant for understanding many economic problems of periphery countries like Brazil and other Latin American countries today; and second, which is my another contribution, to show that it was Furtado (and not other economists) who, by investigating the issue of natural resources abundance in the Venezuelan economy at the end of the 1950s, pioneeringly elaborated a refined theory on the phenomenon that would later be termed the "Dutch disease" and "the resource curse".
KEYWORDS: Celso Furtado; underdevelopment; development; Dutch disease; resource curse.
JEL Classification: O10; O13; O14; O16.

1. INTRODUCTION

Celso Furtado was one the of founding fathers of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). He formed part of the institute's research team, which in 1948 comprised a "technical staff that did not surpass ten people".[1] This was even before Raúl Prebisch was appointed as the institute's second executive secretary. What stands out most about Furtado, though, is his "discovery" of a theoretically innovative method of analyzing economic problems, having been perhaps the Latin American economist who gave the greatest emphasis to the interpenetration of historical and social factors in the dynamics of economic development.

For all his theoretical-methodological originality, Furtado was an ECLACian, yet non-ECLACian. Indeed, he did not consider the ECLAC school of thought to have a unified body of theory. On this subject, he writes the following in a letter to Professor Joseph L. Love, dated December 22, 1982, and published in the "Intellectual Correspondence", a posthumous collection of his letters to politicians and intellectuals around the world, which was released in 2021:

> "It makes little sense to me to speak of the ECLAC school. On the one hand, there is the work of Prebisch, and on the other, there is what could be called the Latin American structuralist school. The structuralists were characterized by the methods they used (they favoured macroanalysis), valuing the institutional and seeking interdisciplinarity. But the most significant element of this school was the development of works that did

[1] This information is provided by Furtado himself (1985: 54), in his book *A Fantasia Organizada*.

not have much in common, and as such exerted little influence on one another" (Furtado, 2021: 330).[2]

At any rate, although he did put restrictions on the main theses of ECLAC, as clearly demonstrated in his book *A Fantasia Organizada* (The Organized Fantasy) (1985), like Smith, Marx, Keynes, Schumpeter, Prebisch and Kaldor, who all created autonomous schools of thought, Furtado was Furtado: He did economic theory on development and underdevelopment in his own way and independently.

This paper, thus, analyses Furtado's main theses on underdevelopment, development, and stagnation. The study has two main contributions: first, to emphasise that, by having formulated an analytical approach in which underdevelopment and development are strongly conditioned by historical and social factors, Furtado's theory is still relevant for understanding many economic problems of periphery countries like Brazil and other Latin American countries today; and second, which is my another contribution, to show that it was Furtado (and not other economists) who, by investigating the issue of natural resources abundance in the Venezuelan economy in the end of the 1950s, pioneeringly elaborated a refined theory on the phenomenon that would later be termed the "Dutch disease" and "the resource curse".[3]

What is more, contrasting with what would later be suggested by Sachs and Warner (1995) in their seminal Neoclassical paper, Furtado shows that natural resource abundance is not necessarily a curse. On the contrary, it can be a blessing that can promote structural change and development as long as governments, instead of being guided by laissez-faire policies, adopt an appropriate industrial policy by focusing on subsectors that are not only able to innovate and generate technological spillovers, but also absorb labour surplus from the traditional agricultural sector. Furtado does stress as well, however, that an abundance of natural resources can become a curse if public policies are misguided.

By drawing on the Brazilian case, in the following section, I seek to demonstrate how Furtado's theoretical propositions on underdevelopment and development remain relevant for explaining, albeit partially, the stagnation of the Brazilian economy in the last decades. In Section 3, I discuss how Furtado's (1957) theoretical lens had already accurately captured the transmission mechanism of the Dutch disease in Venezuela, even before the phenomenon aroused the academic interest of economists from diverse theoretical perspectives at the later date when it manifested itself in the Netherlands. To round off the paper, Section 4 contains some brief conclusions.

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[2] I thank Rosa Freire D'Aguiar for informing me of this detail.

[3] Medeiros (2008) and Ahmed (2008) also wrote papers in which they acknowledge Furtado's original contribution to the problem of the Dutch disease.

2. UNDERDEVELOPMENT, DEVELOPMENT, AND STAGNATION UNDER FURTADO

There is no doubt that, although Furtado embraces most of the theses of classical developmentalists, he has reservations on the main hypothesis of Nurkse (1951: 16), who asserts that "the limited size of the domestic market in an underdeveloped country constitutes an obstacle to development". In a critical essay on Nurkse (1951), Furtado (1952: 10) states that "a market is small in relation to something; and, in the case in question, the market in underdeveloped countries is small concerning the type of equipment used in developed countries. This is not a fundamental difficulty of economic development, but an accidental one." Like Hirschman (1958), Furtado considers the main obstacle to the formation and diversification of a market is the lack of initiative to integrate and explore it.

In addition, the central theoretical proposition that permeates all of Furtado's academic work is that economic development is strongly conditioned by the historical evolution of each country, which, in turn, influences the dynamics of socio-economic relations, including the formation and diversification of a thriving domestic market. In the above-mentioned essay (op. cit.: 13), Furtado argues that "the problem of economic development has to do with the general problem of social change in our society, and it cannot be fully understood without the historical content". In his classic book *Development and Underdevelopment* (Furtado, 1961), he reiterates that "a theory of development which limits itself to reconstructing, in an abstract model – derived from a limited historical experience –, the connections of a given structure cannot claim a high degree of generality" (p. 147).

In a development theory framework, which builds upon the specific feature of periphery countries having been historically formed as underdeveloped economies, Furtado (1961) identifies three models, each of them by-products of the industrial capitalism originating in Europe after the Industrial Revolution.

The first, typically European model, emerged from the gradual disorganization of the feudal mode of production, culminated with the Industrial Revolution and spread to the rest of Continental Europe between the seventeenth and nineteenth centuries. This model replicates a typical Lewis-style development process, with the release of surplus labour at a faster rate than the absorption in the initial phase, followed by its exhaustion as soon as the disintegration of pre-capitalist relations becomes evident. From then on, the dynamics of productivity growth become endogenously dependent on the generation and diffusion of technical progress.

The second consisted of exporting the European model to Australia, Canada, and the United States. The populations that emigrated to those places took the technological base and European consumption patterns with them, in such a way that, when faced with the abundance of natural resources, allowed these "colonies" to reach high levels of productivity and income in comparison with other European countries. For this group, Furtado is right to reject the hypothesis that the phenomenon of underdevelopment is adequate to characterize the situation prevailing in these countries in the phase before the onset of their respective industrialization

processes. He says (op. cit.: 161, my boldface): "Underdevelopment is an autonomous historical process and not a stage through which economies that have already reached a higher level of development have necessarily passed." However, according to Furtado (op. cit.), underdevelopment is appropriate to refer to the situation of periphery countries between the end of the nineteenth century and the middle of the last century, as will be explained in his next model.

Branching off from the European model, the third model of industrial capitalism gives rise to the phenomenon of underdevelopment. For Furtado (op. cit.: 171), this "does not constitute a necessary stage in the formation of modern capitalist economies, [but] is a particular process, resulting from the penetration of modern capitalist enterprises into archaic structures". Although this phenomenon has manifested itself in different forms in the global sphere, I will keep to its particularities in Brazil.

The Portuguese colonization of Brazil was radically different from the British colonization of the United States. In the latter, access to abundant and fertile land, especially in New England, was free and exploitation of this land took the form of settlement colonies, whose cultivation was geared towards community subsistence. Even the southern region of the United States, whose colonization was similar to that of Brazil's – both being organized as agrarian economies for the export of agricultural products on a large scale and based on slave labour coming from Africa – took a different historical path. In the United States, after independence, the country's dichotomy ended up leading to a bloody civil war in the mid-nineteenth century, which, while not putting an end to the conservative southern social stratification, gave rise to the democratic idea and the project of creating an industrial capitalist nation. As Furtado (1992: 74) points out, "the contrast with Latin American countries is blatant, because in these countries, after gaining political independence, institutions that were created (being exactly copied from the United States) had no roots in local tradition".

In Brazil, the capitalist development that began after the Abolition of Slavery was *sui generis*, being quite distinct from the classical experiences. At the end of the nineteenth century, the expansion of coffee monocultures for export, whose agricultural frontier extended from Rio de Janeiro to the São Paulo region, exposed the problems arising from the insufficient labour supply, a problem which had become apparent since the extinction of the slave trade in 1850. The "labour problem",[4] which constitutes one of the fundamental landmarks of the transition from the colonial-type economy to a capitalist economy in Brazil, was eventually resolved through an enormous influx of European wage workers.

Thus, between the end of the nineteenth century and the beginning of the twentieth, as an extension of what came to be called the coffee complex, Brazilian industry gave rise to an integrated and diversified system of economic activities, organized, subordinated, and dependent on the production of coffee for export.

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[4] See Furtado (1959, Ch. 23).

Within this complex, it had, for example, its own production, financing, and marketing of coffee; industries for food, textile, and rudimentary equipment used in coffee production; a rail system and basic infrastructure for its storage and transportation; a banking system to finance all these activities and a mechanism for reproducing the capital accumulation in the coffee industry; and so forth.[5]

In the initial phase, in which the growth dynamics were directed "outwards", that is, conditioned by the fluctuations in the demand for coffee and other agricultural products in the international market, the growth of the manufacturing sector proved to be incapable of driving an autonomous process of industrialization given two factors: first, the specific nature of the industrial formation process; and second, the duality present in the evolution of Brazil's productive and social structures.

Concerning the first factor, Brazil inverts the classic industrialization model. Due to a shortage of labour, the industrial sector embedded in the coffee economy initially had to bear the burden of high real wages. According to Furtado (1961: 224), in Brazil, "industrialization settled in the region of great agricultural expansion for export [the state of São Paulo], with a relative scarcity of labor and strong European immigration, resulting in a relatively high level of real wages." Notwithstanding, he adds (op. cit.: 224): "but this region was part of a constellation, and in the other regions, totally different living conditions and much lower wage levels prevailed."

Only after the 1930s, when industrialization gained momentum and the transport and communications systems expanded, did the fluidity of the labour market begin to shift the workforce, now with unlimited supply, to regions with higher wages. As Furtado (1961: 225) points out, despite the productivity growth, "the practical consequence of such a situation was that real wages in industries remained stagnant throughout all subsequent development [until the late 1950s]", so that most of the increase in income was absorbed by profits".

Regarding the dual character of the economy, which is defined by Ignácio Rangel (1957: 298) as a relationship of co-existing duplicity in "permanent conflict" in the productive, social or institutional structure, I focus on the dualities that help to explain, at least in part, the persistence of regional imbalances, social inequality, and the structural stagnation of the current Brazilian economy. The first of these dualities is related to the fact that, since the country developed as a periphery economy and, therefore, dependent on technologies and consumption patterns emanating from the centre, the dynamics of capital accumulation are concentrated in the sectors of consumer durables destined for the upper income strata of the social pyramid. This contributes not only to delaying the expansion and diversification of a mass consumption market, but also to increasing levels of regional and social concentration of income in Brazil. As Furtado summarizes in his *Theory and Policy of Economic Development* (1967: 185):

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[5] See Silva (1976).

"Under the conditions of underdevelopment, this process [the diffusion of technical progress, accompanied by an increase in productivity] is only fully accomplished for a small portion of the population. The remainder of the population is inversely affected because of its integration in the monetary economy and in the manufactured goods market. The weight of the structural surplus of labor means that the penetration of sophisticated techniques in activities linked to the population as a whole results in disproportionate growth in the income of rich groups, whose spending must, as a consequence, increase more than proportionally to continue diffusing new techniques. It is possible, therefore, to conclude that the introduction of new patterns of consumption among rich groups constitutes the true primary factor (along with State action) in the growth of underdeveloped economies in the post-import substitution phase."

Armed with empirical evidence, he concludes (op. cit.: 184):

"The practical impossibility of investing in the part of the productive apparatus that is intended to satisfy the needs of the masses emerges. Since it is through the increase in the capital coefficient that technological progress is diffused in the forms of production, it will not be surprising that an intense transplantation of industrial activities linked to the wealthy minority corresponds to a slow diffusion of modern techniques in the other segments of the productive system. This explains why the acceleration of GDP growth has, in some places, led to an absolute drop in the standard of living of large masses of the population, as occurred in Mexico in the 1940s and 1950s, and in the Northeast of Brazil in the 1960s."

The second duality, also highlighted by Rangel (1963) in his classic work *The Brazilian Inflation,* and still immanent in Brazilian development, concerns not only the interrelationships between agriculture and the industrial and services sectors but also the dual structure present within agriculture itself. I will start with the latter.

Mutatis mutandis, the duality of the agrarian structure, although having diminished, is still present. Its origin is found in the era of colonization, when agriculture was organized into large rural areas (latifundia), which took the form of trading companies involved in the export of monocultures and where, in Brazil, most had low productivity. As Furtado (1961: 228) points out, the evolution of the Brazilian agrarian structure is not conditioned by the relative scarcity of land, a factor which is still abundant in Brazil, but by the "scarcity of capital and entrepreneurial capacity".

In the historical evolution of Brazil, small farms focused on subsistence production, emerged on the fringes of the latifundia, as those large estates proved incapable of absorbing the surplus of the rural population. Even when the first industrial enterprises were born, under the aegis of the coffee exporting complex at the end of the nineteenth century, there was no massive displacement, as already mentioned, of labour from the other regions of Brazil to the Southeast. Such a displace-

ment would only occur, albeit chaotically, in the second half of the last century, with the advancement of industrialization and urbanization.

The notable exception to the latifundium rule were the settlements based on family agriculture, composing small- and medium-sized farms in the South of the country. However, these were not driven by economic reasons, but by the political interest of the Brazilian government to complete the occupation of the national territory. It was only during the nineteenth century, with the growth in the demand for food from the United States, that immigration from Central Europe was stimulated in this region. Although initially without great success, the structure of land ownership in the Brazilian South allowed, in the following century, significant advances in productivity and a more equitable intra-regional distribution of rural income.

After 1930, with the decline of the coffee economy and the advancement of industrialization, the duality of the Brazilian agrarian structure was accentuated. Despite the remarkable economic growth observed until the end of the 1970s, the industrial sector, predominantly using labour-saving technologies, was unable to absorb the rural population surplus. Although the growth in the demand for food, resulting from the accelerated pace of urbanization, has stimulated the extension of the agricultural frontier to the rest of the national territory, the colossal abundance of land and the unlimited supply of labour acted as inhibitors to the absorption of modern techniques. Except for the agricultural export sector and the small- and medium-sized farms in the South, which operated with high levels of productivity, there was a devastating precariousness in the living conditions of rural workers in the poorest regions of the country, especially in the Northeast.

The duality inherent in the structures of production and employment in the agrarian sectors, on the one hand, and the industrial and services sectors, on the other, helps to explain the increase in income concentration and the disorderly migratory flows, which led to the spread of *favelas* and the deterioration of living conditions of the poor in urban centres. Without denying that this situation worsened in the years of the so-called economic "miracle" (1967-1973), either because of the repression of unions or due to the wage squeeze imposed by the economic policy of the military dictatorship, Furtado (1992) still attributes one of the causes for the secular concentration of national income to the duality in the Brazilian agrarian structure. He says (op. cit.: 174):

> "Brazil's agrarian structure is of significant importance to understanding the strange combination between abundance of natural resources and persistence of low wages. The latifundia-minifundia (large-small farms) binomial enables Brazil's arable land to be underutilized in large areas and, at the same time, forces the rural population to swell in reduced spaces; the appropriation of arable land by a small minority forces the rural masses to accept very low wages in order to survive. Thus, the agrarian structure, on the one hand, and industrial technology that generates few jobs, on the other, operate in a way that concentrates income

and excludes the masses from the benefits of development. The intensification of demographic growth made possible by advances in prophylactic techniques has aggravated the situation of the masses in rural areas as well as in urban centres."

From the 1970s on, the Brazilian government did begin to adopt a bolder agricultural policy, introducing several measures, especially in the areas of credit (through subsidies and diversification of financial instruments, including derivatives) and minimum price guarantees. This was also the time when the Brazilian Agricultural Research Corporation (*Embrapa*) was created. And later in 1995 came the National Program for Strengthening Family Agriculture (PRONAF), which offered fundamental support for subsistence activities.[6] A range of productive activities was thus created which allowed Brazil to overcome the lack of food, accelerate technological progress in the agricultural sector, extend the agricultural frontier towards the *Cerrado*, especially in the Midwest, and become one of the largest exporters of agricultural products in the world.

While acknowledging the irrefutable advance of agribusiness in Brazil, it is still fitting to ask: did the modernization of Brazilian agriculture lead to overcoming the structural factors that help explain, at least partially, the enormous personal and regional concentration of national income? The answer is "no". Recent empirical evidence confirms that the Brazilian agrarian structure still retains its dual and extremely unequal character. In a book published by the IPEA [The Brazilian Institute of Applied Economic Research] in 2020, several authors present a broad diagnosis of Brazilian agriculture, based on the 2017 Agricultural Census. Vieira Filho (2020: 37), for example, shows that

"the duality of Brazil's agricultural production still remains. That is, 0.6% of the establishments were responsible for approximately 53% of production, and 69% of the poorest establishments (of which ¾ of this percentage were family producers), for only 4% of the gross value of production, with this inequality increasing slightly between 2006 and 2017."

The author concludes that "the country is still far from solving poverty in the countryside […], and the main challenge is to reduce extreme poverty, which is firmly located in the Northeast". Souza, Gomes and Alves (2020: 39), when calculating the level of income inequality at the level of agricultural establishments in Brazil, show that "the Gini concentration index [closer to 0, greater equality; closer to 1, greater inequality] at the establishment level jumped from 0.85 in 2006 to 0.90 in 2017".

All this leads me to conclude that Furtado's theoretical propositions on economic development remain current. And to agree with him that overcoming underde-

[6] See Guanziroli (2014).

velopment or secular stagnation in economies of continental dimensions that have already reached average levels of per capita income – as is the case of Brazil – depends, primarily, on the formation of a robust market for mass consumption. This, in turn, is only viable if there is a true integration of the domestic market among the different regions of the country. Particularly in the Brazilian case, this depends on the reversal of the draconian concentration of income and national wealth, whose historical roots are related, according to Furtado (1999: 32), to the "considerable potential of unexploited arable soil", and to which access to such land is blocked to rural workers and the "underutilized workforce". The solution to these problems is "of a political nature, before being economic" (op. cit.: 32). Therefore, Furtado rightly suggests that the solution depends essentially on public policies and political concertation, through democratic means, between a diversity of actors across the social classes (industrial and financial capitalists, urban and rural workers, and landowners).

I will now turn my focus to Furtado's other major, yet highly overlooked, theoretical analysis and observations of the economic effects on a country's development when natural resources are abundant.

3. THE DUTCH DISEASE AND THE RESOURCE CURSE: FURTADO'S SEMINAL ANALYSIS

The so-called Dutch disease, as the expression suggests, hit the Netherlands in the 1960s, when considerable reserves of natural gas were discovered. With relatively unregulated markets, the increase in expected profitability ended up inducing a strong reallocation of the economy's productive resources to the non-renewable natural resources sector, thereby reducing investments in the country's manufacturing industry. *The Economist* magazine, in 1977, coined the expression "Dutch disease" in reference to this phenomenon.[7]

It was treated as a "disease" because the investments concentrated in this intensive natural resource sector, by causing a boom in commodity exports and a significant increase in net foreign exchange earnings, ended up leading to a real appreciation of the Dutch guilder concerning other currencies. Ultimately, this succession of events provoked a significant drop in exports of industrialized goods and a weakening of the country's manufacturing sector. In other words, it brought about deindustrialization.

After the problem occurred in the Netherlands, Corden and Neary (1982) formulated a neoclassical theoretical model to understand the interrelationships of the affected variables and the long-term impacts on economic development. This article started the Dutch disease theory. As stated by the authors, an economy suffers from the Dutch disease when the profitability of one or more sectors is stron-

[7] See *The Economist* (1977).

gly compressed as a result of an exceptional boom in industries specifically producing tradable goods or services, in other words, whose production is destined for both the local and international markets.

In addition, Jones and Neary (1984: 25) later show that the manufacturing sector can also suffer a severe contraction if the spending effect, resulting from the boom, disproportionately increases the profitability of sectors that produce non-tradable goods. Since these consist mainly of traditional services (commerce, retail, etc.) with low productivity compared to the manufacturing sector, the phenomenon becomes a "disease" since it adversely affects the trajectory of economic development in the country.

A by-product of the Dutch disease theory is the resource curse theory. The idea is anchored in the hypothesis that many countries with abundant natural resources (for example, oil) are unable to use these resources as a source to diversify their economies and drive industrialization, be it due to the perpetuation of secularly predatory and corrupt oligarchies, or to the absence of inclusive institutions. The abundance of natural resources can become a "curse" because these economies will begin to stagnate and most of the increase in national income is appropriated by the country's minority elite. The seminal article in neoclassical modelling is that of Sachs and Warner (1995: 7), who, taking a sample of countries abundant in natural resources, make several regressions for the period 1971-1989, to explore the correlation existing between the high endowment of these resources and economic growth. The main conclusion is that "the abundance of natural resources depresses economic growth". But does it really?

To find the answer, one should look back on Celso Furtado's original work. It turns out that none of the above authors can lay claim to doing the seminal theoretical analysis on the problems of the Dutch disease and the supposed natural resources curse. It was, in fact, Celso Furtado (1957, 1974), in his two essays on Venezuela. In 1957, Furtado theoretically analyzes the dialectics of underdevelopment in that country, whose economic performance already depended fundamentally on the oil sector. He identifies (op. cit.: 37-38) the contrasts in the Venezuelan economy which, in the period 1953-1956, is characterized by a high average share of the oil sector in GDP (28%, against only 14.7% for the manufacturing and construction industries, and approximately 11% for agriculture). Although the country had, at the time, "the highest level of per capita income" (op. cit.: 35-36) among economies with similar income levels, it "presented all the structural characteristics of an underdeveloped economy", such as a huge disparity between intersectoral productivity levels, brutal income inequality between urban centres and rural areas, durable consumer goods inaccessible to the majority of the population, high illiteracy rate, etc.

In the late 1950s, the oil sector was already setting the pace of average productivity growth in the Venezuelan economy. Nevertheless, the structural discrepancies observed among the productivity levels of the three basic sectors of the economy (agriculture, industry & construction, excluding oil, and services) were glaring. Even absorbing 40% of the country's workforce, agriculture operated with extremely low levels of productivity. According to Furtado's calculations (op. cit.:

45), the benefits of the significant growth in productivity in the oil sector, around 80% higher than in the other sectors between 1945 and 1956, did not spread to the rest of the Venezuelan economy.

Although the average wage paid in the oil industry was relatively higher than the average wage in other activities, it was the huge structural surplus of labour in the rural area that determined the average wage in the economy as a whole. As the oil industry was (and still is) nationalized, the surplus income was channeled to the government in the form of taxes and royalties. But there was no dynamic impulse emanating from this industry. Given the reduced dynamism of the industrial sector (except, of course, from the oil segment) and the high concentration of income, the structure of total domestic demand was strongly dependent on imports: between 1945-1947 and 1954-1956, the substitution of imports for domestic production was significant, with imports increasing their average share of domestic supply from 51% to 59% (op. cit.: 38-39).

However, differently from the thesis of Sachs and Warner (1995), Furtado (1957) argues that, instead of necessarily signalling a "curse", the abundance of natural resources in poor countries may be a "blessing" as it can enable such countries to overcome economic backwardness. But in the absence of adequate public policies, the inefficient allocation of these resources can perpetuate the condition of underdevelopment and put Venezuela on a trajectory of long-term stagnation as well as making the "curse" a self-fulfilling prophecy. In the late 1950s, Venezuela seemed to follow this path. As observed by Furtado (1957: 36), despite having shown a real GDP growth rate and per capita income of 8.1% per year and 5% per year, respectively, in the period 1945-1956, "Venezuela exhibited all the structural characteristics of an underdeveloped economy".

Astutely, Furtado (op. cit.: 49) observes that "the expansion of the oil sector was a necessary, but not sufficient, condition for the development of other sectors". This is not because the government was guided by laissez-faire policies, but because it concentrated its investments in conventional infrastructure, that is, in public utility services in which the technologies are very capital intensive, non-reproducible, and have a reduced potential to increase permanent employment. Thus, the impacts of public investments, financed mainly by taxes and royalties derived from the oil industry's income, were restricted to the promotion of capital-intensive local industries with low capacity to absorb the surplus of structural, rural, and urban labour. In other words, in the absence of programs aimed at diversifying the productive structure and fostering local industrialization, the indirect impulse emanating from the public sector, far from eliminating structural employment, primarily boosted imports.

It should be noted that Furtado's (1957) theoretical lens had already accurately captured the transmission mechanism of the Dutch disease in Venezuela, even before the phenomenon aroused the academic interest of economists from diverse theoretical perspectives at the later date when it manifested itself in the Netherlands. Whereas in the Netherlands the economic disease led to the destructuring of the manufacturing sector, in Venezuela, by creating barriers to industrialization and economic development, it condemned the country to stagnation. Furtado diagnoses that the

persistent overvaluation of the Venezuelan currency, resulting from the inflows of foreign exchange generated by oil exports, operates as the main fuel that reinforces the conditions of underdevelopment in the country. He describes (op. cit.: 74-75) well the transmission channels and deleterious effects of the Dutch disease in Venezuela:

> "a) the external overvaluation of the currency in a country with a low level of productivity tends to provoke the disorganization of important productive sectors, which is sought to be avoided through high selective protection [via import tariffs]; b) an overvalued currency and high protection in the general consumer goods sector imply a high level of prices – compared to international prices – and very high wages (in relation to productivity) compared to the wages prevailing in those countries that compete in the Venezuelan market; c) the combination of high wages and external overvaluation (low equipment prices) gives rise to a tendency to substitute capital for labour; d) the extreme tendency to save labour has inter alia consequences, such as increasing disparities in productivity among sectors, slower wage growth than the return on capital [i.e., profits] and a relative delay in the occupational diversification of the population and in the expansion of the domestic market; e) from the previous observations, it can be deduced that the benefits of the high productivity of the oil sector tend to be concentrated in the hands of the higher income consumer groups."

Furtado makes it clear in his essay that, in the long term, the persistence of the Dutch disease can turn into a natural resources curse. To reverse this trend, the author (op. cit.) outlines a roadmap so that public funds accumulated with net foreign exchange from oil exports are directed to government investment programs, with the aim of diversifying the productive structure, advancing average aggregate productivity, and accelerating economic development. The roadmap combines recommendations inspired by the normative implications of classical and Keynesian developmentalism.

It is worth reiterating that Furtado is more concerned with the dissolution of the factors responsible for the perpetuation of the high level of structural unemployment than with transitory mechanisms of job creation, through Keynesian expenditures in conventional public works. Thus, his Keynesian recommendations stem from the observation that it is in the oil sector where the main dynamic impulses directly reside, since it concentrates the technical progress generated in the country, and indirectly, since it emanates most of the government revenue (taxes and royalties), for the good ("blessing") or for the bad ("curse").

Therefore, it is a matter of redirecting public investments towards projects that, in addition to reducing cyclical unemployment, trigger private investments aimed at driving industrialization. As highlighted by Furtado (op. cit.: 60),

> "they are different things, from the point of view of organization and management, to build roads or bridges and to operate industrial factories. Unlike current public works, factories need to be planned with very strict economic criteria and their operation requires competent personnel of varying types of specialization […]. The next phase of Venezuelan development will necessarily be a phase of intense economic diversification. That is, either the economy tends to a rapid diversification of its productive apparatus, or the pace of development will tend to reduce. And it will not be possible to obtain rapid diversification without extensive investments in the technical and professional training of the workforce and in the creation of collateral services aimed at providing technical assistance, including in terms of organization, to entrepreneurs."

In line with Lewis (1953) and Hirschman (1968), Furtado suggests that, in addition to basic industries (transportation, energy, communications, etc.), public investments should also privilege activities with a high potential for generating positive externalities (i.e., that contribute to increased aggregate productivity), particularly those that accelerate the accumulation of human capital, such as basic education, technical training of the workforce, technical business qualifications and R&D. For Hirschman (1968), government incentives for private investment should focus on industries with the greatest power to create both backward and forward linkages in terms of income generation and employment, initially privileging the most labour-intensive segments. This means that capital accumulation absorbs the structural surplus of the unemployed or underemployed workforce in rural and urban areas and, at the same time, sustains the rate of average productivity growth in the economy. "Achieving maximum social productivity per unit of new investment, concludes Furtado (op. cit.: 59), depends on an adequate orientation for the set of investments [public and private]."

But does anyone actually care? After all, as most of the economic and social problems in Latin America (including Brazil) are rooted in the continent's social and economic history, their solution depends, albeit not exclusively, on political factors. Not by chance, in another essay published almost two decades later, Furtado (1974) was not surprised to find that the abundance of natural resources appeared to steer Venezuela on the path of the "curse". The main problems remained untouched: a productive structure in a state of inertia; a higher rate of productivity growth restricted to the oil sector, but insufficient to take the average productivity of the economy out of secular stagnation; and the persistence of a high structural labour surplus, which, by depressing the average wages paid to most workers, aggravated income concentration. In a prophetic and somber tone, Furtado (1974: 121-122) concludes:

"An economic system was created [in Venezuela] that produces little surplus in the form of savings and taxes (not considering the oil industry) and that derives little return on the investments made possible by the oil surplus. It is a socio-economic

system fundamentally oriented towards consumption [of imports][8] and waste and in which income is highly concentrated and is likely to be concentrated permanently."

4. CONCLUSION

Furtado, one of ECLAC's founding fathers, can be considered both a classical developmentalist and an ECLACian. However, in view of the independence and originality with which he analyzed the problem of underdevelopment, leading to exhaustion his emphasis on historical, economic, and social particularities in the formulation of explanatory theories of development and the tendency to stagnation in periphery countries, it is acceptable to surrender to the pleonasm that Furtado bequeathed a Furtadian theory of development.

As a classical developmentalist, Furtado argues insistently that, due to low levels of per capita income, one of the main obstacles hindering development in periphery countries lies in the reduced dimensions of their domestic market. Yet such restrictions can be overcome with appropriate public policies. As an ECLACian, Furtado highlights the tendency towards external imbalance and structural heterogeneity between the core countries and the periphery. But in his own terms, Furtado rejects the claim, which he considered fallacious, that theories of economic development have universal validity.

The theoretical schemes proposed by Furtado, in his rich academic works, remain highly relevant in demonstrating that overcoming underdevelopment and the tendency to stagnation depends, among other factors, on the deep integration of the domestic market, on the diffusion of a mass consumer market, on the reduction of social inequalities and on the efficiency with which economies with abundant renewable and non-renewable resources can use these "blessings" of nature in favour of industrialization. In short, Furtado's seminal analysis of the Dutch disease still offers lessons for periphery countries rich in natural resources: they are not necessarily condemned to perpetuate their conditions as poor countries; with appropriate public policies oriented to structural change and economic development, the natural resources abundance can be a blessing with which these countries can catch up with average per capita incomes of developed countries in the long run.

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[8] Furtado (1974: 123) reports that "in 1972 of the total available goods for consumption and capitalization, around 40% were imported".

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