

Development and the Revival of Political Economy

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Abstract: Ha-Joon Chang argues that there has been a switch in development thinking from a “productionist” view, in which development is conceptualized in terms of the productive structures of the economy, to “neoliberal” and “humanistic” views of development, where in the humanistic view development is studied in terms of its impact on human well-being. Chang calls for a new developmentalism that integrates both the productionist and the humanistic view, within an institutionalist approach. Here I address the prospects for a synthesis between productionist and humanistic views drawing on the idea of a revival of political economy developed at Cambridge, UK, especially on the contributions of Joan Robinson, Piero Sraffa, and others. More specifically, I argue that Celso Furtado’s suggestion of applying the theoretical framework that underpins this revival of political economy to the study of development can help achieving a fruitful synthesis between productionist and humanistic approaches to development, while also drawing on elements from post Keynesianism and original institutionalism.

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Ha-Joon Chang (2010) argues that while earlier approaches to development focused on productive structures, more recent contributions have either been centered on market exchange in a “neoliberal” approach, or highlighted social achievements such as health, education, and equality in various dimensions, taking into account their impact on human well-being, within a “humanistic” approach to development. Amartya Sen’s (1999) capability approach to human development has been especially influential within what Chang (2010) calls a “humanistic” approach to development that emphasizes final goals such as the expansion of human capabilities, to be achieved through improvements in health, education and equality, which are not only central to human well-being, but also a means for development. Chang (2010) commends the achievements of humanistic approaches to development, but notes that topics such as industrialization, or the transformation of the productive structure in general, have disappeared from contemporary development thinking.

Chang’s (2010) aim is to advance a “new developmentalism” (Silva 2020) that draws upon the earlier developmentalist contributions. Earlier developmentalist contributions tried to achieve a development policy for nation states focusing on the transformation of the productive sphere. The new developmentalist approach tries to adapt the insights of those earlier contributions to the contemporary context, where there is greater mobility of capital, commodities and labor. Chang (2002) also argues that a synthesis between a “productionist” view and a humanistic view should draw on what he calls an *institutionalist* approach to development.

Here I shall argue that the idea of a revival of political economy, as advanced by Piero Sraffa and Joan Robinson at Cambridge, UK, can contribute to achieving a theory of development processes through a fruitful synthesis between original institutionalist thought and earlier analyses of the production and distribution of the social surplus, while placing culture at center stage. The idea of drawing on the revival of political economy for studying development processes was first advanced, but never fully elaborated, by Celso Furtado (1976), even if it is implicit in much of his analyses of industrialization and culture (Furtado 1978, 1984).

I shall start by describing the humanistic view of development, as expressed in the influential contributions underlying Sen's capability approach to human development. I will then argue that the revival of political economy undertaken by Sraffa and Robinson can contribute to combine these insights with a study of production. Drawing on Furtado's contributions, I subsequently address the topic of how institutionalist analysis can be brought into the picture, while also explaining why the contributions of original institutionalists like Veblen are more helpful in this regard.

The Capability Approach to Human Development

Ha-Joon Chang (2010) refers to Amartya Sen's (1982, 1999) capability approach to human development, elaborated together with Martha Nussbaum (2000), as a particularly influential humanistic approach to development. One of Sen's (1999) key arguments is that human capabilities, rather than subjective preferences, are the appropriate space for assessing human well-being. Human capabilities are a central component for the freedom enjoyed by human beings, which is seen by Sen as the central

aspect of development. The opening paragraph of the introduction of Sen's 1999 book *Development as Freedom*, published shortly after receiving the Memorial Nobel Award in Economics in 1998, sets out the outline of a research program in development which became widely influential, shaping what Chang (2010) sees as the contemporary humanistic approach to development:

Development can be seen as a process of expanding the freedoms that people enjoy. Focusing on freedoms contrasts with narrower views of development, such as identifying development with the growth of gross national product, or with the rise in personal incomes, or with industrialization, or with technological advance, or with social modernization. If freedom is what development advances, then there is a major argument for concentrating on that overarching objective, rather than on some particular means, or some specially chosen list of instruments. Viewing development in terms of expanding substantive freedoms directs attention to the ends that make development important, rather than merely to some of the means that, inter alia, play a prominent part in the process. (Sen 1999, 3)

A central idea behind the capability approach to human development is that social achievements often associated with the ends of development, such as health or education, are also a means for further development due to the increase in human capabilities they provide. Market exchange is seen by Sen (1999, 111–145) as another freedom which is not only a valuable end (freedom of transaction is an end in itself) but also as a means for further development due to its efficiency in allocating resources.

The fact that the ends of development are also means of development provide another reason for focusing on ends, rather than on what Sen sees as narrower views of development focused on the growth of the gross national product, the rise in personal incomes, industrialization, technological advance, or social modernization. This leads to what Chang (2010) sees as a relative neglect of the role of production, technology and industrialization, while focusing on the measurement of human well-being (Martins 2020).

Sen (1999) argues that well-being should be assessed in the space of human functionings that we have reason to value, where a human functioning is a way of being or doing. Human capabilities, in turn, are constituted by the set of potential functionings that we have reason to value. The selection of human capabilities is then a process of reasoned scrutiny drawing on social values. While this view opens the door to considerations regarding the role of culture in shaping social values, Sen (2004, 2005, 2006) argues on various occasions that reasoned scrutiny of social values is not determined by culture.

Sen does not say much about the social values he is considering, leaving discussions regarding values to public debate. Nussbaum (2000), in contrast, advances a specific list of human capabilities that clearly presupposes specific social values, in line with Aristotelian and Marxian views of human flourishing. Thus Nussbaum (2000, 70) writes that her work on human capabilities “began independently of Sen’s work through thinking about Aristotle’s ideas of human functioning and Marx’s use of them,” leading to an approach which is “in several ways different from Sen’s.”

The role of social values is also emphasized in earlier humanistic views of development, where development is also studied in terms of human capabilities, such as that of Denis Goulet (1971, 206–207), who writes: “Authentic development aims at the full realization of human capabilities.” Goulet’s (1971, 1977, 1979) development ethics had already focused on human capabilities before Sen and Nussbaum advanced the capability approach to human development, as Des Gasper (2008, 454) also notes while citing a similar quote to the one above.

Besides focusing on human capabilities, Goulet (1979, 93–94) also provides an important analysis of the connections between social values and the adoption of technologies and writes: “National technology policy is best formulated and implemented when planners create a “vital nexus” which links, in triangular fashion, their nation’s priority social values to its development strategy, and to practical criteria for making technology choices.” In other words, the vital nexus is a triangle between social values, development strategy, and technology choices, which means that technology must be adapted not only to the social values of a given society, but also to the strategy that is designed for achieving development.

Goulet’s (1979) idea of a vital nexus illustrates how earlier humanistic contributions (that saw development as an expansion of human capabilities) address more directly strategies for technology choices in the productive sphere, while integrating it more explicitly with a humanistic analysis. Sen’s (1960) own earlier work (in his doctoral thesis) is also much concerned with the choice of techniques, under the influence of Maurice Dobb’s (1969) view of economic planning. So, the role of technology choice in production is not absent from earlier humanistic views of development. But it has been relatively neglected in subsequent elaborations of the humanistic view.

The neglect of a study of production in humanistic approaches to development is deeply problematic. If development policy focuses on the expansion of human capabilities while leaving it to business interests to use human capabilities in whichever way it best serves their purposes, the most likely scenario is that human capabilities will be used as a means to increase capitalist accumulation, with little (if any) regard to human well-being. Thus, there is a significant risk that Sen's idea of human capabilities as not only a means, but also a final end of development, will tend to be forgotten, as the expansion of human capabilities becomes part of a process of reproduction of a labor force that is adequate for the purposes of capitalist accumulation.

Paul Cammack (2004) argues that the strategies of poverty reduction of the World Bank have been aimed exactly at the reproduction of a labor force that serves the purposes of capitalist accumulation. More recently, Cammack (2017) has suggested that this is now true not only regarding the World Bank, but also the United Nations Development Programme (UNDP), and its emphasis on human development, as the original spirit of Sen's capability approach to human development behind the UNDP becomes increasingly lost, and the idea of human development runs the risk of becoming a mere apologetic for the reproduction of a more efficient labor force subservient to the needs of capitalist accumulation. Hence, addressing how human capabilities are used in production processes is central for saving the humanistic approach to development from becoming a mere ingredient of what Chang (2010) calls the neoliberal view of development.

Hilary Putnam and Vivian Walsh (2012) have argued that a fruitful way to further advance Sen's humanistic approach to development, while connecting it to more substantive views of production, is to further explore

the connections between Sen's capability approach and the revival of political economy undertaken by Piero Sraffa (1960). As Luigi Pasinetti (1993, 2007) notes, Sraffa's approach to political economy leads to a conception where economic theory starts from the study of production, rather than from the study of market exchange. Putnam and Walsh (2012) advance this thesis while interpreting the capability approach within the context of a broader movement of a revival of political economy. Walsh (2003), in particular, argues that Sen's contribution can be fruitfully combined with the contributions of the Cambridge authors who were engaged in a revival of classical political economy at the University of Cambridge when Sen was studying there:

Piero Sraffa . . . was in England, at Cambridge, from the 1920s, and in the 1950s he was at the center of a group of people vigorously reviving classical theory under his inspiration and that of Joan Robinson. Since a number of them were Italian—such as Pierangelo Garegnani and Luigi Pasinetti—the Cambridge school of modern classicism came to be known also as the Anglo-Italian school. Sen was a graduate student in Cambridge and Robinson was supervising his PhD dissertation (Sen, 1960), together with Amiya Dasgupta, and he was studying economics with Piero Sraffa and Maurice Dobb, just as the Cambridge contributions to the classical revival were in full flood. It was thus *this part* of the 20th century classical revival that lay in the youthful Sen's immediate intellectual environment. (Walsh 2003, 318, emphasis in original)

While Nicholas Kaldor is usually (rightly) credited as a key Cambridge proponent of the idea that development processes must take productive processes (and industrialization in particular) into account, the role of production is also central to the Cambridge idea of a revival of political economy outlined above, which sometimes is also called a “reconstruction” of political economy by Joan Robinson (1985). This point has been emphasized by Pasinetti (1993, 2007), who argues that while neoclassical economic theory is built around the idea of market exchange (which is the cornerstone of the neoliberal views of development that Chang criticizes), classical economic theory is structured in terms of an analysis of production, and of the division of labor.

Walsh’s (2003) suggestion of combining Sen’s humanistic approach to development with the classical theory of production has received little attention so far. But it provides an interesting route for addressing Chang’s (2010) call for a greater interaction between humanistic approaches to development and the study of production, bringing back the emphasis both on social values and the sphere of production of earlier contributors to a humanistic approach to development like Goulet.

It is important to note, however, that alongside with humanistic contributors like Goulet, many contributors associated with the earlier productionist approach to development have also both productionist and humanistic concerns. This is certainly the case regarding various dependency theorists, not only those who subscribe more explicitly to Marxist ideas, but also Latin American structuralists like Raul Prebisch, Ignacio Rangel or Celso Furtado, who are central to the earlier developmentalist approaches that Chang (2010) refers to as productionist.

Furtado is particularly important in this regard. Furtado was at Cambridge at the same time as Sen, and was, like Sen (2004, 2005, 2006), much concerned with the role of culture in development processes. More than that, Furtado was also influenced by the idea of a revival or reconstruction of political economy that was being developed at Cambridge. Effectively, Furtado (1976) even provided an outline of how the framework underlying the Cambridge revival of political economy could be applied to the study of development processes. This project, however, was never finished by Furtado. I shall now draw on Furtado's contribution in order to show how the Cambridge idea of a revival of political economy can be put to work in order to achieve a synthesis between productionist and humanistic views of development.

This will also require an analysis of the contributions of original institutionalists like Thorstein Veblen, since Veblen's (1899) idea of conspicuous consumption is closely related to Furtado's analysis of why countries may fail to engage in a development process, due to a phenomenon of cultural dependence that affects their elites, who try to emulate the standard of living of their counterparts in richer countries. While Goulet emphasized the role of culture by pointing out how it could fruitfully help changing production patterns, Furtado starts from the Keynesian idea that it is demand that changes production patterns. Thus, it is through its influence on demand that culture influences production, for example through the influence of culture on what Veblen calls conspicuous consumption. The connection to Veblen means that the contribution of Furtado is also relevant for Chang's (2010) idea of an institutionalist approach to development, a topic to which I shall return later.

Development Theory and the Cambridge Revival of Political Economy

Furtado's (1976) book *Prefácio a Nova Economia Política*, and its two first chapters in particular, reflect quite heavily Furtado's involvement with the Cambridge "idea of a reconstruction of political economy" (Furtado 2014, 518). This also follows from Furtado's earlier engagements with the Keynesian ideas being developed at Cambridge. As Jair do Amaral Filho and Deborah Farias (2016, 446, fn. 3) note, drawing on Furtado's (2014, 518) autobiography: "It is worth pointing out that Furtado had already been in Cambridge in the 1950s where he had the opportunity to connect with the first generation of Keynesian students, including Richard Kahn, Joan Robinson, Nicholas Kaldor, and Piero Sraffa (Furtado 2014, 518)."

Kaldor was particularly influential in advancing the idea that industrialization, and a greater focus on the productive sphere, is an essential aspect of development. Furtado used to attend Kaldor's seminars, and sometimes Joan Robinson's introductory course, joining for coffee with her after the class together with colleagues like Amartya Sen or Pierangelo Garegnani, who were studying at Cambridge and, according to Furtado (2014, 329), were particularly provocative when addressing Robinson, while probably drawing on what they were learning from Sraffa at the time (Martins 2013).

Within the revival of political economy as understood by Sraffa and Robinson, economic analysis is centered on the study of the production process (Pasinetti 1993, 2007), and how the social surplus generated in the production process, presupposing a given division of labor, is distributed between the various social classes (Martins 2013). As noted above, this approach stands in contrast to the neoclassical emphasis of market exchange rather than on productive structures (Pasinetti 1993, 2007).

Furtado (1976) identifies key themes to be studied in this regard, such as the reproduction of the labor force, the reproduction and allocation of the surplus which drives the accumulation of capital, social stratification, and power. These themes are interconnected, since the very distribution of power between social strata influences the reproduction of the labor force, and the accumulation of capital. Furthermore, Furtado (1976) is also aware of the difficulties that Cambridge authors like Sraffa, Robinson, Garegnani, and Pasinetti, among others, identified regarding the measurement of the social product. Thus, Furtado (1977, 746) notes that the social product cannot be defined independently of the social structure, which is connected to a given cost of reproduction of the population, and thus to a given wage. The wage, in turn, leads to a system of prices in terms of which the social product must be defined (Sraffa 1960; Furtado 1976).

This problem is connected to the Cambridge controversies in the theory of capital, during which Sraffa, Robinson, Garegnani, and Pasinetti, among others, showed that the value of the social product, and of capital, cannot be defined before knowing the distribution of the social surplus between profits and wages (Harcourt 1972; Cohen and Harcourt 2003). The reason why it is not possible to define an aggregate quantity of the social product and of capital before knowing the distribution of income between profits and wages is because the relative prices of the capital and output units to be aggregated depend on the distribution of income between profits and wages (Sraffa 1960; Harcourt 1972).

This can be seen clearly in Sraffa's (1960) system, where changes in wages lead to changes in relative prices, unless in particular conditions of proportionality across industries. Thus, even measures of economic growth such as the gross domestic product (often criticized by Sen and the human

development approach due to its neglect of other dimensions of human development) depend upon power relations, which set a given level of wages, and the relative prices in terms of which the gross domestic product must be calculated.

Thus, the distribution between profits and wages is not endogenously determined by the marginal productivities of capital and labor, as in neoclassical marginal productivity theory. Rather, the distribution between profits and wages is exogenously given from the point of view of economic theory. Furtado (1976) suggests that we focus on how distribution is shaped by social forces, which lead to a given distribution of income between wages and profits. The distribution between wages and profits, in turn, leads to the adoption of a given technique of production, as Sraffa (1960) showed in the Cambridge controversies in the theory of capital (Harcourt 1972; Cohen and Harcourt 2003). Thus, social forces have a central influence in productive structures, as Furtado (1976) emphasizes, in line with the general belief amongst the Cambridge authors engaged in the revival of political economy (Martins 2013).

The fact that wages are set by political and institutional factors also opens the door for ethical considerations regarding the wage level that ensures a morally adequate standard of living. Walsh (2003) suggests that we use Sen's capability approach to human development in order to define the morally adequate standard of living in this context, thus providing a synthesis between Sen's capability approach to human development, and the Cambridge revival of political economy (Martins 2013). This is, in fact, the essence of Walsh's (2003) idea of a synthesis between Sen's humanistic approach and the Sraffian theory of production.

As Avi Cohen (2014) notes, important aspects of the critique of neoclassical capital theory undertaken by Joan Robinson and Sraffa had already been anticipated by Thorstein Veblen's (1908) critique of John Bates Clark's (1891) theory of marginal productivity. As Cohen (2014, 1493) notes, Joan Robinson goes as far as arguing "that Thorstein Veblen had made my point, much better than I did, in 1908" (Robinson [1970] 1980, 116). Veblen (1908) had captured the essential idea that productivity depends on the community's communal knowledge, and cannot be imputed to any factor of production independently, unless by arbitrary convention.

As Cohen and Harcourt (2003) note, the immediate outcome of the first round of the Cambridge controversies in capital theory was the awareness that one cannot aggregate capital units without knowing their relative prices. This led neoclassical economists to focus on Walrasian-Paretian general equilibrium theory and its use of disaggregated capital in the second round of the Cambridge controversies in capital theory, as Cohen and Harcourt (2003) note. When Furtado was at Cambridge for the second time, the Cambridge controversies in the theory of capital were entering their second stage (Cohen and Harcourt 2003), with the neoclassical emphasis on market exchange (rather than on the productive sphere) becoming increasingly important.

A focus on disaggregated capital such as the one advanced by Sraffa (1960) has important implications for the way we address industrialization. Any discussion of the pattern of industrialization requires a study that takes into account the existence of different industries, rather than notions of homogeneous capital that do not distinguish between different industries, such as the ones advanced by Clark (1891), and by Robert Solow (1956) during the capital controversies.

Of course, Walrasian-Paretian general equilibrium theory also allows for the use of disaggregated capital. But it does not provide an adequate basis for developmentalist industrial policy. In fact, it provides a justification against its use. In Walrasian-Paretian general equilibrium theory, prices are explained in terms of human preferences which are irreducibly subjective, and non-comparable across individuals (Robbins [1932] 1935, 1938). This view was popularized by Lionel Robbins' (1932, 1938) critiques of interpersonal comparisons of utility, which was aimed against the Marshallian-Pigovian approach to welfare economics.

The Marshallian-Pigovian approach to welfare economics draws on the idea that a more equal distribution of income is desirable because individuals with less income have a higher marginal utility of income. This idea is behind the Cambridge approach to welfare economics not only of Marshall and Pigou (and Henry Sidgwick before them), but also of subsequent Cambridge authors like Dennis Robertson, James Meade, Anthony Atkinson, and Amartya Sen, who after studying the possibility of partial comparisons of utility was led to a critique of the use of utility as a measure of well-being, and advanced the capability approach to human development as an alternative way to assess inequality (Sen 1982).

Robbins' critique contributed to the adoption of Vilfredo Pareto's ordinal conception of utility, together with the Austrian subjectivist approach to utility. In this context, the market mechanism, where preferences are revealed (Samuelson 1947), starts to be seen as essential for the coordination of economic activity, while developmentalist industrial policy is increasingly seen as an inefficient activity, as economic planning in general, since it does not possess a mechanism for revealing human preferences (Dobb 1969).

Thus, in neoclassical economics the emphasis is on the market mechanism as the central cornerstone of economic analysis, rather than productive processes. This leads not only to the neglect of productive processes, but also of the role of culture in shaping what is called human preferences, since human preferences are taken to be irreducibly subjective. Such a neglect is behind the neoliberal view of development criticized by Chang (2002, 2010), as noted above, and leads to important limitations to the study of development and dependency processes.

In original institutionalist analysis stemming from Veblen, in contrast, human preferences are formed endogenously in institutional contexts, shaped by instinct and habit, rather than exogenous data to be revealed in market exchange, as in neoclassical economics. This means that in original institutionalism it is possible to address the problem of the formation of preferences, and more specifically the role of culture in preference formation. As I shall argue later, this opens the door to a more fruitful approach to the study of development.

Culture, Development and Dependency

According to Furtado (1984), cultural influence leads the wealthier segment of the population in developing countries to seek to achieve the same standard of living as the wealthier citizens of richer countries. As Amaral Filho and Farias (2016, 448, fn. 6) note, Furtado converges here with Veblen's (1899) idea of conspicuous consumption. The local elites in developing or peripheral countries attempt to imitate the conspicuous consumption of central economies, leading to the existence of greater demand for luxury products within the internal market of developing or peripheral countries. If the internal market is large enough, this also brings

changes in its productive structure, thus affecting the process of industrialization (Furtado 1981). In particular, it determines which industries will find internal demand for their products, and thus shapes the industrialization process according to the conspicuous consumption patterns of the local elites, rather than according to a development strategy.

New developmentalist approaches such as the one advocated by Chang (2010) presuppose a greater role of exports in setting effective demand, while relying less on the internal market than Furtado's analysis would suggest. This greater reliance on external markets draws upon the development experiences of the East Asian economies, and is also present in new developmentalist analyses such as the one undertaken by Luiz Bresser-Pereira (2010), or the set of contributions in Shahrugh Kahn and Jens Christiansen (2010). Nevertheless, Furtado's analysis can also be applied to the world as a whole, where global elites influence the structure of industrial development depending on the industries required to respond to their consumption patterns. In fact, many of the contemporary global imbalances in international trade can only be solved by an adequate articulation of industrial policies at a global level.

Furtado's analysis of dependency and underdevelopment requires a notion of disaggregated capital, so that different industries can be identified, as noted above. But it also presupposes an understanding of the role of demand in industrialization, highlighted by post Keynesians like Kaldor (who had much admiration for Furtado), and of the role of culture in shaping consumption patterns, underscored by original institutionalists like Veblen. Furtado's analysis draws upon these different elements, which can be fruitfully articulated within the overall scheme advanced by Sraffa (1960) and Robinson (1985) in their revival of political economy.

As noted above, the overall scheme advanced by Sraffa (1960) and Robinson (1985) is one where the composition of capital, the size and composition of output, and the distribution of the social surplus between profits and wages are exogenous aspects from the point of view of economic theory. This opens the door to a study of the influence of institutional, political, and cultural factors on these variables. Once we combine this scheme with Furtado's views on development, the picture that emerges is one where consumption patterns, influenced by culture, are a key determinant of the size and composition of output. The size and composition of output, in turn, leads to a given industrial structure. The articulation between the various sectors in this context may or may not lead to a coherent development strategy, and it is most likely that social and political action is necessary to achieve this goal.

Social and political power also determine the distribution of the social surplus between wages and profits. Since wage-earners typically have a higher propensity to consume per unit of income than profit-receivers, a greater share of wages in total income also means a greater share of consumption in total output. This was noted early on by John Maynard Keynes (1936) and Michal Kalecki (1971). And since consumption tends to provide stable source of demand than investment, as Keynes and Kalecki also noted, a greater share of wages in total income means a more stable source of effective demand, while also a greater role of industries aimed at producing wage-goods. Furthermore, a greater share of wages in total income also leads to higher relative prices of commodities with a greater share of labor in their production chain, after we take into account the interconnected nature of the various industries, as Sraffa (1960) does, thus influencing the measurement of the social product (Furtado 1976).

The part of the social surplus distributed to profit-receivers may be used in luxury consumption, or directed to investment aimed at receiving more profits, as several economists from François Quesnay to Michal Kalecki have noted, while stressing the circular flow of income. Kalecki (1971), in particular, draws upon Karl Marx's reproduction schemes in this regard, which in turn are influenced by Quesnay's circular conception of production, as Sraffa's (1960) system also is. Like Quesnay, Adam Smith and David Ricardo also believed that a key issue in economic development is whether the social surplus is appropriated by social classes that waste it in luxury consumption (landlords would typically fall into this category), or by social classes that reinvest it in productive activities. Smith's analysis, in particular, is permeated by his moral condemnation of wasteful luxury, for example when referring to the Portuguese and Spanish merchants, and thus cultural aspects were already an important determinant of economic progress in Smith's analysis.

Furtado brings this idea to the study of development processes, noting how the industrial structure will be affected by whether the social surplus is mostly spent on luxury goods or investment goods, promoting the expansion of related industries. The part of total output paid to wage-earners is, as noted above, reinvested in the consumption of wage-goods, constituting a stable source of demand within the circular scheme of socio-economic reproduction, while also shaping the conditions for the reproduction of the labor force, which is a central concern for Furtado (1976).

The classical analysis of the cost of the reproduction of the labor force also plays a key role in Furtado's (1959) earlier analysis, for example when addressing the Brazilian region of the Nordeste. While Furtado saw the cost

of agricultural products, which affect the cost of reproduction of the population, as a key constraint for the development of the Nordeste region, Douglass North downplayed this factor (which he connected to David Ricardo's theory) and focused on Malthusian overpopulation instead as a key cause of underdevelopment in the Nordeste region (Boianovsky and Monasterio 2018, 284).

Amaral Filho and Farias (2016, 445) write that Furtado “set himself apart from his structuralist, ECLAC [Economic Commission for Latin American Countries]-based colleagues for seeing creativity and culture as (i) endogenous elements to development and (ii) as an important part of the dependent relationship between peripheral (Latin American) and central nations (owners of the so-called “industrial civilization”). But another distinctive feature of Furtado's contribution is the influence of the Cambridge project of a reconstruction of political economy, which provides a theoretical framework that paves the way for an analysis of how cultural aspects lead to a given use of the social surplus, with important implications for socio-economic development. As Amaral Filho and Farias (2016, 446) notes, it was also after his time at Cambridge that Furtado's concerns with creativity and culture emerged, leading not only to his books *O Mito do Desenvolvimento Econômico* (Furtado 1974) and *Criatividade e Dependência* (Furtado 1978), but also other books such as *Pequena Introdução ao Desenvolvimento* (Furtado 1980) and *Prefácio a Nova Economia Política* (Furtado 1976).

Culture and Institutional Diversity

We can then see that the integration between a productionist view and humanistic view that Chang (2010) calls for was already present in earlier

development theorists, for example in Furtado's (1978, 1984) analyses, which addresses the influence of culture on productive structures, and vice-versa. Chang (2010) refers to Walt Rostow on the right and dependency theorists on the left as examples of commentators who studied development as a process of transformation of the productive sphere. It must be noted, however, that the way in which development was conceptualized by these commentators was strikingly different. Rostow's (1960) analysis of the stages of growth presupposes that development consists in following a series of steps from a traditional society towards a modern society of mass consumption. At a sociological level, modernization was a key concern, which was associated with the industrialization process, as part of a transition from a traditional economy and society to a modern one.

For dependency theorists, the story is radically different. As Furtado (1974, 1978) notes, underdevelopment is not a stage that all economies must pass through. Rather, underdevelopment is a dependency situation, which is created by the way in which developing economies have joined international trade after the industrial revolution(s). There is no such thing as a traditional society untouched by capitalist forces, which would then pass through Rostow's (1960) stages of economic growth, as if all countries would have to follow a similar and universal sequence of stages. Quite the contrary, capitalism plays a key role in developing countries, not only through the way in which developing economies join international trade, but also culturally, as Furtado (1978) came to note in later works.

Furtado (2003, 15) notes that when he heard the debate about Rostow's stages of growth theory, he found Rostow's (1960) theory absurd, and formulated his own theory of underdevelopment (Furtado, 1974, 1978), where creativity and culture play a key role. The role of culture in

development processes has also been stressed by one of the economists with whom Furtado interacted in Cambridge, namely Sen (2004, 2005, 2006), as also noted by Amaral Filho and Farias (2016, 444). Sen (2005) is particularly critical of views that attribute only one cultural identity to each individual, while also explaining human choices in terms of one identity only. According to Sen (2005), each individual possesses multiple identities, and human choice is not determined by one specific cultural background.

Other approaches centered on the expansion of human capabilities had also highlighted cultural diversity. Thus, Des Gasper (2008, 459) notes how Goulet stressed “ethnographically grounded descriptive development ethics” that take into account the diversity of human institutions. As Des Gasper (2008, 468) notes, “Goulet’s distinctive strengths come through his ethnographic and sociological approach, rather than through a rethinking of welfare economics or application of western moral philosophy.” The two latter fields have been key sources for the development of the capability approach to human development. But a more ethnographic approach is necessary for taking into account the diversity of institutions involved in development processes.

The diversity of institutions involved in development processes is also highlighted by Chang (2011), while arguing that recent contributions on the role of institutions of development (Acemoglu, Johnson and Robinson 2005; North 2005) assume (without robust empirical evidence) the superiority of a certain type of universal institutions to be adopted in all developing countries, while focusing only on the causal effect of institutions on development, thus omitting the causal role of development on institutions. This is also connected to an inadequate understanding of how

institutions change, while oscillating between a voluntaristic view in which institutions can be easily changed, and a fatalist view where institutions are determined by geographical conditions such as soil and climate (Chang 2011). Furtado seems to have interpreted North's views on the development of the Nordeste region in Brazil, which stood in contrast to Furtado's, also as a consequence of North's attempt to apply preconceived ideas universally without sufficient knowledge of the specific context he was addressing (Boianovsky and Monasterio 2018, 283).

A central idea behind the analyses of Goulet, Furtado, Sen, and Chang mentioned above, which are quite different in many respects, is that institutional analysis cannot be understood in terms of a ready-made framework that can be applied mechanically to the analysis of any economy or society while presupposing universal forms of human behavior and universal institutions, as we find in the studies of institutions which are criticized by Chang (2011), or in Rostow's (1960) idea of a unique sequence of stages that all countries must go through. Rather, it requires, as noted above, an analysis of the economy and society that is historically, geographically and culturally contextualized, as Furtado had already seen when adopting a critical stance towards the perspectives of Rostow and North.

This is also why Chang (2010, 2011) refers to an institutionalist political economy, one which takes into account institutional diversity, rather than universal institutions to be adopted worldwide. However, there have been many views on what we mean by "institutionalism" since Walton Hamilton (1919) first coined the term. Chang's (2002) own institutionalist approach is very eclectic, drawing on various authors, albeit critical of new institutional approaches to development (Chang 2011).

The issue at stake here ultimately springs from an important change in institutional analysis, usually traced to Ronald Coase's (1937) contribution. Coase (1998, 72) argues that the earlier contributions of the original institutionalists such as John Rogers Commons (1924, 1931), Wesley Mitchell (1913), and those associated with them, were "anti-theoretical, and without a theory to bind together their collection of facts, they had very little that they were able to pass on." But contrary to what Coase (1998) argues, the contributions of the original institutionalists were not anti-theoretical, as the only theories they rejected were those that advanced a conception of human rationality based on the idea of a rational economic man that is particularly unhelpful when understanding development processes, and the role of culture in particular.

Rational economic man was famously portrayed by Sen (1982, 84–106) as a "rational fool." Veblen (1899, 1914) also criticizes the idea of a rational economic man for several reasons. One of them is that human beings are creatures of habit, rather than lightning calculators of pleasure and pain (Veblen 1898) as assumed in the mainstream approaches to rationality that Sen (1982) criticizes. Rather than starting from the mainstream conception of rationality as optimization, as many new institutionalists do when explaining how institutions arise, Veblen (1914) argues that institutions are formed through a process of habituation, and the habits of thought that are generated in different contexts lead to the emergence of diverse institutions, through what Veblen (1914) and Ayres (1944, 1952) saw as the growth and change of institutions.

Veblen (1914) notes how those engaged in different traditional forms of agricultural, pastoral and fishing activities develop different habits of thought, leading to different processes of habituation that develop into

diverse institutional apparatuses. Moreover, each of these different habits of thought is influenced in different ways by the habits of thought brought by industrialization, bringing various paths of institutional change. The differences between these types of communities, and the various ways in which they are influenced by development processes, is a rich field for further studies on the anthropology of development.

Much of this anthropological analysis remains relevant today when analyzing the social reproduction of labor power, or of the human capabilities to perform labor, in the contemporary world. Many human capabilities for agriculture, cattle-breeding, fishing, textile manufacturing, and the like, are learned through traditional modes of production within families living in a traditional way, and the human capabilities that are often learned and socially reproduced in the household are then appropriated by global value chains and global production networks once industrialization sets in (Martins 2020).

The role of culture in industrialization processes presupposes a conception where human preferences are not exogenous data. Neoclassical economics, by assuming that human preferences are exogenous data, does not take into account the role of culture. Neoclassical economics focuses instead on the market mechanism where preferences are revealed (Samuelson 1947) and prices emerge, so that economic coordination can take place. So industrialization would arise as the outcome of opening trade to foreign countries, as the market mechanism expands internationally. But as Chang (2002, 2010) argues, historical analysis suggests that industrialization has been achieved through activist State policies aimed at promoting the country's industries.

In this regard, the idea of a developmental State, which interferes in actively shaping the structure of productive systems, is one of the key ingredients of the productionist approach advocated by Chang (2010). However, it is important to note how the different institutional contexts lead to different types of State. The Veblenian distinction between instrumental and ceremonial attitudes can be of help here. This distinction, often termed the “Veblenian dichotomy,” is typically seen as “the central analytical tool of institutional economists in the Veblen-Ayres tradition” (Waller 1982, 757).

An instrumental attitude reflects a concern with finding ways and means of fostering a given goal. Veblen (1914) takes human beings to possess an endowment of instincts that includes an inclination to work (the instinct of workmanship) and a concern for the welfare of the community (the parental bent, which has a much larger scope than a concern for one’s own children, and thus reflects a concern with the community and future generations). Thus, instrumental attitudes are usually seen as those that foster the common good. Ceremonial attitudes, in contrast, reflect a ritualistic concern with maintaining social status within a social hierarchy shaped through invidious comparisons (Veblen 1899), and typically stand in the way of instrumental activity aimed at the common good.

Veblen (1904, 1915) sees the State as the outcome of the exercise of dynastic power, which emphasizes ceremonial aspects. However, the State, as other institutions, also depends on technological developments, which bring a more instrumental attitude that stands in contradiction to the ceremonial attitudes that often prevail in State bureaucracies. Veblen (1904) argues that this conflict leads to instability, which can only be solved once

one of the attitudes, the instrumental or the ceremonial, prevails and subordinates the other to its purposes.

The distinction between extractive and inclusive institutions made more recently by Acemoglu and Robinson (2012) provides a less nuanced picture of the problem than Veblen's distinction between instrumental and ceremonial attitudes. But it reflects the general idea that the attitude prevailing in the State's apparatus and other institutions, and the way in which it is articulated with the economy and society as a whole, is a key determinant of the success of any industrialization policy.

Developing countries with vast amounts of natural resources that are exported are often unable to see ceremonial attitudes displaced in the State apparatus and the ruling elites, which fail to use the export surplus in successful industrialization. But the interferences coming from the international business community that often benefits from the existing situation are also a key determinant. Developing countries and regions are ever more interconnected with industrialized countries, so it is not possible to understand their concrete situation, and the dilemmas faced by their political agents, without taking into consideration the broader economic picture, and the associated business interests.

An integrated approach to culture, production and development, taking elements both from productionist views and humanistic views is thus certainly necessary. But the emphasis on institutions that characterizes much recent research on development must be combined with greater attention to the influence of culture on institutional diversity, rather than assuming universal institutions to be implemented worldwide, or unique sequences or stages through which all countries must pass through, as Furtado and Chang argue. Veblen's analysis can be of help in this context

not only regarding the study of conspicuous consumption (Veblen 1899), within the scheme outlined by Furtado, but also for understanding the role of the State and other institutions in industrialization (Veblen 1904, 1914, 1915).

Concluding Remarks

Chang (2011) criticizes the attempt to adopt universal institutions throughout the developing world without taking into account the way in which development processes also shape institutions. Chang (2002) advances instead what he calls an *institutionalist* approach to development, which is more eclectic than the approaches that recommend universal institutions to be widely adopted regardless of context (Acemoglu, Johnson and Robinson 2005; North 2005). The aim is to reach a synthesis between productionist and humanistic views of development.

Such an approach can benefit from a careful scrutiny of earlier productionist and humanistic approaches where a synthesis between these aspects was already present, drawing on the role of culture. The revival of political economy undertaken by Sraffa and Robinson further allows for the elaboration of a scheme where consumption patterns, influenced by culture, determine the size and composition of output. Social and political power also determine the distribution of the social surplus between wages and profits, within a circular conception of the economy. The distribution of the social surplus, in turn, is decisive to whether the economy and society enter into a development process, or a dependency process.

This idea is in line with the contributions of the classical political economists who, following the lead of Quesnay, focused on the distribution of the social surplus, noting that it could be used in luxury consumption, or

reinvested in productive activities. The revival of political economy at Cambridge aimed at a recovery of this analytical framework, undertaken more explicitly by Sraffa (1960), but also implicit in the analysis of Kalecki (1971), as Joan Robinson saw. As in Keynesian analysis in general, effective demand is the determining factor. Furtado (1976) drew upon this scheme, and highlighted the role of culture in shaping demand, opening the door for a greater interaction between the Cambridge revival of political economy (Martins 2013), and Veblen's (1899) analysis of conspicuous consumption.

This seems to constitute a promising framework for further advancing a synthesis between productionist and humanistic approaches, highlighting the interaction between culture and production in development processes. Integrating humanistic approaches with productionist views is also crucial so as to avoid making humanistic exclusively concerned with expanding human capabilities without also addressing the problem of how human capabilities are going to be used in production. Lack of attention to this question may mean that the expansion of human capabilities becomes essentially a way to achieve a reproduction of a labor force that is a mere means for capitalist accumulation (Cammack 2004, 2017), rather than as an end in itself as Sen and Nussbaum argue it should be.

But if this synthesis is to include institutionalist elements, as Chang (2010) suggests it should, it can benefit from greater interaction with the contributions of the original institutionalists stemming from Veblen, not only regarding the analysis of conspicuous consumption, but more generally in light of the distinction between instrumental and ceremonial attitudes, which are expressed in consumption patterns, and in the institutions that govern the sphere of production.

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