

Doing Dissenting Economics in the Periphery: The Political Economy of Maria da Conceição Tavares

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Abstract

Maria da Conceição Tavares is one of the foremost figures in Brazilian economic thought, especially in the heterodox circles. Although she has tackled various problems, the issue of underdevelopment, seen from the perspective of a “critique of political economy”, is a central topic which guides her entire work. The purpose of this article is to identify Tavares’s methodology and main theoretical references, especially by revisiting the author’s critical dialogue with some branches of Political Economy. Although Tavares’s work sets up a dialogue with many economists, the present article will focus on her engagement with Marx, Keynes and Kalecki, whose ideas build up the theoretical framework for Tavares’s ideas.

Keywords: Maria da Conceição Tavares; Brazilian Economic Thought; Methodology; Marx; Keynes; Kalecki.

JEL Classification: B24; B25; B31; B50.

Introduction

Maria da Conceição Tavares is one of the foremost figures of Brazilian economic thought, especially in the heterodox circles. Although she has tackled various problems, the issue of underdevelopment (above all the Brazilian case) is a central topic which guides her entire work. The beginning of her intellectual development is strongly attached to the propositions of the Economic Commission for Latin America and the Caribbean (ECLAC) (Tavares, [1963] 1972), which was mainly concerned with explaining the backwardness of Latin American peripheral economies in relation to the central developed economies from a historical and structural point of view. The analysis conducted by the ECLAC focused, on the one hand, on the specificities of the socioeconomic structure of peripheral economies, as opposed to the dynamism of structures in the advanced centres. On the other hand, it

centred its attention on the commercial relations between rich and poor partners in the world economy, which, instead of favouring the development of the periphery, enhanced inequality.

With time, Tavares reassessed some aspects of this theoretical matrix, which went hand in hand with a 'rereading of the classics', resulting in the formulation of problems which are of great relevance for understanding the dynamics of peripheral economies, such as the nature of endogenous capital accumulation in these economies. In the Brazilian case, she investigated the peculiarities of this country's financial system, which posed impediments to development. Tavares also dealt with other topics, such as the nature of inflation, an issue which became of crucial importance for scholars in the 1980s, as much in the central economies as in the peripheral ones.

As from Tavares (1985), it is possible to identify a new topic in her research agenda.¹ Whereas the focus of her analyses was previously the relations between centre and periphery, with an emphasis on the periphery, as from the 1980s, the author engages more systematically with an investigation of International Political Economy, seeking to understand the hegemonic character of the North-American economy and its effects in the periphery, and especially in Brazil.²

It is thus possible to identify in the work of Maria da Conceição Tavares three (articulated) domains of investigation: 1) the issue of peripheral economic (under)development, especially as it applies to the Brazilian economy; 2) the critical engagement with important authors in the tradition of Political Economy, such as Marx,

¹ It should be remarked that, in spite of the idea of a regain of North-American hegemony being better developed in Tavares (1985), the expression 'regain of North-American hegemony' appears for the first time in Tavares ([1984] 1986, p. 66), originally published at the end of 1984.

² International political economy is a development of political economy and, according to Adams & O'Hara (1999), 'International political economy has wide and indistinct boundaries that overlap economics and political science. These approaches tend to agree on a number of methodological or substantive points. The first is the importance of a cross-disciplinary analysis of the global dynamics of modern capitalism, and the critical importance of examining complex and differential power relationships among nations and corporations. The second is the conviction that international economic relations and policies are predicated on political factors, such as the comparative power of states and the influence of domestic interest groups. The third is the special emphasis that is placed on the persistent and widening differences in per capita incomes between the world rich and poor nations; and the role of nation size and power in explaining the division of gains to trade and investment. Lastly, they tend to agree on the necessity for understanding trade policy outcomes as the results of the conflict between classes and interest groups' (Adams & O'Hara, 1999, pp. 570-571). It is thus reasonable to state that Tavares's works, starting with the 1985 article, which starts a new line of investigation, are consistent with the topics of international political economy. For research carried in the same field of investigation, see also Tavares (1992), Tavares & Melin (1997) e Tavares & Belluzzo (2004).

Keynes, Schumpeter and Kalecki; 3) the world economic (dis)order, that is to say, an attempt to think from a ‘geopolitical point-of-view in order to better understand the creation of the hegemonic centres’ (Tavares, 2000, p. 132), focusing on an analysis of the dynamic of globalized finances. In this more recent phase of her intellectual pursuits, Tavares attempted to provide a new interpretation of the development of capitalism and of its mechanisms of domination by placing greater emphasis on international money – and not on technical progress – as an expression of the rule of financial capital over the periphery... and by trying to realign the concepts of centre-periphery relations and that of late capitalism, without allowing, however, that geopolitical hierarchy should necessarily take precedence over the geo-economic one (Tavares, 2000, pp. 131-32).³

The theoretical framework of Tavares’s scholarly contribution is based on many authors in the tradition of Political Economy, such as Marx, Keynes, Schumpeter, Kalecki and Steindl, as far as the more general economic theory is concerned, as well as on the scholars who investigated the issue of peripheral underdevelopment (from a structuralist point-of-view), such as Raul Prebisch, Aníbal Pinto and Celso Furtado, among others.

The purpose of this article is to identify the methodology and main theoretical references of Maria da Conceição Tavares’s work. The author’s critical dialogue with some branches of Political Economy, which was central for her investigations, will be presented in its general lines. Although Tavares’s work sets up a dialogue with many economists, such as Joan Robinson, Steindl, Schumpeter, among others, the present article will focus on her engagement with Marx, Keynes and Kalecki, whose ideas build up her fundamental theoretical framework.

Some Methodological Considerations

In this section, an attempt will be made to identify the major methodological aspects which guide Tavares’s works, either explicitly or implicitly.

³ For an interpretation of the place occupied by Tavares’s contributions in ‘radical Latin-American political economy’, see Vernengo (2006).

Tavares's "Vision"

A distinctive trait of Tavares's economic thought lies in the mingling of theoretical and analytical elaboration, on the one hand, and historical interpretation, on the other. This is the foundation on which she based an innovative interpretation of the dynamics of Brazilian industrialization, combining economic theory and history in a heterodox perspective which is clearly opposed to conventional economic analysis.

Resorting to Joseph Schumpeter's concept of 'vision' (1954) helps us illuminate how Maria da Conceição Tavares's intellectual development was conditioned by a certain view of how capitalist economies work. According to Schumpeter (1954, pp. 41-42), the 'vision' (also termed 'conception') of a certain economist consists of a 'pre-analytical cognitive action' which guides his or her 'economic analysis'. The latter is understood as a set of 'techniques' which can be classified into four fields: economic history, statistics, economic theory and economic sociology (Schumpeter, 1954, p. 12). The analysis as such must necessarily take place *after* this pre-analytical cognitive action which provides the raw material for the analytical enterprise. There is an ineluctable time precedence of vision in relation to the analytical apparatus. Besides, the vision is 'ideological almost by definition' (Schumpeter, 1954, p. 42).⁴ As a matter of fact, one could add, the idea of vision ultimately seeks to express the scholar's or observer's vital need to derive meaning from the world around him or her, that is to say, to uncover through conscious understanding the structures, relations and mechanisms underlying the many 'layers' of reality.

Tavares's work is exemplary of the precedence of 'vision' over analysis itself, which actually can be seen at first as a means of implementing a certain vision, so that they may later work hand in hand, feeding each other in a dynamic relation of constant exchange. In Tavares's work one can always sense her strong vision of contemporary capitalist economies, especially the Latin American peripheral economies (Brazil being at the same time a figure case and a specific one). The latter economies, given their historically determined insertion in the international division of labour, are defined by the fact that they are inequitable, subordinate and heterogeneous.

⁴ According to Dow, 'a particular world view is generally associated with a particular technical approach to a subject' (Dow, 1996, p. 10). 'How the world is understood will govern the particular choice of methodology, and in turn the range of methods to be used' (Dow, 2003, p. 14). In the same sense: 'All systems of thought that describe or examine societies must contain their political character, knowingly and explicitly, or unknowingly and in disguise' (Heilbroner, 1990, p. 109).

Based on her interpretation of the contributions made by the authors she chose as references for her investigations, Tavares identifies the distinctive traits of the economic system's behaviour. In her own terms, a distinctive trait of the capitalist system is the 'impossibility' of self-regulation by means of the competition of capital, since the system keeps moving away from its 'origin' and becomes growingly 'arbitrary', less capable of self-regulation because of the destructive force of its expansion. The result is that the system's regulation is more and more political. In other words, capitalism is growingly 'regulated' by 'power' relations – which is exactly what gives rise to its uncertainty and instability as well as to its *ability to regenerate itself* (traumatic as it might be) (Tavares, 1978, pp. 69-70).

Political Economy once was a classic 'modern science'; it actually fought with Physics over the privilege of inaugurating the modern age. It subsequently took its distance from political science and chose the rationality of economic calculation, becoming the 'poor science' of the markets' self-regulation (Tavares, 1991, p. 66).

There is, therefore, an important leitmotif which lends consistency to Tavares's 'vision': the impossibility of market self-regulation in a capitalist economy. Thus, models of general equilibrium or those that base themselves on the belief of an imaginary self-regulation of markets – a dynamic trait of the system (and actually of economy as a whole) originated by rational (i.e. maximizing) action of self-interested individuals – are analytical instruments inadequate for examining capitalism. Tavares rejects any analysis based on the idea of equilibrium. Capitalism is inherently unstable and takes an uncertain path. Furthermore, it cannot be analyzed on the basis of general ideas neutrally applied to all countries, irrespective of their historical specificities.

The underlying vision is not that of an 'individual' who, by making 'optimal' decisions, originates the action of an invisible hand in the aggregate, inevitably bringing about the well-being of nations. On the contrary, the main character of this plot is the 'capitalist', the key agent in a process which shapes the identity of capitalism as a unique episode in the history of humanity. This process is the continuous effort to accumulate capital (wealth in its most liquid form) and add value to it through the extraction of unpaid labour. This vision is the foundation of an analysis of the systemic crises which periodically affect the economy.

In this context, if the system does not correct itself (neither in the short nor in the long run), if instability is inherent to it, the State, as a regulating and stabilizing agent, takes on a role of crucial importance in her thought from its earliest stages (and, it should be noted, the same is true for the power relations within a State and among different States):

the contradictory nature of the process of the expansion of capitalism cannot be apprehended in its most relevant structures without a consideration of the role of the State as a mediator of these contradictions (Tavares, 1972, p. 22).

Thus, by means of active intervention policies in the economic (and social) sphere, the State becomes the central institution capable of transforming an inherently unstable system, the inevitable generator of inequalities and asymmetries, into ‘organized capitalism’.

A Babylonian Mode of Thought

An interesting point which is worthwhile dealing with is the author’s ‘mode of thought’. The investigation of this issue will be conducted according to the proposition put forward by Sheila Dow (1996, 2003), which aims at illuminating the methodological approach implicit or explicit in the economic analysis conducted by different scholars.

The expression ‘mode of thought’ can be understood as follows:

the way in which arguments (or theories) are constructed and presented, how we attempt to convince others of the validity or truth of our arguments. It is concerned as much with the rhetoric used as a means of communication as with the logical structure of the argument. It ... influences our judgement as to what constitutes an acceptable methodological position (Dow, 1996, p. 10).

the principles of knowledge construction and communication which underpin choice of methodology, and indeed daily life (Dow, 2003, p. 11).

Dow states that there are two modes of thought: the “Babylonian” and the “Euclidian-Cartesian”. She attempted to investigate the nature and the implications of the

Babylonian mode of thought as a means of establishing a difference between the economic methodology of mainstream economics and that of other schools of thought, especially the post-Keynesians.

This mode of thought is not organized around a set of axioms, being rather guided by the specificities of each problem being tackled. Instead of structuring a single logical system (formally smooth and capable of being generalized), the Babylonian mode of thought circumscribes aspects of reality with the purpose of conducting partial analyses. Such analyses might be statistical or simply historical, depending on which best suits the object of study. The Babylonian mode of thought is thus conditioned by the problem it intends to approach, it makes use of a larger set of methods, depending on the problem being tackled, and these methods can be combined and then simplified in a formal deductive argument without effecting a drastic change in its nature (see Dow, 1996 p. 13).

This is why, among other reasons, Dow refers to the Babylonian mode of thought as an ‘open system of thought’, as opposed to the Euclidian-Cartesian mode of thought, which is a ‘closed system of thought’, based on a set of axioms formulated by means of a single, mathematical, method. As a result, the analysis based on the Cartesian-Euclidian method tends to abstract important ‘practical issues’ so as to generate universal solutions within the realm of abstraction. In other words, it is ‘internal rules’, and not recourse to reality – which would rather express a *realistic* philosophical and methodological orientation – which condition the logical system (Dow, 2003, p. 12). An open mode of thought, in turn, gives room to various lines of argument and methods; the variables considered in analysis might be exogenous or endogenous, depending on the object of study.

In view of this typology, it is possible to state that Tavares’s ‘mode of thought’ is obviously the Babylonian one. From a ‘historical-structural’ perspective (consistent with the ECLAC tradition), Tavares recognizes the importance of historical specificities (as well as that of power relations within a nation and among nations) in dealing with issues pertaining to her main scholarly subject, the Latin American peripheral economies. Differently termed, Tavares’s economic analysis is not based on a ‘closed’ and axiomatic system, established by means of mathematical models, which would in principle lead to the ‘discovery’ (and subsequent application) of general rules which could be universally

applied; on the contrary, her analysis is grounded on the structural and historical conditions of Latin American economies.

The real world of capitalist economies which she investigates is not governed by universal rules. Just as economy evolves, our knowledge of it also changes with time. Based on this methodological orientation, the author developed an 'open' analytical methodology with the purpose of understanding the dynamics of peripheral economies.⁵

The Historical-Structural Method

A central aspect of the ECLAC's ideas which influenced Tavares's intellectual development is the so-called 'historical-structural method', originating from a 'fruitful crossing of an essentially historical and inductive method, on the one hand, and an original abstract and theoretical framework – the structuralist theory of Latin American peripheral underdevelopment – on the other.' (Bielschowsky, 1998, p. 21).

In many occasions, Tavares notes the importance of this approach for her intellectual development:

The ECLAC imparted on me a new concern for the nature of the historical formation and the historical evolution, for the role of the economic agents in a society and therefore for how development happens from a structural and historical perspective. This is something I did not have before and that I owe the ECLAC (Tavares, 1996, p. 132).

⁵ 'The idea of separating, as an economist, theory, institutions and applied economics didn't cross my mind! Someone who is not capable of first separating the levels and then putting them together is not an economist!' (Tavares, 1996, p. 132) 'In order to conduct economic research, it is necessary to have a set of hypotheses which were inferred from some historical reality through a process of theoretical reduction. That's what all relevant theoreticians did.' (Tavares, 1996, p. 136) This kind of concern dates back to the very beginning of her work. For Tavares, it is necessary to adopt the following 'perspectives': 'to get free from the constraints of 'methodological inhibitions' and to give free course to imagination and creativity, in an effort of interpretation, however partial and provisional, of our complex social reality. Not to be afraid of the discipline of specific analytical focus and at the same time dare to approach the problems in their global dimension, without being carried away by easy an empty 'totalisations'. Not to 'neutralise' the social sciences, deparating them of any ideological 'slant' and making them 'positive' sciences; to use the ideological impulse in the sense of unveiling the very ideology contained in that position.' (Tavares, 1972, p. 25) This last quotation can be seen as a true methodological manifesto for the theoretical discussions and empirical analyses that the author would undertake thereafter.

Ricardo Bielschowsky proposes to understand the historical-structural method based on Schumpeter's characterization of 'political economy systems'. The 'normative principle' of the ECLAC's contributions would be the fundamental organizing action of the State in the process of economic development given the specific conditions of Latin American peripheral economies. This principle would thus amount to one of the pillars of the 'ECLAC's political economy system' (Bielschowsky, 1998, p. 22).

The historical approach to the problems of the Latin American periphery was put to practice by Presbisch's structuralist theory of peripheral underdevelopment. This theory aimed at examining the specific mode of internal adjustment in the productive structure of Latin American countries as a response to exogenous shocks. This specificity lay in the fact that such an adjustment was conditioned by an underdeveloped economic and institutional structure, inherited from the exporting period (cf. Bielschowsky, 1998, p. 22). As noted by Bielschowsky:

in the ECLAC's economic analysis, structuralism is mainly an approach guided by the search for diachronic, historical and comparative relations which is better suited to an 'inductive' method than to a 'positive heuristics'... the underdeveloped structures of the Latin American periphery condition – rather than determine – specific behaviours, whose subsequent evolvement is not known beforehand. For this reason, these structures deserve and demand studies and analyses in which the economic theory which claims universality can only be applied with reservations, since it must incorporate these historical and regional specificities... In other words, the historical-structural focus promoted by the ECLAC implies a method of producing knowledge which is extremely attentive to the behaviour of social agents and to the transformation of institutions, closer to an inductive process than to the traditional abstract and deductive approaches (Bileschowsky, 1998, p. 24).

According to Nora Lustig (1988, pp. 36-37), structuralism's 'theoretical paternity' is multiple. Structuralist thought is the offspring of a few traditions in political economy, as

much in its more ‘radical’ form (Marxist tradition) as in its ‘reformist’ branches (Keynesian, Kaleckian and institutional approaches).⁶

Lustig further states that

The classical roots of structuralism can be found in the Marxist/Schumpeterian tradition in the sense that, for structuralism, the capitalist system of the free enterprise is not a harmonious, but rather an inherently conflictive, system, and its development is not smooth, but rather rough, consisting of multiple leaps, which generates numerous imbalances in the process (Lustig, 1988, pp. 36-37).

Tavares also draws attention to the theoretical plurality as an aspect underlying the ECLAC’s methodologies:

Those who adopt the historical-structural method can employ theoretical elements from different schools and try to integrate them. ... The ‘historical-structural’ method in Latin American thought goes back to [Prebisch] and Furtado. And all of us, their disciples, are historical-structural, all of us! (Tavares, 1996, pp. 133-34).

Even though, in the course of her intellectual development, Tavares has made critical revisions of her own work, the historical-structural approach is present in a recurrent and consistent way.

The Importance of the “Masters”

Among the many aspects of Tavares’s work, an especially important trait is the critical reading of major thinks in the tradition of Political Economy, with the purpose of understanding the dynamics of contemporary capitalism. By resorting to the ‘classics’, the author does not intend to ‘apply their thought in a degenerated way, nor to codify them under the pretext of conferring rigour, but rather employ it in a free way and “investigate” the problems which concerned them and which are still present’ (Tavares, 1978, p.11):

⁶ On the influence of Keynesian and institutional ideas on structuralist theory, see also Saad-Filho (2005, p. 132).

All the major authors must always be re-read, since they raise problems which have accompanied capitalism from its origins... Yes, we know capitalism evolves, but the fact that it evolves does not mean that the fundamental principles which the authors were discussing have all disappeared. Why are they major authors? Because they said something extremely relevant concerning the nature of capitalism. Otherwise, they would have nothing that would make them 'major' (Tavares, 1996, p. 147).

Bearing this in mind, the following will concern itself with the aspects in the works of the major authors which provided a fundamental reference for Tavares.

Marx and the Movement of the “Sun”

Although the influence of Karl Marx's ideas may be identified in different parts of Tavares's work, it is in the text “Um Contraponto à Visão da Auto-Regulação da Produção Capitalista” [“A Counterpoint to the View of Self-Regulation in Capitalist Production”] (Tavares, 1978, chapter 2) that she provides a re-reading of the Marxist theory of value, understood as a theory of the *valorisation of capital*.

For Tavares, the capitalist mode of production displays a contradictory nature:

Capital is... ‘a contradiction in process’, which tends, ‘logically’ and historically, to its own ‘concept’, to its ‘more general and apparent form’ which moves growingly farther from its ‘origin’, the labour-value (Tavares, 1978, p. 58).

Thus, the development of capitalist productive forces, by reducing the number of work hours necessary to the production of any commodity, tends to diminish the need for ‘living’ paid labour, which constitutes the source of value, at the same as it tends to diminish the value of ‘dead’ labour, the produced means of production (Tavares, 1978, p. 59). However, if, on the one hand, capital is diametrically opposed to labour, tending to deny labour, on the other, the ‘real movement of capital’ grows more and more distant from its conceptual determination, the labour-value. This does not amount, however, to an abandonment of the law of value, but to its very confirmation as a ‘law of valorisation’.

According to Tavares, the understanding of this contradictory nature of capital sheds light on the concept of profit. In the view of the author, profit is inherent to the process of capitalist production in its complete form ('expanded reproduction of capital') and, for this reason, 'it cannot be 'deducted' from 'capital gains' or from the 'surplus', nor *accounted* for by the number of hours of "surplus labour"' (Tavares, 1978, p. 55). Moreover, 'profit presupposes the (monetary) valorisation of all the elements of capital' (the labour force and the means of production) (Tavares, 1978, p. 56). Thus, because it is a category expressing the valorisation of capital, the comprehension of capitalist profit requires an explanation of "the three logical movements in the process of valorisation":

The first of these takes place in the appropriation of abstract labour by capital (determining the rate of capital gains); the second takes place in its 'transformation' into production prices (determining the average rate of profit); the third, by means of the metamorphosis of capital into a special commodity – money (determining the effective rate of profit) (Tavares, 1978, pp. 57-58).

The tendency of capital to take on its 'more general and apparent form', meaning that 'in its movement of permanent self expression and valorisation capital ends up becoming a prisoner of itself', in the sense that 'money attempts to add value to money' (Tavares, 1978, p. 68), is extremely important to understand a central aspect of Tavares's work, which is systematically developed through her career and is already apparent in Tavares (1971), namely, the fact that the financial logics of the valorisation of capital takes precedence over production in the structure and in the dynamics of contemporary capitalism:

The development of credit relations and the continuous invention of new financial 'institutions' which enable 'capitalisation', that is to say, the valorisation of money by money, is coupled with the development technology, which inexorably leads to making productive labour 'useless'. Money as an asset, participating in the circulation of commodities required by the technical process, is gradually overrun by fictitious financial capital, money thus becoming increasingly a liability. The

amount of living labour required by technological development decreases in the face of the gigantic scale of production. Capital can thus become productive, being gradually less demanded by direct labour (Tavares, 1978, p. 66).

The development of financial institutions and the creation of new methods of debt by private and public bonds, the basis of the market of capitals, thus come to lay the foundations for the ‘fictitious’ valorisation of invested capital. In the process, valorisation in the financial sphere tends to overrun valorisation in the productive sphere.⁷

When referring to the ‘limits’ of accumulation, Tavares states that these should be found in the process of capital valorisation itself. It is therefore the endogenous aspects of the capitalist system – and not any exogenous ones, such as the degradation of natural resources and labour force – which lead to its crisis.

The accumulation of capital comes to a halt by itself. (...) It comes to a halt as a result of the strength or the weakness of competition among the different kinds of capital; as a result of the accumulation of idle capacity, created by the imbalance between investment which attracts further investment and the distribution of current production; as a result of the sheer anarchy of capitalist production, which moves up the expectations of profitability when all is well and reverses them abruptly when there is too much debt and risk becomes unacceptable. (...) The accumulation does not stumble over salaries or the lack of labour force. The capital is its very own limit, as Marx warned (Tavares, 1978, pp. 30-31).

In the same essay, based on the law of value, Tavares resorts to a metaphor when criticising the idea of self-regulation in the capitalist economy:

the law of value is not only the law which allows to determine the ‘average rate of profit’ that would keep technical and social production turning around the Sun –

⁷ It is worthwhile pointing out that this idea is also present in Keynes’s *Treatise on Money* (1930), where he distinguishes between two spheres of monetary circulation: the industrial and the financial. In the first of these, money plays its classic role of a means of exchange, enabling the circulation of goods and services. In the second, money guarantees the circulation of financial assets – papers or bonds with different degrees of liquidity and which can provide gains for their holders.

The Capital – as in a Copernican System, moving towards it and then away from it, in a self-regulated movement. It is a much deeper and dialectical law, as the ‘modern laws’ of physics and energy, the laws concerning the expansion of the universe which transform the ‘Sun’ from its very inside, the laws that make suns explode, those that make the ‘universe’ an expanding system full of ‘holes’ (Tavares, 1978, p. 68).

In short, in her reading of Marx (1978), Tavares emphasises the following elements: the contradictory nature of the movement of capital; the tendency of capital to assume its ‘most general form’; the preponderance of financial over productive capital; the endogenous obstacles to capitalist accumulation. These aspects reinforce her interpretation of the impossibility of self-regulation in capitalist production.

Still in Marx’s Footsteps: Financial Capital

In Tavares & Belluzzo (1980), the author seeks to clarify the concept of financial capital and to discuss the importance this form of capital has acquired in contemporary capitalism. To this purpose, the references resorted to are Marx, Rudolf Hilferding and John Hobson.

For Tavares, the formulation of the concept of financial capital can be found in section V of the third volume of *The Capital*, in which Marx deals with ‘the issue of the *autonomisation* of money-capital in the form of interest-bearing capital’ (Tavares & Belluzzo, 1980, p. 113).

Besides decomposing the elements that make up the capitalist mode of production, distinguishing between the three appearances of capital (money capital, commodity capital and productive capital), Marx analyses the possibility that the capitalist system takes a time trajectory in a ‘*determined* direction’. According to the idea of a ‘general law of capitalist accumulation’, capital needs continuous expansion and valorisation, which goes beyond the elementary process of circulation and reproduction. This need conditions the appearance of interest-bearing capital.

The concentration and centralisation of the different capitals, a natural consequence of this general law of capitalist accumulation, take place through the ‘increasing expansion

and externalisation of interest-bearing capital, coupled with the growing predominance of the credit system over the mercantile and productive spheres' (Tavares & Belluzzo, 1980, p. 114). In order to grow larger and stronger, the capitalist system increasingly needs capital in its 'free', liquid and centralised form, enabling it to seek the opportunities of profit with no obstacles.

Based on this analysis of Marx, Hilferding also develops a concept of financial capital. The author first proposes a more general formulation, as a means of characterizing a more advanced phase of capital concentration. He then sketches a morphological description of German monopolist capitalism, in which a specific mode of interaction between the banks and the large companies originated the large German cartels.

Hobson's analysis, on its turn, is focused on the U.S. economy, which would be a classic example of 'modern capitalism.' As a result of the transformations it underwent in the turn to the 20th century, the U.S. economy assumed the form of a 'trustified capitalism' and financial capital played a decisive role in this process. According to Tavares, 'the appearance and development of the U.S. corporation is the *national* embryo of the later transnational unfolding of the big capital' (Tavares & Belluzzo, 1980, p. 116).

Just as Hilferding, Hobson emphasized the crucial role of the financial capital in understanding the origins of the large U.S. corporation, as well as the nature of its future hegemonic position. Alongside changes in the organisation of the companies, a new 'financial class' came into existence, tending to concentrate in the large banks 'increasing power in the strategic handling of the system's 'interstitial' (inter-segment and international) relations' (Tavares & Belluzzo, 1980, p. 116). This financial class represents the strategic associations between banks and companies to originate the large U.S. corporation which exerts its control over strategic activities: mining, transports, banking and manufacturing.

Tavares further notes that the expansion and consolidation of speculative practices was only possible by the large-scale expansion of credit, which bestows vast powers on the class that controls access to it, namely, the banks. The large 'trustified' corporations' size and capacity to grow would thus result from the financial dimension of the organization of monopolist capitalism, much more than from the technical basis of the system.

Furthermore, the degradation of the possibilities of profit in the industry drives capital out, leading to a process of internationalization of capital:

Large though the national space monopolised and protected by the nation-state may be, as in the case of the United States of America, the continuous expansion of profits forces the search for external markets, as much for commodities as for direct investments and for the ‘financial’ export of capital. (...) In this sense, the internationalization of capital, in this phase, requires the reproduction of the global capital (Tavares & Belluzzo, 1980, p. 120).

The internationalization of capital ascribes a special role to the nation-state as an articulator of local capitals and the multinational company, acting to protect the former and to assist the reproduction of the latter’s international capital. To this end, the action of the State in controlling the national currency is fundamental, it being ‘the only accounting standard and the only means of internal debt liquidation and thus the only active instrument of capital circulation and consequently the only appropriate vehicle of reproduction’ (Tavares & Belluzzo, 1980, p. 121). The national currency is vulnerable to speculation practice in the local money market, which is a result of the pressure exerted by the movements of the international capital, leading to the recurring destabilization of the local currency’s purchasing power as well as of its parity with other currencies.⁸

Kalecki and the Dynamic Analysis of Capitalism

Michael Kalecki’s view of the capitalist dynamics is expounded in Tavares (1974; 1978). Two aspects of Kalecki’s thought are employed to develop a new analytical framework for interpreting the process of industrialisation in Brazil: the principle of effective demand and the three-segment schemes of inter-industrial dynamics in capitalist economies.

In order to understand industrialisation in Brazil, privileging the endogenous aspects of capital accumulation, Tavares resorts to the principle of effective demand,⁹ according to

⁸ Tavares would return to Hobson’s contributions in Tavares (1983).

⁹ Even though a version of the principle of effective demand is present in Keynes, in her work *Acumulação de Capital e Industrialização no Brasil*, the author bases herself on Kalecki: ‘Our fundamental macroeconomic

which economies face no problems arising from supply, but rather from demand, in what could be characterized as 'insufficient effective demand' (Tavares, 1974, p. 49).

The author notes as the central element of effective demand the role of investment as a means of expanding the productive capacity and the capital accumulation. Capitalist consumption is also an important element among the expenditure variables (as noted by Kalecki). Its importance stems from its being a 'fundamental dynamic element to determine and maintain a high rate of profit and accumulation in the long run' (Tavares, 1974, p. 33). It thus plays a considerable role in generating profits in the process of accumulation.

According to Tavares, the oligopolisation of the industrial structure is a long-term tendency which may assume different forms: the pure or concentrated oligopoly (following Steindl's and Bain's models), competition based on technological innovation (following Schumpeter's model), the differentiated oligopoly (following Sylos-Labini) and the oligopoly articulation under the hegemony of financial capital (according to Hilferding's model).

For Tavares, employing Kalecki's three segments' schemes is useful to explain her own interpretation of 'imbalanced growth' (Tavares, 1978, p. 25). This idea became the basis of the author's view of the cyclical dynamics of Brazilian industrialisation, as expressed in Tavares (1974; 1978).

If the combined growth of Department I and Department II surpassed that of Department III, profits will grow more than the wages, which means that the productive capacity will expand at a faster pace than production and current income. This entails a fall in the use of the productive capacity which can bring about a fall in the investment rate, resulting in an increase of idle capacity in the entire economy and, consequently, profits will also fall (Tavares, 1978, pp. 25-26).

It is therefore the fall in the pace of capital expansion (investment) which triggers the 'overaccumulation of capital':

The expansion of Department I tends to come to a halt by producing an increase in idle capacity, blocking new investment projects by reducing the expected rates of

perspective is derived from Kalecki, a contemporary of Keynes who has over him the advantage of greater analytical simplicity and of a more rigorous formulation of the economic dynamics' (Tavares, 1974, p. 16).

profitability. It is the fall in the level of investment that determined the fall in the rate of effective profit, and not the other way around.

The capitalists' consumption, which grows with profits, following investments, also tends to decrease with decreasing investment. However, the level of capitalist consumption can be maintained thanks to accumulated capitalist income, which is not true for part of the workforce's consumption. The workers employed in the expansion of productive capacity are laid off. The Department III demand decreases, which in turn also tends to lay off workforce, and, as a consequence, the general level of wages and the level of employment also fall. The excess capacity generated by the slowing down of investment is generalised through the entire economy (Tavares, 1978, pp. 28-29).

As pointed by Kalecki, the role of capitalist consumption in the three-segment schemes is essential. But Tavares sought to contextualise Kalecki's view and adapted it to the reality of "semi-industrialised" peripheral economies.

The distinction between the consumption of the capitalists and that of the workers is important, according to Tavares, because it helps to solve problems related to the reproduction of capital in certain phases of advanced industrialisation (Tavares, 1974, p. 29). In developed capitalist economies, the workers' consumer goods, although less sophisticated, are not different in their productive structure from the capitalists' consumer goods.

However, in underdeveloped economies, this distinction, besides not being able to solve the inherent contradictions of enlarged capital reproduction, created an additional contradiction, which is specific to these economies, between the expansion of the workers' basic consumption and the growing differentiation of the capitalists' consumption. This productive distinction favours the rate of accumulation in the short run, but, far from diminishing it, it actually aggravates the dynamic imbalances for segment growth in the long run.

Keynes and the Inherent Instability of Capitalism

It is based on her interpretation of John Maynard Keynes, that Tavares elaborates some of the fundamental ideas supporting her conviction concerning the impossibility of self-regulation in capitalist economy. This is the origin of the idea of the (inherently unstable) capitalist economy as a 'monetary economy of production', in which uncertainty has a crucial role to play.

Taking account of the uncertainty inherent to capitalist calculation means emphasising the determinant and unstable role of investment in capitalist dynamics. The determinant character of investment is based on the principle of effective demand, the idea that expenditure variables determine income variables. In this sense, investment becomes a central element to determine the level of income.

If, on the one hand, investment is the strategic variable of aggregate demand, on the other, it is the main destabilising element of capitalism. The determining factors of investment, being influenced by the agents' expectations regarding an uncertain future, are incapable of ensuring a stable evolution of this variable. This is how Tavares expresses the double nature, strategic and destabilizing, of investment:

Investment is not, thus, just a category of effective demand. ... It is a fundamentally dynamic category, the instrument for expanding the productive capacity and for accumulating capital. It is the cyclical element for its very nature. If it expands too much, it cannot be sustained, since it ends up creating idle capacity, entailing a decrease in the capital's rate of profitability, both expected and effective. If it expands too little, it cannot be sustained all the same, since it does not generate sufficient income to purchase the expanded production (Tavares, 1978, p. 31).

Based on the principle of effective demand, Tavares (1978, p. 32) states that the idea of 'insufficiency of savings' does not hold to explain fluctuations in investment.

The development of the system of credit, by playing a crucial role in financing investment, causes savings, or unspent income, not to be determinant for investment. In a capitalist economy, therefore, the larger the aggregate expenditure, the larger the income generated and thus the larger the amount of resources for credit operations, which, in turn, are not limited by the amount of the agents' previous savings. According to Keynes (and

Kalecki), savings should be understood as a residue of income (as unspent income, defined *ex post*). In this approach, the savings never ‘determine’ investment – they rather display an accounting equivalence to investment. Contrary to neoclassical analysis, causality (or determination) must be understood then from investment (expenditure) to savings (unspent income), and not in the other sense.

Capitalists spend both on investment and consumption, and this level of expenditure determines the profits over a production period. Profits cannot be ascertained previously, since their level depends on investment made in the previous periods. These investments are made either with their own capital, derived from profit accumulated in the past (the companies’ ‘savings’), or with the capital of third parties (debt) and are conditioned by the capitalists’ expectations regarding *expected* profits (as compared to debt risk).

When financing investment, capitalists cannot count only on their ‘previous savings’ (Tavares, 1978, p. 36). They also need the financial system, which must be able to pull together the firms’ or households’ excess savings and transform them in financial assets. These assets promote the fictitious valorisation of capital, whose extent depends on how developed the financial relations in a given economy are.

Only a portion of the financial assets is actually ‘active’. This portion corresponds to the ‘new primary debt’, whose purpose is to finance the economy’s productive segment. The payout of this financial capital is provided by the interest appropriated from the production profit share by the financial segment. However, payment will only effectively take place after the maturation of the investments and if profits are made. Therefore debt precedes investment (Tavares, 1978, p. 37).

Tavares also approaches the credit crisis based on Keynes. The major problem of debt, according to the author, is the fact that it precedes the generation of income and profit. Maintaining income and profit requires that productive investment grows so as to feed the ‘active part of capital’, that part which is related with the financing of production, investment and consumption. If investments drop and, as a consequence, profits are not made, the burden of the ‘passive part of capital’ becomes manifest, further depressing the real movement of productive capital (Tavares, 1978, p. 40). In this sense, it is the drop in the level of investments that explains the reversion of the cycle.

From Keynes's point of view, Tavares asserts, crisis does not result from an increase in the interest rate, owing to growing liquidity preference, but rather from the collapse of the marginal efficiency of capital. Pessimistic evaluations and uncertainty regarding the future makes the regain of trust in business difficult to achieve in an economy of 'individual capitalism' (Tavares, 1978, p. 41).

Thus, as long as the expectations guiding investment decisions are promising, the choice of incurring debt keeps being made, even when the interest rate increases. If investment declines (along with the income), the burden of debt becomes unbearable and financial crisis comes about, increasing the agents' liquidity preference. The crisis first touches the more financially fragile companies and, depending on its magnitude, might spread to the larger companies and then to the large banks that finance them (Tavares, 1978, p. 42).¹⁰

Still in Keynes's Footsteps: Post-Keynesian Contributions

Tavares's interpretation of Keynes's principle of effective demand and her more general analysis of the inflationary phenomenon ensure that she can count among the authors who have effectively contributed to the constitution and dissemination of post-Keynesian ideas in Brazil. When the history of post-Keynesian thought in Brazil comes to be written, Tavares will certainly have a prominent role in it. Next, we will review her contributions regarding these two topics, both co-authored with Luis Gonzaga Belluzzo.

The Principle of Effective Demand

In Tavares & Belluzzo (1981), the author presents the thesis that the principle of effective demand 'proposes a structured and determined view of the dynamics of capitalism' (Tavares & Belluzzo, 1981, p. 112). This concept explains the influence of investment fluctuations on aggregate demand and, as a consequence, it also explains the levels of production, income and labour.

For Tavares, the principle of effective demand is not dependent on the hypotheses of underconsumption or excess savings. Consumption is directly dependent on the amount

¹⁰ The attentive reader will notice here an unmistakable Minskyan tone, but, while an important reference for the author, Minsky is nowhere referred to in Tavares (1978).

of income. A decline in income, resulting from a decline in investment, reduces the level of expenditure on consumption and, as a consequence, seems to produce an excess of consumer goods. In this sense, income is directly dependent on investment, which is the fundamental variable in the dynamics of capitalism.

Because they entail variations in output and income, fluctuations of investment are responsible for the inherently unstable character of capitalism. These fluctuations occur because the volume of investments depends on future expectations regarding the propensity to hoard (liquidity preference) and the expected profitability of capital assets, none of which rests on adequate or solid foundations. Therefore, a pessimistic perspective on future profits also raises the agents' propensity of hoarding, which consequently leads to a drop in investments and, as a result, to a drop in the level of aggregate demand and income. In other words:

The reasons of ample and sudden fluctuations in investment therefore result from the very nature and purposes of capitalist production. The search of private gain and the anarchical nature of intertemporal choice which characterises the pursuit of this goal lead the capitalist class as a whole to making problematic evaluations – as far as the stability of the system is concerned – regarding the present value of capital and the desired manner of possessing wealth. The ratio between the interest rate and the likely return of recently produced capital goods might lead the capitalist class to believe that both the maximum rate, the payout of productive capital, and the safest manner of possessing wealth sans phrase are actually incompatible with the prevailing rhythm of investment and therefore with the current levels of income and labour (Tavares & Belluzzo, 1981, p. 111).

Thus, it is possible to formulate a 'general law of the dynamics of the capitalist system' through the principle of effective demand, with an emphasis on the inherent instability of markets.

The Dynamics of Inflation

The influence of the Keynesian agenda remained present in the author's later work in her discussion of the determinants of inflation in modern economies (Tavares & Belluzzo, [1984] 1986), whose analytical framework is provided by what she calls 'the Keynesian paradigm of pricing', based on the works of Paul Davidson (and his use of the notions of spot and forward markets) and of John Hicks (and his classification of fix and flex prices), both authors associated with the post-Keynesian school of economic thought.

In the 1970s and 1980s, increasing inflation became a concern in the central and especially in the peripheral economies. Both oil shocks, the breach of the fundamental rules of the Bretton Woods system and the interest shock furthered the uncertainty regarding prospective capitalist calculation and the instability of the world price system.

According to Tavares, the premises of Hicks's and Davidson's model lay fundamentally on a hypothesis of the *stability* of the key variables of capitalist calculation, ensured by the existence of a stable international monetary standard, capable of generating sufficiently predictable 'equilibrium' or 'normal' interest and exchange rates, thus enabling the functioning of the price system of any national economy. As a result of the different economic shocks in the 1970s, the conventions which had prevailed until then were, if not destroyed, at least seriously shaken, the result being that 'the hypothesis of the stability of offer and debt contracts is not sustained during the period of production' (Tavares & Belluzzo, [1984] 1986, p. 52).

The breach of the international monetary standard in the 1970s had destabilizing effects on the exchange and interest rates. This rendered Hicks's fix-price model limited to explain the behaviour of industrial prices. With the increased fluctuations in exchange and interest rates, the stability of prices in the contracts for supplying (imported and exported) strategic raw materials and that of prices in debt contracts were compromised. These contracts came to be readjusted at shorter time spans. The timeframe for capitalist prospective calculation thus became less certain and the production prices, which formerly were fix prices, became flexible, being allowed to rise as a means of anticipating a possible drop in the return of capital. As a result, 'the desired margin of profit, instead of meaning a stable mark-up on primary costs, becomes an uncertain margin of calculation. As a consequent of the successive devaluations of international currency, this margin tends to

move upwards, since it incorporates the successive reassessments of stocks, as well as the readjustable burden of debt (fluctuating interest rates)' (Tavares & Belluzzo, [1984] 1986, p. 53).

The increase in uncertainty made an estimate of the offering price of new capital goods more problematic, i.e., it had an adverse effect on the calculation of the marginal efficiency of capital. The same factor that acted as a negative stimulus on investment decisions increased liquidity preference. As a result, 'no place is made for the creation of future wealth (new investment), thus imprisoning growing amounts of liquidity in financial circulation and restricting necessary liquidity to financial circulation. This restriction of liquidity, added to the instability of interest rates, is what impedes productive investment, and not the absolute levels of the rates' (Tavares & Belluzzo, [1984] 1986, p. 57).

By showing the limitations in the Keynesian model of pricing in the new economic context of the 1970s and 1980s, Tavares did not part with the ideas contained in the Keynesian research agenda. On the contrary, she employed them to achieve a more *general* interpretation of the dynamics of inflation, which should also be valid for the contexts of greater instability and uncertainty. Hers was, therefore, an up-to-date and innovative analytical contribution based on hypotheses and concepts that inform the post-Keynesian perspective.

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