

## Say's Law and ECLAC Thinking: From the Dining Room to the Junk Room

A Lei de Say e o pensamento da CEPAL: da sala de jantar ao quarto de despejo

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**Abstract:** ECLAC thinking has evolved through several stages influenced both by geopolitical dynamics and by developments in economic theory. Throughout much of its history, it has relied—directly or indirectly—on a theoretical foundation aligned with Say's Law. Coincidentally or not, a shift in this framework took place after the 2008 crisis. Say's Law and Ricardian thought lost prominence, making way to theories of Effective Demand. This article aims to trace the trajectory of ECLAC thinking, highlighting the replacement of Say's Law by Effective Demand theories.

**Keywords:** ECLAC Thinking; Say's Law; Development Theory.

**JEL Classification:** B1

**Resumo:** O pensamento cepalino passou por algumas etapas, que tiveram influência tanto do contexto geopolítico como da evolução da teoria econômica. Na maior parte de sua história, o pensamento cepalino se utilizou, direta ou indiretamente, de um substrato teórico aderente à Lei de Say. Coincidência ou não, após a crise de 2008, observou-se a mudança desse referencial. A Lei de Say e o pensamento ricardiano perderam espaço, e deram lugar às teorias da Demanda Efetiva. Este artigo objetiva apresentar o caminho percorrido pelo pensamento cepalino e evidenciando a suplantação da Lei de Say pelas teorias da Demanda Efetiva.

**Palavras-chave:** Pensamento cepalino; Lei de Say; Teoria do Desenvolvimento.

**Classificação JEL:** B1

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## 1. Introduction

The mid-20th century was marked by the need to rebuild war-torn countries, the decolonization of various nations, and the onset of the Cold War, forming the geopolitical and geoeconomic context in which development theory emerged—responding to the social demands of the new global context and to the strengthening of the capitalist bloc.

As noted by Bastos and D'Avila (2009), the emergence of development theory marked the return of economic development as an object of study in economic theory, since—prior to the dominance of neoclassical theory—development had been, to some extent, addressed in classical theory. A consensus around development emerged in the Global South, in parallel to the Keynesian Consensus in the Global North.

The establishment of multilateral institutions—such as the United Nations (UN)—gave rise to agencies in developing countries focused on the study of development. The most notable example was the Economic Commission for Latin America (ECLAC), which produced original, far-reaching studies that served as the theoretical foundation for the development plans adopted by countries across the region. The central focus of the thinking developed at ECLAC—much like that of development theory more broadly—was economic convergence, or the catch-up process, between developed and underdeveloped countries. The founding milestone of ECLAC thinking was the policy paper authored by Raúl Prebisch in 1949, which would later become known as the “ECLAC Manifesto.”

ECLAC thinking has gone through several stages, shaped both by geopolitical developments and the evolution of economic theory. For most of its history, it relied—directly or indirectly—on a theoretical foundation aligned with Say's Law. Coincidentally or not, following the 2008 crisis—which exposed the contradictions of neoliberalism—this theoretical framework began to shift. Say's Law and Ricardian theory lost ground, giving way to theories of Effective Demand. This article aims to trace the trajectory of ECLAC thinking and to demonstrate how the classical Ricardian framework and Say's Law were supplanted by theories of Effective Demand.

It is organized into seven sections, including this introduction. Section 2 briefly presents the origins of Latin American developmental thinking and the founding manifesto of ECLAC—Raúl Prebisch's “The Economic Development of Latin America and Its Principal Problems” (1949). Section 3 examines ECLAC's assimilation of Say's Law and the theoretical developments that followed from that framework. Section 4 discusses the reconfiguration of ECLAC thinking in response to shifting international conditions, the debt crisis, and the rise of neoliberalism. Section 5 introduces ECLAC's neo-structuralist phase and highlights the continued role of Say's Law in its theoretical approach. Section 6 advances the central hypothesis of this study—namely, that ECLAC thinking ultimately abandoned Say's Law—and outlines, in broad terms, the agency's newly adopted conception of development. Section 7 offers concluding remarks.

## 2. Origins of Development Theory and ECLAC Thinking

In his seminal 1954 study, “Economic Development with Unlimited Supplies of Labour”, Arthur Lewis proposed the hypothesis that in certain countries—such as Egypt, India, and Jamaica—there existed an unlimited labor supply, with the economic structure characterized by two sectors: a capitalist sector and a subsistence sector. In this model, the capitalist sector employs reproducible capital and encompasses profit-seeking activities, including part of the primary sector. The subsistence sector, in turn, comprises rural workers and the entire informal small services sector, operating without reproducible capital. This sector exhibits near-zero labor productivity, characterizing a situation coined as “disguised unemployment,” with wages set at subsistence levels. As a result of this structure, as long as labor was available in the subsistence sector, wages in the capitalist sector would be established at subsistence level plus a small premium, which would act as an incentive for workers to migrate from the subsistence to the capitalist sector.

Lewis (1954) grounds his theoretical framework in the Classical surplus approach, interpreting Say’s Law in the Ricardian sense—that is, assuming a direct relationship whereby potential savings (savings arising from full utilization of productive capacity) are fully directed toward investment (MOREIRA, 2021). Under this system, where workers do not save, the portion of profits not consumed by capitalists—i.e., the savings generated through accumulation—would be entirely channeled into expanding productive capacity, fostering growth in investment, productivity, and consequently, the rate of profit. This cycle would continue until the labor supply from the subsistence sector was depleted and capitalist sector wages equaled the marginal productivity of labor. At that point, the neoclassical principle of factor substitution and resource scarcity would once again prevail.

During its initial phase, ECLAC adopted Lewis’s structural duality model and connected the significant heterogeneity in Latin American economies to their external insertion, framed within the center-periphery model.

The heterogeneous structure—characterized by significant productivity disparities between sectors—and specialization—a production pattern heavily dependent on the primary sector oriented toward exports—define a Lewis-style structural duality system, given the ample labor supply in the primary sector and the modern, more productive secondary sector’s severely limited capacity to incorporate technological progress. This situation would lead to a tendency toward high unemployment and wages stabilized at very low levels.

### 2.1. The ECLAC Manifesto in Broad Terms

According to ECLAC, the low capacity to incorporate technical progress was linked to insufficient savings, which in turn stemmed from the low income levels of these economies. As in Lewis’s model, ECLAC adhered to Say’s Law and conceived savings as preceding investment, so that the low investment level was derived from low savings.

The role played by peripheral economies in the international division of labor—namely, the specialization in the production of primary goods to meet the demand of central economies—subjected these countries to a condition of dependence on the activity of the global economy. During periods of low global economic activity, demand for primary products declined, negatively impacting income generation in Latin American economies. However, during periods of global economic growth, demand for manufactured imports by peripheral countries increased faster than the demand for primary products. This dynamic stemmed from asymmetries in the income elasticities of traded goods. While peripheral economies specialized in producing goods with low income elasticity, central countries exhibited the opposite pattern. Indeed, during periods of income expansion in peripheral countries, import growth outstripped income growth, whereas in central economies the reverse was true—creating a system that undermines the long-term growth potential of peripheral economies by tying their income-growth rates to those of central countries, while also deteriorating their terms of trade and risking external constraint. Moreover, productivity gains from technological progress in central economies were not passed on to goods prices—contrary to the comparative advantage theory argument that productivity gaps and supposed price declines of products would lead to convergence among countries<sup>2</sup>. As a result of this framework, each new economic cycle deepened the dependence of peripheral economies *vis-à-vis* central economies.

The path proposed by ECLAC's pioneers to overcome underdevelopment and transform the region's external insertion was industrialization through the Import Substitution Industrialization (ISI). Broadly speaking, the ISI consisted of efforts to reduce the import coefficient and redirect imports toward goods essential for industrialization<sup>3</sup>.

### **3. ECLAC and Say's Law: savings, luxury consumption, and capital accumulation**

This section revisits the works of Prebisch and Furtado—leading figures in the formation of ECLAC thinking—regarding the insufficiency and misuse of savings as limiting factors for the incorporation of technical progress and capital accumulation.

In classical structuralist ECLAC thinking, the main barrier to achieving industrial development in peripheral economies was the insufficiency of savings and the prevailing consumption pattern, which was shaped by excessive luxury consumption resulting from extreme income concentration. As in the Lewis model, ECLAC theory adhered to Say's

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<sup>2</sup> In central countries, productivity gains were not passed on to final product prices. Prebisch (1949) argues that in these economies, organized workers had sufficient power both to push for wage increases during the expansion phase of the cycle and to mitigate wage losses during recessions. Additionally, the structure of the industrial market allowed capitalists not to reduce product prices. In peripheral countries, the opposite occurred: workers lacked the strength to demand wage improvements or prevent wage losses, and prices of manufactured goods fell as supply increased.

<sup>3</sup> Exports played a crucial role in the success of the strategy, as they provided the foreign currency necessary to acquire goods required for industrialization (PREBISCH, 1949).

Law; however, unlike Lewis, it did not share the same optimism regarding the presumed inescapable channeling of the production surplus into savings and investment (BASTOS; D'AVILA, 2009). The prevailing assumption was that the consumption patterns of the wealthiest income groups were precisely what caused the lack of savings. In this view, luxury consumption by the wealthiest strata of society diverted too much of the surplus toward unproductive spending, thereby causing a shortage of savings for investment. This is clearly stated in ECLAC's 1949 Manifesto, where Prebisch warns that:

Throughout most of Latin America, the characteristic lack of savings is the result, not only of this narrow margin, but, in many cases, of its improper use. Saving means refraining from consumption and is thus incompatible with certain types of consumption peculiar to relatively high income groups. (PREBISCH, 1949 [1962], p. 109)

The proposed solution was to increase the propensity to save in the region's economies. The way forward, according to Prebisch (1949), was "to overcome a strong tendency towards certain types of consumption which are often incompatible with intensive capitalization," since mass consumption remained extremely low and, therefore, any reduction in it would be neither reasonable nor justifiable. The author also pointed to external savings—through productive foreign investment—as a complement to domestic savings.

It is already clear in the first document structuring ECLAC thinking that luxury consumption by the highest income groups was a crucial issue to be addressed in order to achieve a satisfactory level of saving and investment. This interpretation would continue to shape both Prebisch's and Furtado's thinking throughout their intellectual trajectories.

In Furtado's case, in particular, the issue gained even greater prominence, as he regarded the consumption patterns of high-income groups as a central element in his critique of Brazil's development model from the 1950s onward. In his debate with Nurkse<sup>4</sup> in the early 1950s, Furtado set forth his reasoning on the topic:

Just as the low-income social groups tend to copy the consumption patterns of people at the top of the social scale, poor countries tend to imitate their rich neighbours' way of life. If real per capita income increases more rapidly in rich countries than in poor ones, the latter's propensity to consume is thereby increased. With the consequent decline in the poor countries' propensity to save, their rate of growth is also diminished, which tends to accentuate the disparity between the real incomes of the two groups of countries. (FURTADO, 1952, p. 210-211)

According to Furtado, the productive structure and consumption pattern adopted in the Brazilian economy and in peripheral countries as a whole would shrink the income growth rate of these countries by reducing the propensity to save, implying a proportional decline in the growth rate according to the reduction in savings propensity (BASTOS; OLIVEIRA, 2020).

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<sup>4</sup> See Bastos and Oliveira (2020).

Another issue, distinct from the mere insufficiency of savings *stricto sensu*, emerged in the 1960s through Prebisch's dynamic insufficiency thesis and Furtado's stagnation model. Although the conclusions are similar—the inability of Latin American economies to achieve sustained long-term growth under prevailing conditions at the time—there were fundamental differences between the two theses. For Prebisch (1963), in addition to the lack of labor absorption capacity, the insufficiency of savings, and the very capital-intensive factor composition—theses developed in the 1950s—the concern arose regarding the dynamic insufficiency of Latin American economies in the social use of the surplus, with particular emphasis on the agrarian question. The call to curb conspicuous consumption, a recurring concern since the 1950s, is here accompanied by the recognition of the need for agrarian reform. This was based on the idea that “large landowners would obstruct technical progress, such that peasant access to land, if duly supported by the State, would pave the way to higher levels of agricultural productivity and improve the use of the surplus” (BIELSCHOWSKY, 2000, p. 40). Such reform would also help ensure that rural populations remained in the countryside, counteracting disguised unemployment and the precarious living conditions faced by those who migrated to large cities during the industrialization process of the previous decade.

Prebisch argued that due to the high concentration of income, which fostered conspicuous consumption patterns, there would be no conditions for achieving increasing rates of production. Structural heterogeneity and the resulting income concentration excluded a large part of the population from consuming manufactured goods. The consumption pattern of the highest income groups tended to increase the capital-output ratio, since the production of goods consumed by the wealthier classes was supposedly more capital-intensive. A rising capital-output ratio implies a loss of capital productivity and consequently a reduction in profitability—and thus in savings and, subsequently, investment—creating a vicious cycle of accumulation that would result in stagnation. Furtado, like Prebisch but based on a different argument, understood agrarian reform as fundamental, since it would increase the wage mass and workers' consumption, thereby stimulating industrial production.

As highlighted by Bielschowsky (2000, p. 40), the common elements between Prebisch's “dynamic insufficiency” and Furtado's “tendency toward stagnation” are the advocacy for agrarian reform and the use of technology inadequate to the resource endowment characteristic of the region's countries—namely, the excessive use of the scarce resource, capital.

Another common aspect is the continued adherence to Say's Law as the determinant of income, despite the theoretical differences between Prebisch's and Furtado's approaches. Prebisch (1963) expresses this through the understanding that increased productivity in the primary sector, driven by agrarian reform, would lead to higher saving and investment. Furtado (1961) emphasizes that the shift toward democratizing consumption—also via agrarian reform—would foster a productive structure less concentrated in capital-intensive goods, promoting productivity growth (which would reverse the supposed rising capital-output ratio) as a driver of saving and investment.

Both theses that proposed that the growth of the region's economies was doomed to stagnation fell into obscurity due to the observation of the high level and accelerated pace of growth starting in the late 1960s<sup>5</sup>. From that point, ECLAC thinking—and Latin American thought more broadly—adopted a different hypothesis. It was concluded that there was no savings insufficiency; rather, savings-investment was generated through income distribution, known as the “forced savings of workers” hypothesis, contained within Cambridge theory of distribution<sup>6</sup>. In summary, forced savings would occur when autonomous investment exceeded effective savings, causing excess demand over supply and price increases. Consequently, income would be redistributed in favor of capitalists, as price increases would reduce workers' real wages. The opposite case holds as well: when aggregate supply exceeds demand, prices fall and income is redistributed in favor of workers (BASTOS; PEREIRA, 2014).

Curiously, among other points<sup>7</sup>, although this thesis was developed within a Keynesian tradition, associated with the Principle of Effective Demand (PED), it can ultimately be considered a “disguised” version of Say's Law<sup>8</sup> (MOREIRA, 2021).

The forced savings hypothesis not only replaced the stagnation and growth-impairment theses within ECLAC thinking, but was also frequently used to explain the dynamics of Brazilian industrialization in the late 1950s and early 1960s. The rapid increase in investment—particularly public investment—during this period, which was decoupled from domestic savings levels, was seen as a key source of inflationary pressures (BASTOS; OLIVEIRA, 2021, p. 28).

ECLAC thinking began to show divergent views on the potential for growth under the prevailing development model during the 1970s. Notably, Tavares and Serra (1972) offered a critical reassessment of the stagnationist thesis. While they acknowledged that prevailing consumption patterns reinforced an economic structure concentrated in capital-intensive goods—thereby deepening structural heterogeneity and income concentration—they rejected the notion that such a structure inherently precluded economic growth. Their critique centered on Furtado's assumption that consumption patterns would lead to a continually rising capital-output ratio, due to the type of technological incorporation required, ultimately undermining capital productivity and, consequently, savings and investment. The authors argued that such an outcome would require an implausible

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<sup>5</sup> For critiques of the stagnation thesis, see Tavares and Serra (1972) and Bastos and D'Ávila (2009).

<sup>6</sup> According to Serrano (2001), the Cambridge distribution theory is so named because it was proposed by economists such as Nicholas Kaldor, Joan Robinson, and Luigi Pasinetti, associated with the Cambridge school. It is also known as the Keynesian theory of distribution.

<sup>7</sup> The excess demand caused by autonomous investment exceeding effective savings would only result in a short-term price increase. To extend this effect into the long term, one would have to consider that investment neither generates demand nor increases the economy's productive capacity. Furthermore, the hypothesis that prices are flexible in the long term is hardly reasonable, since capitalists' goal is profit, not production; therefore, firms would adjust via quantity rather than prices (BASTOS & PEREIRA, 2014).

<sup>8</sup> Cambridge distribution theory and its demand-led growth models assumed a supply constraint on growth, where productive capacity is given exogenously or the expansion of production is insufficient to keep pace with demand generated in the expansion process.

scenario in which no labor productivity gains occur throughout the accumulation process. Tavares and Serra further maintained that the slowdown in the early 1960s was primarily the result of insufficient demand and idle productive capacity—an outcome of the significant public investments undertaken during the Targets Plan (*Plano de Metas*), a Brazilian state-led industrial development strategy from the 1950s (VERGNHANINI; BIANCARELLI, 2020, p. 9-10).

At that point, Furtado embraced environmental concerns<sup>9</sup>, arguing that the consumption pattern of developed countries—emulated by peripheral economies—was ecologically unsustainable. Later, during the 1980s, he would contend that overcoming this unsustainable pattern would require a profound cultural and political transformation<sup>10</sup> (BASTOS & D'ÁVILA, 2009).

In the final stage of his intellectual output, Prebisch adopted a critical stance toward the capitalist system, arguing—much like Furtado in his later works—that without a profound transformation of the capitalist system, there would be no path toward development for peripheral countries. In his 1981 work *Capitalismo Periférico: Crisis y Transformación*, he argues that the development process is not determined solely by advances in productive capacity, but is also shaped by political and social transformations. He emphasizes that the evolution of democracy intensified distributional conflict among workers, capitalists, and the State—particularly in peripheral countries, where productivity gains have not been sufficient to accommodate such tensions. Low productivity in these economies, he contends, prevents the simultaneous realization of real wage increases, profit expansion, and State growth. As union movements gained strength, workers began to demand not only wage increases, but also the recovery of income lost to taxation. At the same time, capitalists sought to offset rising production costs associated with wage hikes and increased government taxation. Once the surplus generated by the economy could no longer sustain growing wages, expanding profits, and a larger State, an inflationary spiral would emerge. Capitalists would raise prices to restore their share of the surplus, workers would push for further wage increases, and the government would claim its share through taxation.

Prebisch then suggested that the result of such a transformation should be a synthesis between socialism and liberalism, in which: “Socialism is necessary to ensure the ‘social use’ of the surplus [...] Moreover, economic liberalism is necessary insofar as individual decisions to produce and consume should be left to the market” (PREBISCH, 1987, p. 30). The solution proposed by Prebisch (1981) would be class conciliation of sorts, in which capitalists would be willing to equitably share the gains from technical progress with workers, within an institutional and political framework where decisions are made

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<sup>9</sup> FURTADO, C. Subdesenvolvimento e estagnação na América Latina. Rio de Janeiro: Civilização Brasileira, 1974.

<sup>10</sup> FURTADO, C. Cultura e desenvolvimento em época de crise. Rio de Janeiro: Paz e Terra, 1984; FURTADO, C. Em busca de um novo modelo: reflexões sobre a crise contemporânea. Rio de Janeiro: Paz e Terra, 2002.



collectively (PREBISCH, 1987, p. 30). This would also require the cooperation and acceptance of central countries relinquishing some power to harmonize the system.

Despite his skeptical phase regarding the development capacity of peripheral countries under the capitalist system, Prebisch's treatment of surplus analysis remains consistent with classical Ricardian theory as well as with Say's Law. The consumption pattern associated with the productive structure and income distribution of peripheral countries—resulting from the assimilation of the culture and ideology of central countries—continues to be identified as (perhaps) the main obstacle to incorporating technical progress and the cause of technological dependence vis-à-vis developed countries (PREBISCH, 1981, p. 41). Furthermore, the theoretical foundation adopted by Prebisch regarding monetary policy and the broader conception of money is markedly orthodox (PREBISCH, 1987, p. 25-27), reflecting his neoclassical academic origins<sup>11</sup>.

#### **4. ECLAC's Response to the Debt Crisis and Neoliberalism**

The 1980s debt crisis, alongside the parallel rise of neoliberal ideology, turned development theory and developmental states into a kind of "heresy" during what came to be known as the lost decade. Countries in the region were compelled to adopt recessionary adjustment policies under the Washington Consensus, which broadly rested on deregulation and market flexibilization, rollback of labor rights, the end of the Welfare State, government spending cuts, redefinition of the State's economic role, and trade and financial liberalization.

Along this path, ECLAC also underwent a major transformation in its thinking, entering the phase termed neo-structuralist, which only formally began in the early 1990s. During the 1980s, given the economic context and the spread of neoliberal ideology, ECLAC's studies were limited to short-term analysis, focusing on macroeconomic adjustment and stabilization issues.

It is important to note that ECLAC is one of the agencies under the United Nations umbrella, a multilateral institution decisively influenced by guidelines shaped by the central countries of the capitalist bloc. Therefore, given the emergence of a new global economic and social order—neoliberalism—it would be unreasonable to expect ECLAC to radically oppose the new hegemonic economic development model. Rather than opposing the liberalizing reforms of the period or the redefinition of the State's role, ECLAC adopted a more lenient stance:

In the 1990s, ECLAC skillfully positioned itself between the two extremes. It did not oppose the tide of reforms; on the contrary, in theory it tended to support them; but it made its appreciation conditional on the existence of a "reformist strategy" that could maximize its

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<sup>11</sup> At the beginning of his academic career, Prebisch was an adherent of neoclassical thought, but he later adopted different perspectives after the Great Depression of 1930. For further detail, see Prebisch (1987) and Borja (2021).

benefits and minimize its deficiencies in the medium and long term. (BIELSCHOWSKY, 2000, p. 63)

Such a transformation in hegemonic economic thinking—combined with the region's condition of high external indebtedness—led ECLAC to adopt “an attitude of reaffirmation and refinement of ECLAC development and reformist thinking” (BIELSCHOWSKY, 2000, p. 57). The 1990s clearly marked an ideological turning point for ECLAC, representing its most lenient phase toward liberalism. Latent contradictions are noticeable in this stage of ECLAC's thought, such as the coexistence of structuralist studies focused on the generation and distribution of surplus alongside discourse on allocative efficiency and the State's role in this process. Thus, elements of neoclassical thought were embraced, including the superiority of markets vis-à-vis state intervention and the principle of scarcity.

## 5. Fajnzylber and ECLAC's Neo-Structuralism

From the 1990s onward, ECLAC's thinking formally entered the neo-structuralist phase<sup>12</sup>, led by Fernando Fajnzylber and inaugurated by the manifesto document “Changing production patterns with social equity” (TPE – *Transformación productiva con equidad*) (FAJNZYLBER, 1990), marking a return to ECLAC's long-term focused foundational studies. Paradoxically, the new ECLAC's focus returned to technical progress, understood as the solution to the region's underdevelopment issues; however, now with a different approach defending technical progress driven by an increase in “authentic” competitiveness in a context of economic openness, rather than the “spurious” competitiveness of the past<sup>13</sup>. The agenda also included advocating for access to basic rights—especially education—as a path to increased productivity and reduced social inequalities, all within a stable macroeconomic environment regarded as a necessary condition, along with the promotion of technological policies.

However, according to Bielschowsky (2000), the most representative and explanatory text of this new phase of ECLAC's thinking is “Industrialization in Latin America: from the ‘black box’ to the ‘empty box’: a comparison of contemporary industrialization patterns” (Fajnzylber, 1992), which presents the theoretical foundations and key concepts of the TPE proposal. The author outlines a framework in which equity would tend to

[...] shape a consumption pattern relatively more austere than that prevailing in situations of acute income concentration, insofar as it inhibits higher-income groups from caricaturally

<sup>12</sup> According to Bielschowsky (2000, p. 62), the term “neo-structuralism” derives from the reordering of ECLAC's thinking in response to historical facts, specifically the new development model adopted by the region's countries—neoliberalism.

<sup>13</sup> Spurious competitiveness was understood in ECLAC's thinking at the time as a competitiveness based on highly protectionist policies, low levels of real wages and environmental degradation.

reproducing a consumption pattern derived from more advanced societies. (FANZYLBBER, 1992, p. 9)

Building on this, Fajnzylber revisits a key debate within 1960s CEPAL thought, centered on Furtado's stagnation tendency thesis, aiming to address inconsistencies in its hypotheses. According to Fajnzylber (1992), a more austere consumption pattern would allow greater allocation of resources toward investment, although he acknowledges the empirical difficulty of verifying the hypothesis that a positive relationship exists between a consumption pattern with a high share of luxury goods and the capital-output ratio (FAJNZYLBBER, 1992, p. 9). The author argues that the capital-output ratio would be lower under conditions of greater equity because consumption patterns would include a smaller share of durable goods, lower energy expenditure, and reduced use of foreign currency compared to consumption patterns based on more concentrated income distributions.

In this regard, he states that

[...] equity would promote [...] growth, directly through the induction of a consumption pattern compatible with a higher and more efficient investment rate; and indirectly, insofar as it creates a social climate conducive to the effort of "building the future," which necessarily requires legitimacy from both the elite and the system, to encourage society as a whole to undertake actions and make decisions aligned with growth objectives. (FAJNZYLBBER, 1992, p. 11)

Despite the new approach in which neo-structuralist ECLAC thinking acknowledges synergies between higher growth rates, improved income distribution, expanded productive capacity, and long-term growth, the framework remains contradictory. This is because it does not abandon the Ricardian theoretical foundation, where Say's Law continues to determine income; thus, savings precede and determine investment. Consequently, income redistribution favoring the working class is viewed as dysfunctional to the accumulation process, since, *ceteris paribus*, the proposed redistribution would compress the economy's propensity to save, given that workers save less than the capitalist class. Ultimately, the solution to this problem falls back on the same proposal of the "old" CEPAL: taxing luxury consumption to mitigate the impact of a decline in the profit share on savings and investment (SERRANO, 2001, p. 10).

## 6. ECLAC 2010: Say's Law in the Junk Room

In the 2000s, Latin American economies began to show satisfactory economic and social results. Growth rates accelerated, partly boosted by the international commodity price boom, which was largely driven by the rapid expansion of the Chinese economy. There were also advances in poverty reduction and income distribution, alongside a notable easing of external constraints. This progress occurred within the broader context of global economic and trade growth and the political rise of center-left governments in the region. The strong performance of regional economies was sustained until the early following decade (2010), successfully mitigating the effects of the 2008 global financial crisis, primarily through countercyclical government policies. However, the Eurozone crisis—

following the recent global financial turmoil—impacted export prices in the region's countries, reversing economic growth rates and triggering a new cycle of slow growth, rising poverty, and increasing income concentration.

In this context, a new stage of ECLAC thinking emerges, marked by the refinement of certain themes and the incorporation of new conceptual approaches. Five documents are listed, complementarily, as the most representative of this new phase (ECLAC, 2018): *Time for Equality: Closing Gaps, Opening Trails* (2010), *Structural Change for Equality: An Integrated Approach to Development* (2014), *Pactos para la igualdad: hacia un futuro sostenible* (2014), *Horizons 2030: Equality at the centre of sustainable development* (2016), and *The Inefficiency of Inequality* (2018).

The concept of equity from the previous phase is further developed to include new elements, such as civil, political, cultural, economic, and human rights (CEPAL, 2018), thus shifting the treatment of inequality toward a multidimensional perspective. Economic growth is now understood as a key driver of productive transformation, alongside the personal redistribution of income and labor market restructuring. Moreover, in this phase, environmental concerns take a central role in shaping the new development style, guiding productive transformation (CEPAL, 2016, p. 145-146). The new ECLAC proposes an integrated approach to development—one that interlinks macroeconomic policy, the productive sphere, income distribution, and labor market dynamics.

In this phase, ECLAC places macroeconomic policy at the core of its agenda, recognizing its influence on capacity utilization, which in turn affects aggregate investment and, consequently, the incorporation of technological progress, with impacts on productivity, income distribution, and consumption patterns. As a result, policies that were once approached with caution—such as income transfer programs to stimulate aggregate demand—are now seen as functional. Previously, such measures were considered detrimental to long-term growth (VERGHANINI; BIANCARELLI, 2020).

Thus, the effects of macroeconomic policy would not be limited to short-term adjustment and stabilization, but would also extend into the long term, as they shape both trend and cyclical economic behavior. Additionally, macroeconomic policy could influence productivity through another transmission mechanism: the short-term expansion of aggregate demand and output would foster learning by doing processes and generate gains from economies of scale (CEPAL, 2014, p. 32-33). This perspective is embedded within a broader paradigm in which synergies among economic, social, and industrial policies provide a major environmental push for the transformation of the productive structure, aligned with the 2030 Agenda (CEPAL, 2016, 2018).

[...] the structuralist approach, the relationship between the productive structure and macroeconomic policy runs in both directions. Macroeconomic policy influences the productive structure, and the latter determines the available space for the former, as well as its effects on the economy. (CEPAL, 2014, p. 32)

Thus, in the productive dimension, the new ECLAC proposition combines macroeconomic policy with industrial and technological policy, adopting a

Keynesian-Schumpeterian theoretical framework, as outlined by ECLAC (CEPAL, 2018, p. 399-402). Accordingly, this new conception of ECLAC thinking entails the recognition that a more appropriate analytical framework requires “moving away from a model of static (Ricardian) efficiency toward one based on higher levels of dynamic (Schumpeterian and Keynesian) efficiency”<sup>14</sup> (CEPAL, 2018, p. 399), thereby relegating the Ricardian framework and adherence to Say’s Law to the junk room of modern ECLAC thinking. In some sections of the agency’s publication with a stronger focus on the productive dimension (2014), the replacement of Say’s Law by the Principle of Effective Demand becomes particularly clear: “The main variable influencing investment decisions is not the availability of savings, but rather expected profitability” (CEPAL, 2014, p. 154).

## 7. Final Remarks

This article aimed to revisit the economic thinking developed within ECLAC, with particular emphasis on the extended period during which Say’s Law served as the theoretical framework for understanding income determination and analyzing the process of capital accumulation. It also sought to highlight the abandonment of this framework in ECLAC thinking from the 2010s onward.

Despite ECLAC’s significant theoretical contributions to efforts aimed at transforming the productive structures of Latin American countries—particularly from the second half of the twentieth century—and its position as the main reference point for heterodox structuralist thought in the region, its classical Ricardian framework, which prevailed for most of its existence, appears to have hindered a more adequate understanding of underdevelopment and the formulation of effective strategies for its transformation.

The starting point of ECLAC thinking—that is, its theoretical framework—was grounded in Ricardian classical theory, in which Say’s Law consistently served as the basis for understanding income determination, as it also did in Lewis (1954). In the manifesto document that became the founding work of ECLAC thinking, the notion emerged that the scarcity of savings was the main barrier to expanding the investment necessary for productivity growth and industrialization. This led Prebisch to propose attracting external savings and policies discouraging conspicuous consumption, since the consumption patterns of higher-income classes were directing potential investment funds toward unproductive expenditures.

Celso Furtado, a major figure in ECLAC thinking, was even more committed to criticizing the prevailing consumption pattern. From the institution’s early years to his later work, Furtado consistently emphasized the insufficiency of savings linked to unproductive spending. This concern was central to the development of his thesis on the tendency toward stagnation (in the 1960s) and his later argument (in the 1980s) that only a profound cultural

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<sup>14</sup> Author’s translation.

and ideological transformation could enable peripheral countries to overcome underdevelopment.

After the stagnationist thesis—widely disseminated within Latin American heterodox thought—lost credibility due to the rapid economic growth observed in the region from the late 1960s onward, the hypothesis of forced savings, derived from Cambridge's theory of distribution, became established both in ECLAC thinking and in broader Latin American heterodoxy. Although this hypothesis was rooted in a demand-led growth model, actual output was determined by savings. Thus, if effective investment exceeded available savings, an excess of demand over supply would emerge, triggering an adjustment through rising prices. As a result, real wages would be compressed and income redistributed in favor of capitalists. Despite having been developed within a Keynesian tradition, this hypothesis reflects a veiled version of Say's Law, since the insufficiency of savings to finance actual investment is what ultimately generates excess demand.

With the outbreak of the Latin American debt crisis and the rise of neoliberalism in the early 1980s, development theory was effectively "criminalized," and the economic management of countries in the region became subordinated to multilateral institutions such as the International Monetary Fund (IMF) and the World Bank, under the aegis of the Washington Consensus. As a result, Latin American structuralist thinking was supplanted by short-term perspectives focused on macroeconomic adjustment and stabilization.

In the 1990s, ECLAC returned its focus to structuralist studies with a long-term perspective and entered what came to be known as its neo-structuralist phase, led by Fajnzylber and his seminal work "Changing Production Patterns with Social Equity" (1990). During this period, social equity became the central, functional, and ultimate objective of economic and social development. Nevertheless, criticism of the consumption pattern—shaped by a highly concentrated income distribution—persisted as a key concern, as it was still seen as a constraint on savings and investment, and hence on development. Reducing inequality was therefore necessary to foster a more austere consumption pattern that would allow for greater savings and investment. It is also important to highlight that during this phase, ECLAC expressed support for liberalizing reforms—albeit with reservations—and revised its view on the role of the State in economic management. The institution began to advocate for greater reliance on market mechanisms, thereby adopting an allocative problem-solving approach characteristic of the neoclassical tradition.

The abandonment of the Ricardian framework and Say's Law by ECLAC only occurred in the 2010s, when a Keynesian-Schumpeterian approach was adopted, incorporating both the well-established theories based on the PED and more recent advances in microeconomic industrial theory. This approach integrates empirically observed concepts such as increasing returns to scale and revisits classical developmentalist ideas, including forward and backward linkages. Furthermore, it rejects the precedence of saving over investment, positing instead that savings are generated throughout the income generation process and that the *ex-post* channeling of savings can serve as funding for investment. It also recognizes strong synergies between aggregate demand and technical progress, emphasizing that macroeconomic demand stimulus policies—such as income

transfers and expanded household credit—can not only reduce social inequalities but also promote economic development. Consequently, the central role of government intervention for development objectives has been reaffirmed.

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