The pioneering contributions of Maria da Conceição Tavares to the analysis of demand-led growth (Part I): Structural change, distribution, and accumulation[1]

Franklin Serrano (UFRJ)
Miguel Carvalho (UFRRJ)
Ricardo Summa (UFRJ)

Resumo

O objetivo deste artigo é analisar o desenvolvimento da contribuição de Maria da Conceição Tavares para o estudo do papel da demanda efetiva no processo de acumulação de capital, destacando quatro de suas principais características: i) a visão de que assim como nas economias desenvolvidas, nas economias em desenvolvimento o crescimento era liderado pela demanda; ii) a rejeição da associação entre a demanda efetiva no longo prazo e qualquer noção de estagnação; iii) a rejeição de qualquer relação necessária entre distribuição e acumulação de capital; e iv) o papel dos gastos autônomos que não geram capacidade produtiva em suas análises.

Palavras-chave: Maria da Conceição Tavares; Crescimento liderado pela demanda; Industrialização por substituição de importações; Gastos autônomos que não geram capacidade.

Abstract

The aim of this article is to analyze the development of Maria da Conceição Tavares' contribution to the study of the role of effective demand in the process of capital accumulation, highlighting four of its main characteristics: i) the view that, as in developed economies, growth in developing economies was demand-led; ii) the rejection of the association between effective demand in the long term and any notion of stagnation; iii) the rejection of any necessary relationship between distribution and capital accumulation; and iv) the role of autonomous spending that does not generate productive capacity in her analyses.

Keywords: Maria da Conceição Tavares; Demand-led growth; Import substitution industrialization; Autonomous spending that does not generate capacity.

Área 3: Método, Teorias Econômicas Heterodoxas e História Econômica

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1. Introduction

As it is well known, Maria da Conceição Tavares (1930-2024) made many important contributions to the teaching and research, both theoretical and applied, in heterodox economics in Brazil.[2] Among her many other contributions[3], Tavares was a pioneer in the analysis of demand-led long run growth.

Due to the extent and relevance of her contributions to this subject, we have divided our analysis of Tavares' contributions into two parts. The present paper consists of Part I and is dedicated to examining Tavares' analysis of demand-led run growth, especially in what regards its implications for the analysis of structural change, distribution, and accumulation. Part II will instead be dedicated specifically to the determinants of investment in Tavares' work, in particular, how she dealt with both its induced component, associated with the capacity effects of investment (and influenced by Kalecki and Steindl), and its autonomous component, whose determinants she linked to technological and financial aspects (based mainly on her particular interpretation of Hilferding). In this second part of our study, we shall also review subsequent developments on this topic, developed since the mid-1990s by some of her former students.

In this two-part study, our evaluation of Tavares's work will be basically concerned with theoretical and conceptual issues and her interpretation of these in her work, and not so much with assessing the empirical validity of her contributions on the growth of Brazil and other developing and advanced countries, an important task which would require another type of study. Moreover, as it is only natural, our discussion will not be "neutral" (as she would surely have hated a purely celebratory hagiography), but will be explicitly done from the perspective of the theoretical approach we actually follow in the study of these issues – the revival of the classical surplus approach as proposed by Sraffa and Garegnani since the early 1960s, in particular in the form developed by our collective research effort around the Sraffian supermultiplier growth model (Serrano, 2001).

In this Part I of our study, the discussion of her main contributions to demand-led growth will be organized around four key points. [4] The first is that, since her first publication, Tavares (1964)

[2] She is remembered especially for her work as a researcher at United Nations Economic Commission for Latin America – ECLAC (1961-73) and a professor at both the Federal University of Rio de Janeiro (UFRJ) (1961-92) and the State University of Campinas (Unicamp) (1973-87), institutions with which she kept collaborating for many years after her formal retirement. For a comprehensive outline of her many achievements in the very different arenas in which she fought throughout her life see Carvalho, Carneiro, and Fernandes (2026).

[3] For Tavares' contributions on broader issues of political economy and economic development, see Vernengo (2022), Robilloti (2016), and Bastos (2021; 2023).

[4] Tavares' main contributions to the analysis of demand-led growth includes two additional key points, related to the determinants of induced and autonomous investment that will be dealt with in Part II of this study.

analyses the internal determinants of the actual pace of growth and capital accumulation of the developing economy as being demand-led. Although following and developing the ECLAC structuralist approach regarding the balance-of-payments constraints, she radically distances herself from the view that long-run growth in developing economies is supply-constrained, a view held by the overwhelming majority of development economists at the time, including Kalecki himself. Tavares (1964) analyses the conditions under which there is a transition of the main driver of demand-led growth of a developing economy, from exports to the expansion of the domestic market.

The second point appears in Tavares and Serra (1971). It concerns the rejection of the association between long-run effective demand and any form of a priori assumption about an inevitable tendency towards economic stagnation, whether in advanced or in developing economies.

Points three and four are directly and explicitly influenced by Kalecki (and Steindl) and were developed especially in Tavares (1971, 1974[1998]; 1978[1998]). The third point, influenced by Kalecki, is the view that there is no necessary connection between income distribution and the rate of accumulation. Therefore, a capitalist economy can grow (or stagnate) in principle with any type of income distribution. This comes from the analytical separation between the theory of distribution and the theory of output. In fact, distribution is to be taken as given in the determination of effective demand and output. And when we turn to this separate (but not independent) determination of distribution, the latter is seen as being influenced by the economic and social forces behind underlying the relative bargaining power of workers and firms and by the structure of capitalist competition.

The fourth point regards the importance that she gives for demand-led growth, not only to the expansion of investment but also to "capitalist consumption" (more generally to all forms of autonomous non-capacity generating expenditures) and the associated Kaleckian vertically integrated department that supplies this part of demand – the DII.

In the present paper, we review these four points of Tavares' analytical framework for the study of the role of effective demand in the process of capital accumulation, and how she used it to discuss the multiple connections between structural change, income distribution and capital accumulation, more or less in the order that they appear explicitly in her work over time since the early 1960s to the late 1970s. Thus, in section 2, we deal with the demand-led growth and structural change by discussing the theoretical part of her celebrated 1964 paper on the process of "import substitution". Section 3 then discusses the issues connected to the multiple possible relations between distribution and capital accumulation and the role of non-capacity generating autonomous components of effective demand in the process of demand-led growth, focusing in particular on Tavares and Serra (1971), where the (saving) supply-constrained stagnationist view of Furtado (1966) is criticized and in Tavares (1974[1998]); 1978[1998]). We close the paper in section 4 with a discussion of the "effective demand controversy" that arose from objections raised by her colleague

Antonio Barros de Castro in the late 1970s and early 1980s to the relevance of demand-led explanations of growth in capitalist economies in general and to Kalecki's views on effective demand in particular, and involved some of her colleagues and students.

2.Tavares on demand-led growth under structural change in developing economies

Most development economists, including those from ECLAC, assumed that in labor abundant developing countries, growth was supply-constrained in the long run, because of capital scarcity and/or a presumed chronic inelasticity of food supplies. Therefore, a long run inverse relation between consumption and investment was postulated either by the adoption of some long run version of Say's law or through a forced saving mechanism (Serrano, 2001). Even Kalecki himself adhered to this view, generally dismissing long run effective demand constraints in developing economies. Kalecki's analysis of long run growth in socialist centrally planned economies was (correctly) based on capital supply constraints as central planning obviously eliminated any effective (i.e., profitable) demand constraint, while he saw growth in advanced capitalist economies as being demand-led. In the case of developing economies, with a developmental state, that he termed "mixed economies", he assumed long run supply constraints (of capital or food supplies) and a forced saving mechanism adjusting distribution and aggregate demand to the limited aggregate supply, even in the long run (Kalecki, 1954a; 1966[1993]; 1970[1993]). Lopez Gallardo, Puchet, and Assouz (2009, pp. 193-194) report that Steindl (1942) shared the same (also because of a presumed inelasticity of the agricultural supply). [5]

Tavares, however, treated developing economies as any capitalist economy, in the sense that it operates according to the same general laws. In capitalist economies, the output of all sectors ends up responding to persistent increases in effective demand, and thus effective demand determines not only the long run levels of output but is also important to long run capital accumulation[6].

This can already be seen her first publication, "The Growth and Decline of the Import Substitution Process in Brazil" (Tavares, 1964), where she studies the growth of the Brazilian economy in the 1929-60 period. This paper discusses the process of structural change which led to the transition of the demand-led growth regime from an export-led "*hacia fuera*" to a "*hacia dentro*"

[5] A rare exception to this was Garegnani (1962[2015]) who used effective demand to explain growth in a developing economy, but only in an unpublished 1962 report about the development of the south of Italy (Moreira and Serrano, 2018; Cesaratto, 2020).

[6] Tavares (2014) credits Ignácio Rangel (her colleague in the Brazilian Development Bank – BNDE –, where she worked between 1958-60) for influencing her view that both Brazil and most Latin American economies did not face chronic agricultural supply shortages. For her, the low labour productivity in agriculture led to distributive and (cost-push) inflation problems, but not to a long run inability to expand the food supply to meet the rising demand. On this issue, see Tavares (1964, pp. 52, 101-102, 104-104; 1974[1998], p. 135; 1978[1998] pp. 154-155) and Tavares and Serra (1971, p. 938).

domestic demand-led growth regime, in developing economies which already possess a domestic capital goods sector.[7]

Tavares argues that in the primary commodity exporting countries of the periphery, the only autonomous component of demand capable of leading growth was exports. (id., p. 1). This contrasted with the central countries where, in addition to exports, "autonomous investment in technological innovations" related to "diversification and integration of domestic productive capacity" could lead to sustained economic growth (ib.).

In terms of productive capacity, according to Tavares (id., p. 2) while in central countries there would not be a sharp distinction between the sectors destined for exports and those supplying the domestic market, in peripheral countries this distinction is very clear, with the export sector and its supporting activities having higher efficiency compared to the subsistence sector and to sectors dedicated to the domestic market. On the other hand, the high concentration of the ownership of natural resources led to an extremely unequal distribution of income in peripheral economies, especially in the export sector.

Tavares points out that over time, the expansion of exports in peripheral countries started a "fairly intensive" process of urbanization and an incipient industrialization process, limited to less complex activities, mainly focused on low-technology consumer goods (Tavares, 1964, p. 1), aimed at the domestic market. However, this small industrial sector, alongside the subsistence agricultural sector, "was insufficient to impart to the domestic economy a vigorous growth of its own" (ib.) for peripheral economies, whose dynamism dependent on external demand for primary products.

Tavares (1964) argues the Great Depression of the 1930s was the critical point in the decline of the primary-export Latin America economies, due to the rapid deterioration of the terms of trade and the reduction in the level of foreign trade. From then on, a new phase begins in the region, as the attempt to counteract the negative effects of the great depression led to a larger level of government spending and the crisis itself led to some reduction in the import content, particularly of the demand for simpler consumer goods. This process of import substitution led to a "change in the economy's growth factors": "The external growth factor, exports, yielded first place to the internal factor, investment, and the amount and composition of investment were what determined the continuation

[7] Before Tavares, Furtado in his classic *The economic growth of Brazil* (1959[1963]) (see also Furtado, 1954, Ch. 4), used a Keynesian perspective, arguing that Brazilian growth before 1930 was mainly determined by the growth of its primary exports and their quite modest multiplier effects due to the very high propensity to import. According to him, the 1929 crisis and the collapse of coffee prices in international markets then lead to a "shift in the dynamic center", and growth began to be led by the expansion of the domestic market instead of primary exports (Furtado, 1959[1963], Ch. 32). This shift occurred first through expansionary fiscal policies adopted in response to the crisis, then via the growth of the domestic market with the "import substitution" process leading to the growth of private investment. Tavares (2014) credits Rangel in this topic too: "Rangel was also a pioneer in the analysis of the import substitution process. I wasn't the pioneer, he was. On the contrary, I even learned a lot from him." See Rangel (1954[2012]).

of the development process" (Tavares, 1964, p. 3).[8] As the existing market demand previously met by imports begins to be met by domestic production, domestic income rises and imports shift from simpler consumer goods, to capital goods and industrial inputs and more complex consumer goods. This in turn generates a renewed external constraint, and leads the State to implement a new wave of substitution of these imports, and so on.

Tavares (1964, p. 6) notes that, after the initial stage, for expansion to be possible even in these sectors of less complex final goods, there is a need to substitute some intermediate and fixed capital goods, given the existing limitations in import capacity. In the case of intermediate and semi-finished goods and some types of capital goods, substitution would be easier, given the lower import requirements, depending on the availability of natural resources in each country. Thus, it is practically impossible for the import substitution process to occur from the base to the top of the production pyramid, that is, starting with the least processed consumer goods and progressing slowly until reaching capital goods (ib.).

Tavares (1964, p. 7) further notes that, given the nature of the import substitution process, the choice of goods to be replaced "cannot be made in the light of a static conception either of the domestic market, or of the import structure at a given moment, or of both". This process requires "autonomous decisions that can be looked for only from the State, or occasionally from the very few entrepreneurs of the 'innovating' type" (id.). [9]An example of this would be "basic investments" made directly by the government, or private companies supported by it, in addition to investments induced by the domestic market, benefiting from economic policy decisions, generating transformations in domestic productive capacity. [10]

In this stage of deliberate State-led industrialization, a more significant local capital goods sector is developed. The process of import substitution entails an increase in the domestic content of investment (from a very low base) and more substantial increases in the domestic content, first of the demand for simpler consumer goods, then for the demand of more sophisticated and durable

[8] However, exports continue to play a crucial role in the growth process, generating foreign exchange to pay for imports and "it became the decisive factor in diversifying the structure of production, through imports of equipment and intermediate goods" Tavares (1964, p. 6). Note that Tavares clearly distinguishes between the two roles of exports, as a source of autonomous demand and as a means of acquiring foreign currency. The former role is relevant as a direct determinant of actual demand-led growth and the latter for the balance-of-payments constraint to growth, often conflated in much of the literature, as pointed out in Medeiros and Serrano (2001).

[9] In her own words, "This implies, on the one hand, that not all investment can be purely induced by current demand and, on the other, presupposes a capacity for foresight and autonomous decision-making that can only be attributed to the State and/or to a small number of exceptional innovative entrepreneurs. (…) The term is employed here in the Schumpeterian sense. Thus, while the existence of considerable entrepreneurial capacity (…) is not denied, it seems reasonable to regard as rare the 'innovative' type, endowed with a long-term vision capable of anticipating opportunities arising from the opening of new lines of productive activity" (Tavares, 1964, p. 7, fn. 9).

[10] Regarding the external constraint associated with import capacity, i.e., the availability of foreign currency, could be achieved through "an increase in the purchasing power of exports, with or without an autonomous or compensatory inflow of foreign capital" (Tavares, 1964, p. 7), which also required deliberate action from the State.

consumer goods. This, together with rising government (and state-owned-enterprises) investment in infrastructure and other strategic sectors, led to faster growth. This process of growth with structural change continued, although at a slower pace, even after the domestic content coefficients, particularly on new investment, stopped rising as the newly installed sectors demanded more sophisticated, and difficult to produce locally, foreign inputs and equipment. This structural approach to demand-led growth applied to developing economies by Tavares (1964) was one of the first and very few analyses that emphasized the role of effective demand to the process of capital accumulation for developing economies[11].

3.Tavares on effective demand, distribution and capital accumulation

3.1 Demand-led growth and the critique of stagnationism

The second point in our list of Tavares' contributions to our topic, is her rejection of the association between the view that effective demand constraints matter in the long run with any form of a priori assumption about a tendency towards economic stagnation. Tavares is thus contrary to the stagnationist view of many authors who embraced demand-led growth (Hansen, 1939; Sweezy, 1942; Steindl, 1952). This point is first stressed in the paper "Beyond stagnation" by Tavares and Serra[12] (1971).

One of the main purposes of that paper was to provide a critique of Furtado's (1966) thesis that Brazil was then doomed to long-run stagnation, from the supply-side. In (1966) growth was assumed to be consistent with Say's law in the long run, i.e., the rate of growth was explained by the share of saving on output divided by the capital to capacity output ratio (Serrano, 2001). Using this framework, Furtado (1966), by assuming that workers don't save, argued that the investment share on capacity output would be determined by capitalists' propensity to save and the profit share. The latter was increasing in Brazil at that time because productivity grew faster than real wages, directly increasing the saving share. However, this would come together with the adoption of imported capital-intensive techniques that are assumed to increase the technical capital to capacity output ratio. Furtado then further argues that the latter effect would be so strong that the profit rate would fall and with it the rate of accumulation and growth of the economy (Bastos and D'Avila, 2009, pp. 181-191).

[11] In contrast, Furtado abandoned the idea of aggregate effective demand playing a role in the explanation of long run growth, reverting to his earlier view (Furtado (1951[2007], pp. 210-215, and Furtado (1954, Ch. 6, pp. 204-208)) that growth is determined by the ratio of the aggregate propensity to save to the full utilization capital-output ratio in all his subsequent work, starting with Furtado (1961[1964]) (see also section 3.1 below). For the presence of Say's Law in Furtado's analyses, see Serrano (2001, pp. 139-142).

[12] At the time, José Serra was Tavares' colleague at ECLAC.

Tavares and Serra (1971, pp. 906-916) criticize this interpretation. First, by by showing that in his scheme higher labor productivity leads to a higher capital-labor ratio but does not necessarily imply an increase in the capital to capacity output ratio, let alone an increase large enough to reduce the profit rate at full capacity utilization.[13] Second, and more importantly, by abandoning Say's law and then distinguishing the concepts of technical capital to capacity output ratio from the actual capital-output ratio, the latter affected by the actual degree of capacity utilization.

Based on this distinction, Tavares and Serra (1971, pp. 916-918) argue that a higher actual capital-output ratio observed in the period in Brazil was just a result of a lower actual degree of capacity utilization. This was due to the completion of a large five-year investment Plan (1956-1960) carried out by the Brazilian federal government that created a lot of new capacity. Thus, the Brazilian stagnation between 1962-67 was a result of the slowdown of effective demand.[14] Business investment slowed because of a lower expected realized profit rate – resulting from both lower profit margins and lower utilization of existing capacity – and this together with a fall in public investment had led to the growth slowdown.

The recovery of the Brazilian economy from 1967-70 was also explained via effective demand. Basically, they argued that besides increasing the profit share, the military regime after 1964 implemented financial reforms that had a positive impact on some components of autonomous demand, particularly credit financed consumption of durable goods. Moreover, public investment made by both the government and state-owned enterprises also started growing at fast rates. The growth of these components of demand, they argued, more than compensated the slowdown in consumption of lower paid workers, leading to a higher rate of growth of demand and output (Tavares and Serra, 1971, pp. 921-29).

3.2 No necessary connection between distribution and accumulation

In the analysis above Kalecki is not explicitly mentioned. But a Kaleckian connection is made explicit in a subsequent paper. While Tavares (1971[1972]) main purpose is to discuss financial development and in particular finance capital, this paper also complements the analysis of Tavares and Serra

[13] Moreover, as Vernengo (2022, p. 282) points out, we know from the so called Okishio theorem, which shows that technical change at a given real wage cannot reduce the rate of profits, as that firms would simply not adopt techniques, like those that are assumed to be adopted by firms by Furtado (1966), that increased total unit costs and lowered the rate of profits at capacity output.

[14] Regarding the view that developing economies had a small economic surplus to invest, while rich economies had a potential surplus that was too large relative to investment opportunities, Tavares and Serra (1971, p. 928) say : "One could say (...) that Brazilian capitalism combines the worst of both worlds: while it is socially exclusionary, it presents problems typical of mature capitalism (...), there is simultaneously an excess and a scarcity of surplus, given the polarized nature of its accumulation, which determines the existence of internal problems of scarcity of investment opportunities – "excess savings" – compared to the possibilities of profitable investment".

(1971). The paper quotes Kalecki's (1954) theory of effective demand in which the mass of profits is determined by investment and capitalist consumption and the multiplier by the profit share, and in a footnote explains how she is adapting this to the analysis of the Brazilian economy:

> [i]n the simplified Kalecki's model, capitalist consumption would correspond to the urban consumption of the upper and middle strata. The model assumes that wage earners' consumption is approximately equivalent to the wage bill and, as such, does not generate any significant or measurable savings. (Tavares, 1971[1972], p. 238, fn. 15. Our translation.).

In spite of the adoption of a Kaleckian perspective in which output depends on effective and in which the marginal propensity to consume of workers is assumed to be quite high, meaning that the direct effect of an increase in the share of profits would be to decrease worker's consumption and aggregate demand and output, Tavares and Serra (1971) denied that the income concentration observed after the 1964 military coup would be an obstacle to the expansion of output. They did so because they saw that the military regime's growth strategy in Brazil could (and did) lead to a fast expansion of autonomous components of demand, linked to the high-income strata (the minority of the population) despite slower growth in consumption by lower-wage workers (the vast majority of the population), whose real income suffered a substantial reduction after 1964, when the new regime was established (Tavares and Serra, pp. 939-947).

This is connected to Tavares' third point, i.e., the fact that under demand-led growth there is, of course, no inverse relation between consumption and investment in the long run[15]. Hence, there is no direct necessary connection between distribution and accumulation, which can be related quite differently across different growth regimes.

This general point is driven home very comprehensively in her two theses in which she makes a pioneering and very original adaptation of Kalecki's three-department schemes of reproduction[16,17]. She used the latter to study different possible changing patterns of relations between distribution, technical and structural change, and the long run path of capital accumulation in developed and developing economies. She also applies it for the specific case of Brazil (Tavares, 1973[1975];

[15] The single instance of an inverse relation between investment and consumption that we find in Tavares' work: "[i]nflation appears to have functioned, in the context of Brazilian development until a few years ago, not only as a mechanism of forced saving (in an aggregate sense)" Tavares (1967[1972], p.131). Tt is not clear if she is referring to a short or long run relation, and what is the exact nature of the aggregate supply constraint that would be leading to the need for forced savings. Nevertheless, in a subsequent work also dedicated to the topic of financing development, the need for forced saving is clearly absent (Tavares, 1971[1972]), and the notion of forced savings is also not found elsewhere in any of Tavares' works.

[16] The first thesis, *Acumulação de capital e industrialização no Brasil* ["Capital accumulation and industrialization in Brazil"], was a 1974 Habilitation Thesis defended and the second*, Ciclo e crise: o movimento recente de industrialização brasileira* ["Cycle and Crisis; the recent movement of Brazilian industrialization"], a 1978 Full Professorship Thesis, both at UFRJ.

[17] Though mentioned briefly in Kalecki (1954b), Kalecki's main papers related to his reproduction schemes used by Tavares – Kalecki (1967[1991]) and Kalecki (1968a) – had been made more widely available quite recently when they were published in Kalecki (1971a).

1974[1998]; 1978[1998]; 1981[2024]; Tavares and Belluzzo, 1978[2023]; Tavares, Possas, and Façanha, 1978).[18]

Tavares (1974[1998], p. 14) states she would "radically distance herself" from the ECLAC's prevailing views on the internal determinants of capital accumulation (but not on the analysis of external constraints). This view assumes that full capacity saving determines investment in the long run. Given the very different propensities to consume of the social classes, this implies that the profit share increase usually tends to increase the rate of accumulation and long run economic growth, through its impact on increasing the aggregate propensity to save. Tavares clearly states that she will base her "central macroeconomic view" on Kalecki's principle of effective demand (Tavares, 1974[1998], p. 16. Our translation.).

By doing so, she can then separate analytically the determinants of output from those of distribution, as done by Kalecki. The former is determined by effective demand, while for the latter she proceeds along classical lines, seeing real wages as determined by the relative bargaining power workers and firms. This determination is made more complex in the case of modern oligopolistic capitalism with persistent large sectoral profit differentials and mediated by institutional and political setup – "[t]he stratification of the industrial 'labor market' and the Government's wage policy" (Tavares, 1973[1975], p. 47. Our translation.).[19]

For her, in this separate determination of output and functional income distribution, distribution has been seen as a parameter, to be taken as given in the determination of effective demand and output. Therefore, there can be no necessary connection between income distribution and the rate of accumulation, because the share of the surplus and the corresponding aggregate marginal propensity to save determines only an upper limit to the feasible rates of capital accumulation and growth of the economy, but definitely not its actual long run trend, that could lie much below that. In her own words

> The initial wage rate does not determine the pace of accumulation, nor does the latter determine the wage rate; it merely sets its upper bound. In the long run, capital accumulation will return to its own

[18] An analysis of the historical process of economic development in Brazil, as the formation of a specific type of capitalism called late capitalism, in Brazil, consistent with this theoretical framework, was provided by Cardoso de Mello (1975) a Tavares' colleague. Both Cardoso de Mello (1975) and Tavares (1974) acknowledged their strong mutual influence. Their joint paper (Cardoso de Mello and Tavares, 1985) on the "capitalist export economy" in Brazil between 1884 and 1930, expands the analysis found in Cardoso de Mello (1975, chap. 2.2). A similarly compatible account of the very uneven development of Brazilian regions was provided by Cano (1975), another colleague of Tavares.

[19] In her work, despite Tavares' emphasis on oligopolies, she never subscribed to the view that profit shares can be determined unilaterally by firms and money wage bargaining is futile. And she explicitly approvingly quotes the only paper in which Kalecki does not make this extreme assumption (Kalecki, 1971b). The determination of the level and the structure of real wages along these lines is further detailed in Tavares and Souza (1981) and Tavares (1981[2024]). This approach for the analysis of the endogenous labor supply, the role of the informal sector, the dynamics of the labor market and the level and structure of real wages can be found in Baltar (1977), Souza (1979), Souza and Baltar (1979), Souza (1980) and also in Medeiros (1992). Baltar and Medeiros were students of Tavares, while Souza was her colleague and they all explicitly acknowledged her influence in these works.

> trajectory, adjusting to whatever wage rate has previously been attained and can be sustained by the working class. (Tavares, 1978[1998], p. 27. Our translation.).

Following Kalecki, for Tavares, while the aggregate mass of realized profits will depend on the expenditures of capitalists (as well as other autonomous sources of demand), the profit share is explained by the technique in use and the above-mentioned bargaining factors. As stressed by Kalecki (1968b), the combined effect of these assumptions is to make the average of the actual degree of capacity utilization (and the realized rate of profits) endogenous in the long run. This is the key macroeconomic adjustment variable in a long run analysis of capital accumulation completely free from Say's law.[20]

The fact that distribution is logically taken as given, when determining the levels of output by effective demand does not at all mean that distribution is to remain constant or be unaffected by the structure and overall pace of demand-led growth and capital accumulation. According to Tavares (1978[1998], p. 25):

> [t]he distribution of production among the three sectors determines, based on the "structural parameter", the effective distribution of spending and income. However, the organization of workers can put pressure on the wage rate, given that employment will necessarily grow with current production during the expansionary phase. Ultimately, "capitalists earn what they spend", and what capitalists as a whole earn depends on the sectoral structure of spending driven by inter-capitalist competition. Workers "spend what they earn", but the determination of the **wage bill** depends in part on their ability to resist. Thus, the overall distribution of income and production is not determined a priori by the mark-up, that is, by the profit margin arbitrarily set by companies on their primary costs, or by the "rate of exploitation" desired by capitalists. It is determined by the structure of production and spending in a growing system and by the combined movement of competition between capitalists and workers. (Emphasis in the original. Our translation.).

Here, Tavares shows not only that the initial structural parameters may change endogenously in the process of accumulation, but she also considering, as in Kalecki (1967[1991]), that the initially given wage shares of value added in each of the three departments can be different from each other. This occurs both because of different levels of labor productivity in each vertically integrated department but also because of different gross profit margins and different average real wage costs (reflecting the different wage structure) in those departments. That is why she mentions that not only the overall pace of output and employment growth (affecting the bargaining power of workers and real wages) but also its sectoral (departmental) composition will affect the course of the actual wage share of the economy as a whole.

Moreover, in this approach, once it is considered that, in macroeconomic terms, investment determines aggregate saving, and the financing of investment, in turn, depends on access to money (based on their stock of accumulated retained profits, or by issuing new debt), and not on a notion of

[20] On the degree of capacity utilization as a long run adjustment variable in Kalecki, see Serrano (1995b).

real full capacity saving. Although the recognition that what is relevant for investment decisions is not savings but rather access to adequate monetary financing mechanisms was already present in Tavares (1964, p. 56), in Tavares (1978[1998], chap. 1.3) the relationship between "savings, investment and financing" is directly addressed at a theoretical level. According to Tavares:

> When capitalists decide to invest, they can do so with their own capital, that is, "savings" (accumulated profits from the past), or with third-party capital, that is, with debt. They cannot decide what they will earn and therefore also not what they can save *ex-ante*. (Tavares, 1978[1998], p. 35. Our translation.).

3.3 Autonomous non-capacity generating expenditures

The fourth point of our list regards her emphasis on the important role of growing levels of the autonomous part of capitalist consumption as a stimulus, instead of a hindrance, for long run capital accumulation, both in advanced but also in developing economies.

The same is valid in more general terms for autonomous expenditures that do not generate new capacity for the private sector of the economy. We saw that Tavares (1964) already stress the importance of government investment to demand-led growth to which Tavares and Serra (1971) and Tavares (1971[1972]) add durable goods consumption. In her theses, Tavares further elaborated and clarified these ideas, adding the importance of residential investment (Tavares, 1978[1998], pp. 149-150). Following Kalecki, Tavares (1974[1998], p. 33.) states that capitalist consumption is "a component of effective demand that is as important as investment spending from the standpoint of the dynamic realization of profits within a process of accumulation." (Our translation.).

Connected with her emphasis on "capitalist consumption", in her three-department scheme, she highlighted the role in the productive structure of the associated vertically integrated department DII that supplies this part of demand[21]. Advanced countries faced historical periods in which the real wages of less qualified labor were low, and thus workers could not afford the same types of goods bought by the elite. In that time, this treatment of the DII as a separate department from the DIII – that produced basic wage goods – was important to the understanding different patterns by firms.

Particularly, different patterns of accumulation by firms and the key role played by competition through product innovations and differentiation for those operating in the DII, as opposed to the emphasis on process innovations and general cost reductions for the latter.[22] In these countries, however, over time the absolute levels of base real wages increased, and workers started to consume simpler versions and smaller quantities of what became more or less the same commodities and thus,

[21] "Capitalist consumption" can be understood more generally as autonomous expenditures that consume part of the economic surplus but do not increase capacity for the domestic private sector of the economy.

[22] Here she explicitly recognizes (Tavares, 1974[1998], pp. 32-33) that the separation between distribution and output and accumulation gives different roles for the "DII", which is irrelevant for distribution for Sraffa, but at the same time is very important for output and accumulation for Kalecki.

from the standpoint of the technical conditions of production, the DIII tends over time to become more homogeneous with the DII and may be considered from the point of view of supply indistinguishable from the DIII. Ultimately, they may be fused in a single general department producing consumption goods (Tavares, 1974[1998], pp. 34-35). However, from the point of view of demand generation the distinction between the basically autonomous trend of capitalist consumption and the largely induced consumption out of wages keeps being crucial.

In the case of the productive structure of the low-wage late-industrializing developing countries, that were in a phase in which State-led industrialization was made via import substitution, according to Tavares' schemes, many goods that were previously consumed by the elite and imported from abroad come to be produced domestically, often by multinational corporations establishing a local DII. Once this structural shift is set in motion, there were strong tendencies for the establishment of a pro-industrialization power coalition combining the interests of local business, local branches of multinational corporations and the developmental state to pursue a socially exclusive pattern of accumulation with government doing nothing (when not deliberately pursuing wage repression) about rising income inequality, since the expansion of demand for these newly domestically produced goods is driven primarily by upper- and middle-income groups. These peculiar developmental priorities lead to specific policy measures such as the promotion of consumer and housing credit for higher income groups, and guides the orientation of the provision of public investment (i.e., roads for cars, rather than public transportation) and even of the investment priorities of state-owned-enterprises (geared to the needs for cheap inputs or provision of utility services for the firms operating in the DII). This particular pattern of development can lead to very fast rates of accumulation for the economy as whole, as both the DII and DI grow at fast rates, while the growth of the DIII lags behind. This particular pattern of development is not seen as inevitable, but Tavares argued that the one chosen in many developing countries and especially in the case of Brazil after the 1964 military coup.[23]

Indeed, in Tavares (1973[1975], pp. 63-64) we find:

> The saturation of investment opportunities (…) corresponds to the normal dynamics of a cycle in which the deceleration and crisis of Department I are followed by the deceleration and crisis of Department II and, finally, by the deceleration of Department III. This is the natural sequence in an industrial cycle once all three Departments are already present and exhibit an internally intertwined dynamic of

[23] In fact, in Tavares (1964), written before the 1964 military coup in Brazil, this particular strategy was already seen as one of four alternative ways through which fast growth could be resumed. Despite that, Tavares' three-department analysis was wildly misinterpreted. The most common misinterpretation (so common that it would perhaps be unfair to quote a specific example) was that she held that income concentration was "functional" for growth in a literal sense, establishing a definite necessary relation between distribution and growth, that she rejected. Another curious interpretation was that of Wells (1977), that labels her views as "underconsumptionist", which is remarkable as Tavares is in fact referring to a pattern of accumulation in which the capitalist consumption grows fast, while in underconsumption theories growth presumably falters by lack of consumption from workers. Moreover, Wells (1977) argues that since cheaper durable consumer goods were already consumed by low-income workers in Brazil since the 1950s, the rise in income inequality would have decreased the market for these goods, contrary to what Tavares argued. Saboia (1983) refuted this claim empirically showing that the market for these goods increased faster in the period of rising inequality.

> expansion. (…) The recovery occurred (…) through an additional reduction in the basic wage rate and a sharp increase in the rate of exploitation. The recovery path was therefore entirely "asymmetric" and was realized fundamentally through the recovery of public investment and the accelerated expansion of capitalists' consumption, preceding the recovery of private investment and preventing the expansion of workers' consumption. (Our translation.).

Tavares also discussed autonomous spending carried out directly by the state. In Tavares (1974[1998], pp. 99-109), she analyzes the possible role of public investment as a "stabilizer" of the expansion cycle of "semi-industrialized economies". Without distinguishing between public investment by state-owned enterprises and that made directly by the government, such as in infrastructure projects, Tavares indicates a potential destabilizing role for public investment in these economies due to its political subordination to the needs of the private sector. In her view, this would make it "practically unfeasible as a compensatory mechanism in the declining phase of the cycle." (Tavares, 1974[1978], p. 103. Our translation.). Nevertheless, this does not prevent Tavares from pointing out that public investment plays an important role as a component of "'autonomous government demand' (...) as a safety limit that prevents, or at least can prevent, prolonged stagnation and helps to maintain a minimum growth rate, even in periods of depression." (id.), therefore playing the role of putting a lower bound to the growth rate of the economy.

In Tavares (1978[1998], pp. 121-122), she returns to this theme noting that investments by state-owned enterprises, even if not directly required to be immediately profitable, do in any case create productive capacity and this can lead to discontinuities and potentially destabilizing pro-cyclical effects. But public investments directly made by the government (as well as social spending) could play a central role as a source of autonomous demand, serving as a stabilizing mechanism for the cycle and guaranteeing a minimum trend rate of growth:

> [c]onventional public investment (…) exhibits a much higher degree of "autonomy" (in the Keynesian sense). It can, in fact, generate effective demand through autonomous expenditure, which is independent of market expansion and serves as a stabilizing mechanism over the business cycle. Construction programs and social expenditures, (…) represent a guaranteed **minimum** rate of growth of domestic demand. The creation of new production capacity by large state-owned industrial companies is, on the contrary, highly destabilizing, due to the discontinuity and scale of their investments. Moreover, once current production begins in the new plants, it requires industrial markets distinct from those of the state-owned sectors. (Tavares (1978[1998], p. 121. Author's emphasis. Our translation.).

4. Final Remarks: The debate on effective demand

In the late 1970's to the early 1980s, Tavares and some her colleagues and students participated in a debate that became known as the "effective demand controversy". The discussion started with Coutinho and Belluzzo (1977) and Coutinho (1979), both Tavares' colleagues, presenting presented a demand-led explanation of the slowdown of growth, as being directly caused instead by a lower expansion of autonomous investment, the latter being ultimately a result of the exhaustion of a

Postwar war long wave of technical change. This slowdown of autonomous investment by its turn, reduced both the growth of induced investment and consumption, and the lower rate of capital accumulation reduced the growth of embodied technical progress and labor productivity. And these lower growth rates of productivity were seen as the ultimate causes of the aggravation of the ongoing distributive conflicts.

Antonio Barros de Castro, a leading Brazilian structuralist economist, and also a colleague of Tavares responded in a 1979 book, presenting an alternative interpretation of the growth slowdown. In Castro (1979, Ch., VI) the end of the Postwar Golden Age of growth is interpreted as the result of a marked increase in the intensity of class conflict since the late 1960s. According to him, the ensuing increase in the wage share, by reducing the general rate of profits, directly reduced the full capacity saving of capitalist and thus investment, reducing the rate of accumulation, through this "profit squeeze" mechanism [24].

Castro (1979, Ch. V; 1980) also directly criticized Kalecki's theory of effective demand which, according to him, held that capitalism has a chronic long run demand "deficiency" and thus an inherent tendency towards stagnation. In Castro's view, the relevance of effective demand should be relegated to the short-run and capitalism, due to its intrinsic dynamic competitive forces, would somehow always find a way to resume growth. Castro (1979) additionally criticized Kalecki for having an excessively mechanical theory of the business cycle and defends a return of more historical descriptive explanations of the business cycle in the tradition of Schumpeter (1939[1962]). And Castro further accuses Kalecki of "retroceding" to the idea that saving determines investment, by making current investment to depend in part of lagged gross saving.

In fact, the first reply to Castro – defending Kalecki's views – was provided by Tavares' students Possas and Baltar (1979[1981], pp. 112-116)[25]. They argued that effective demand should not be seen as a problem, but a "solution", in the sense that effective demand should not be seen relevant only when there is a crisis, but it is what explains in general the levels of output and influences capital accumulation in capitalist economies. Effective demand and the dual role of investment, as emphasized by Kalecki are important both for the cycle and the trend, and are equally important for fast or slow growth periods.

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[24] Serrano (2004), following Steindl and Garegnani (see Steindl, 1952[1976, preface]; Cavalieri, Garegnani and Lucci, 2008), points out that, in the advanced countries, the slowdown in labor productivity growth as well as the fall in the investment share happened only after the mid-70s and that the rising distributive conflict started with the wage explosion of the late 1960s. But the initial rise in real wages and inflation did not directly slowdown private investment and growth in the advanced countries. Indeed, the slowdown in growth actually happened only in the mid-1970s, as accelerating inflation led to changes in economic policy regimes that turned towards controlling inflation, instead of stimulating growth. So distributive conflict was indeed an important cause of the growth slowdown, but not through any direct effect of distribution on private investment, but instead indirectly because of its ultimate effects on economic policy regimes.

[25] Castro (1980, p. 121, fn. 6) points out that the first 1979 version of the Possas and Baltar (1981), is an explicit reply to Castro's (1979, Ch, V).

As for Kalecki's analysis of the business cycle, Possas and Baltar (1981) reply that Kalecki's formal analysis, far from being "mechanical" is in fact essential to a proper understanding of the complex dynamics of the demand and capacity effects of investment in the cyclical mechanism of a capitalist economy. And argue that the influence of past saving in his model is meant to represent the stimulus that retained earnings may have in easing financial constraints on investment. This particular way of formalizing this effect as the automatic reinvestment of part of earlier realized profits, while being less than ideal, does not at all imply a return to the doctrine of aggregate saving determining investment, because in Kalecki's model, the saving of the previous period is itself entirely determined by the previous level of aggregate investment.

Belluzzo and Tavares (1981), later replied to Castro, but, with a defense of effective demand in terms of it being a theory of the instability of capitalism and of the short-run volatility of investment, based on Keynes (1936; 1937). Castro (1981) in his rejoinder correctly noticed that Belluzzo and Tavares (1981) did not address the key issues related to Kalecki and long run relevance of effective demand and argued that they seemed to have based their reply on Minsky's (1975) interpretation of Keynes, instead of Kalecki and Steindl.[26]

This important debate led to the further development of the analytical framework provided by Tavares for the analysis of demand-led growth, in particular in what concerns the determinants of business investment. This task was performed by Tavares herself (especially in what regards the interpretation of the autonomous component of innovative investment) and also by some of her students (focusing on the further development of the induced component of investment and the connections between trend and cycle) from the 1980s to the mid- 1990s.

And since the mid-1990s, the studies of some of her students further lead to two different and currently very active research agendas based on alternative views on the determinants of investment that modified, but sprang directly, from Tavares' contributions: i) the "Financialization" approach, originally developed by Braga (1985; 2000), according to which in the most recent phase of contemporary capitalism investment is considered entirely autonomous; and ii) The Sraffian supermultiplier demand-led growth model (Serrano (1995a; 1995b)), which takes business investment as entirely induced. Tavares' own analysis of the determinants of investment, and these developments since the early 1980s, including the two research agendas mentioned, will be the subject of Part II of our study.

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[26] Indeed, Tavares (1996, p. 146) attributes her understanding of Keynes's work to her collaboration with Belluzzo at Unicamp.

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