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Income Inequality and Sustainable Prosperity: *Lessons from the not Distant Past*

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Abstract

This work shows that the reduction of income inequality as a central element to improve the quality of life of society is an important component of the structuralist tradition in development economics. We study the views on income distribution followed by the structuralists of the 1940s and 1950s. We emphasize how their ideas offer policy tools to deal with current issues of inequality. Although different structuralist traditions share many concepts and views (such as the relevance of sectoral imbalances and the importance of achieving economic growth by the expansion of sectors with high productivity), they have differences. For example, in the Anglo-Saxon view developed and developing countries share a mutually beneficial set of relations, which is a belief not shared by the Latin American approach. The most relevant conclusion that the structuralist tradition provides is that the role of markets in producing the desired changes in the economic structure is dubious; hence planning, industrialization policy, and government intervention play a central role in the process of economic growth and the reduction of income inequality.

Keywords: Income Distribution, Structuralism, Economic Growth, Prosperity.

JEL codes: B54, B53, O34, O43, O57

Introduction

This work studies the ideas of the structuralists of the 1940s and 1950s on income distribution to provide a policy framework that connects inequality issues and economic growth in developing countries. We study two groups of structuralists, the Anglo-Saxon (A-S), and the Latin-American (L-A). Two reasons make our disaggregation relevant and different from the existing literature: First, studies where the distinction between A-S and L-A structuralism are clearly made (e.g. Vernengo 2006 and Sanchez-Anochea 2007) traditionally focus on economic growth; the attention paid to income distribution is minimal. This work seeks to reconcile this gap in the literature.

Second, our disaggregation allows us to highlight that efforts of thinking about issues of income distribution are also made in developing countries, and not only in developed. Hence in regards to income distribution, we expect to learn something different from L-A structuralists than we do from proponents of A-S.

The succession of economic traumas such as the Mexican financial crisis of 1994, Brazil's currency crisis of 1998-1999 and Argentina's crisis of 2001 has revived interest in the intellectual contribution of the structuralist literature of the 1940s and 1950s as well as the so-called late structuralists. We believe that the structuralist tradition can provide policy tools to deal with current issues of inequality.

In the remainder of the paper, we first highlight the views of the structuralist tradition in regards to the study of income distribution, and compare the A-S and L-A traditions. Section three discusses how these ideas can be used to understand current inequality issues; specifically we wish to highlight policy tools. Section four offers a conclusion.

I. Two Views on Income Distribution

Although the structuralist tradition can be characterized by a set of ideas and policy recommendations, there are differences within this tradition. We study those differences in this section. We limit our discussion to the writings considered to be the main contributions to the structuralist literature. We undertake this approach for two reasons. First, we wish to know what the authors had to say on income distribution topics strictly in the context of their main writings in the structuralist school. Secondly, this study becomes more tractable if we limit ourselves to a select group of writings.

We consider A-S structuralists to be those identified as the pioneers of this tradition in the works of Chenery (1975), Shapiro and Taylor (1990), and Gibson (2003). We consider L-A structuralists those identified by Sunkel (1989), Bielchosky (2009), Di Filippo (2009), and Vernengo (2006) as the pioneers of this tradition in Latin America. Table 1 shows the authors that we cover in this study.

Table 1. Anglo-Saxon (A-S) and Latin-American (L-A) Structuralists

Author	Publication	Language	Institution	School
Paul Rosenstein Rodan	Problems of industrialization of eastern and south eastern Europe (1943)	English	University College London	A-S
Ragnar Nurkse	Problems of capital formation in Underdeveloped countries (1953)	English	Columbia University	A-S
W. Arthur Lewis	Economic Development with unlimited supplies of labor (1954)	English	The Manchester School	A-S
Gunnar Myrdal	Economic Theory and underdeveloped regions (1957)	English	UN-Stockholm University	A-S
Albert O. Hirschman	The strategy of economic development (1958)	English	Yale-Columbia University	A-S
Raúl Prebisch	The Economic Development in Latin America and its principal problems (1949)	Spanish	UN-ECLAC Santiago	L-A
Juan Noyola	Inflation and Economic Development in Mexico and Chile (1957)	Spanish	UN- ECLAC Santiago	L-A
Celso Furtado	The Economic formation of Brazil (1959), Development and underdevelopment in Latin America (1961)	Portuguese	UN-ECLAC-Santiago	L-A

Source: Author's own elaboration based on criteria 1) and 2)

1. Main ideas

Following Chenery (1975), Shapiro and Taylor (1990), and Gibson (2003), the main ideas that characterized the structuralists of the 1940s and 50s are the following:

1) Focus on the long run analysis of changes in the economic structure. Because of bottlenecks, obstacles and rigidities, changes in the economic structure were difficult. Structuralists were interested in identifying and overcoming such bottlenecks and rigidities.

2) Developed and developing countries have different economic structures and believed that in developing countries the economy is inflexible (i.e. supplies and demands are very inelastic). For example, the demand for agricultural goods is price inelastic. Hence supply and demand adjustments were slow, and required large changes in relative prices. Such changes in relative prices affect income distribution.

3) Belief in government intervention and economic planning rather than the role of markets in producing the required changes in the economy. The price system was not a good signaling mechanism due to market failures (e.g. monopolies, economies of scale, and rigidities).

4) Emphasis in the distinction between sectors of high productivity versus sectors of low productivity. For example, modernization of low productivity sectors (e.g. agriculture) via industrialization was necessary to achieve high and sustained levels of economic growth in the long run.

2. Views on Income Distribution

In this section we focus on the views of the structuralists as they pertain to income distribution. We present the ideas of the A-S and then L-A structuralists. The section closes with a comparative analysis.

Anglo-Saxon Structuralists

Rosenstein-Rodan (1943), a pioneer of the A-S structuralism, emphasized the importance of large scale investment programs, in order to industrialize countries with large agrarian excess population, and to take advantage of the complementarity effects among different industries. Such complementary effects appear when production in one sector becomes profitable due to the production expansion in other sectors. Rosenstein-Rodan's example of the shoe factory makes this point.

Rodan's observation that "agrarian excess population" remains unemployed in developing countries can be seen as the departure point for income distribution analysis. If large investments programs are directed towards industrialization, developing countries will be able to employ the surplus population and increase the income level of society. Reduction of income inequality is expected to happen after surplus population has been continually absorbed.

One limitation of this view is that other factors such as increases in prices, government policies and land ownership may also affect the distribution of income and are not taken into account. Hence a theory of income distribution would need to assume that if other factors affecting inequality remain constant, when the country is able to employ the surplus labor (via large investment programs on industrialization), inequality will decline and poverty traps will be avoided.

For Nurkse (1953), large investment programs are also important, but what distinguishes him from Rodan is his emphasis on the reasons for low levels of demand and supply of capital. Factors such as the low purchasing power of society and the small size of the market make the demand for capital in poor countries low. On the supply side, the low levels of production per capita, propensity to save, and productivity, are the causes for low supply of capital. Such low levels of demand and supply of capital create a vicious circle that keeps countries in poverty. The goal of the large investment programs is to break this vicious circle.

Although the lack of investment is limited by the size of the market, increasing returns to scale can make investment in many projects become profitable and advantageous. Hence large investment programs are the way out of the vicious circle. Both, Rodan and Nurkse, promoted the theory of the "Big Push," and shared the belief that government planning should follow the strategy of balanced growth, consisting of simultaneous investments in various sectors of the economy in the same proportion.

Income distribution within the country can improve if the large investment programs create jobs for the unemployed surplus labor, and increase wages as well as aggregate demand. However, the connection between breaking the vicious circle and changes in income distribution within countries is not straightforward.

Among the authors studied thus far, Arthur Lewis stands out in that his explanation of underdevelopment comes close to a comprehensive theory of income distribution within a country. In Lewis's approach the economy is seen as divided between a modern and a traditional sector. The interaction of these two sectors will largely determine the level of development and the distribution of income among different regions of the world but also within countries.

In his 1954 article Arthur Lewis presents the following ideas; 1) developing economies have a traditional (agricultural) sector, where rural subsistence workers have zero marginal productivity. For Lewis, the traditional sector has a surplus of labor. Labor can be taken away from this sector without any loss in output, 2) by contrast to the traditional sector, there is a modern urban industrial sector which receives the surplus labor from the traditional sector, 3) output expansion in the modern sector is what allows the absorption of surplus labor, 4) industrial investment and capital accumulation determine the speed at which the expansion of the modern sector occurs, 5) all profits are saved and reinvested while all wages are consumed; investment is concentrated in the modern sector and 6) labor is transferred from the traditional to the modern sector until the surplus labor is eliminated due to the virtuous circle of investment and profits.

For Lewis, the elimination of structural differences between the traditional and the modern sector is what drives economic growth in the first stages of development. Although Lewis (1954) is not presented as a theory of income distribution, Lewis points out that constant investment in the modern sector involves increases in income inequality (between modern industrial sector and the rest). However, for Lewis, this increase in inequality does not ensure a high level of saving, as capitalists might decide to spend their income on luxury goods or other non-productive investments instead of saving.

Lewis's (1954: 159) provides another insight on inequality when he writes, "inequality of income is greater in overpopulated and under-developed countries than in industrialized countries because agricultural rents are high in poor countries." In a later paragraph he provides the connection between rents, profits, and inequality by observing that; "the inequality that grows due to profits rather than the one that grows due to rents is that favors capital formation." The above quotation reveals that Lewis was aware of the relationship between land ownership and income distribution when he states that inequality in underdeveloped countries is high due to rents. He also clearly argues that inequality will increase during the first stages of development.

In Lewis's model, capital is created from profits earned in the modern sector, but capitalists also create capital from increases in the supply of money (interest from lending and borrowing). The implication of Lewis's observation is that inequality will rise during the outset of the industrialization process and inequality will start to decline once the surplus labor in the traditional sector wanes. This observation coincides with Kuznets's (1955) idea that as countries develop, income inequality first increases and then decreases.

Another leading contributor to the A-S tradition, A. O. Hirschman, advocated the strategy of unbalanced growth. The balanced growth strategy was not effective because it required large amounts of resources, planning, and disregarded the importance of dynamic comparative advantage. In Hirschman (1958), the central issue in developing countries was the ability of individuals and policy makers to make investment decisions. For Hirschman, policy should be directed toward the identification of and investment in a few dynamic sectors. These dynamic sectors would induce increases in supply (and demand) in related sectors through sectoral shortages and imbalances. Government should make productive investments in strategic sectors favoring those with strong linkages with the rest of the economy.

Hirschman shared with Nurkse and Rosenstein-Rodan the view that underdeveloped regions face the challenges of bottlenecks, constraints, and complementarities. The channels through which the unbalanced growth strategy would increase the income levels of poor countries are the same with one exception. An income distribution theory along the lines of Hirschman takes into account the role of the linkages among different industries as sectors become more interrelated. It is very likely that the benefits of the most dynamic areas will be distributed to the rest of the economy. Hence as the linkages of the dynamic sectors with the rest of the economy become stronger, the income level of the country will increase. Such benefits would spread in the economy as in the virtuous circle described by Nurkse. High levels of productivity, saving, capital formation, and more per capita income in the country would also ensue.

The last author in our list of A-S structuralists is Gunnar Myrdal, who opposed the use of equilibrium analysis and argued for a theory of circular causation, which lead to cumulative changes. In Myrdal (1957), factors tend to accumulate towards positive and negative cycles due to the “spread” effects (i.e. multiplier positive development effects) and the “backwash” effects (i.e. competitive impacts where expansion in one area of the economy reduces expansion in another area). These cumulative processes tend to move towards impoverishment and stagnation in developing countries because the price mechanism does not work well in these countries, making the “backwash” effects prevail over the “spread” effects. The tendency towards impoverishment becomes more dominant the poorer the country.

Inequality between different regions of the world (and within countries) is the social cost of the “free” play of market forces. According to Myrdal, prices are manipulated and are not the outcome of market forces. Prices depend on state regulation and on private business interests. For Myrdal, market prices are “political prices,” to subject developing countries to market forces, would accentuate international and domestic inequality.

The idea of a cumulative process, which creates negative and positive cycles is similar to the concept of virtuous and vicious circle in Nurkse. For example, Myrdal observes that as a country becomes richer, the “spread” effects become stronger relative to the “backwash,” allowing countries to leave the state of impoverishment and stagnation. As a country becomes wealthier, the “spread” effects gain strength relative to the “backwash” effects, which allows countries to transform the negative cycle (vicious circle for Nurkse) into a positive cycle, increasing per capita incomes and fostering economic growth. Whether income distribution within a country tends to increase or decrease during the process of economic development is not clearly established.

Myrdal’s view that prices depend on state regulation and private business interest is close to Juan Noyola’s idea that inflation is related to the bargaining power among the different social classes. What follows is an examination of the ideas of the L-A structuralists after which we will compare views on income distribution.

Latin American Structuralists

We start this section studying Raúl Prebisch’s seminal (1949) work, considered the manifesto of the L-A structuralism. In Prebisch’s view, the old, primary export-led model has three disadvantages that must be avoided: 1) the economic evolution of the primary export-led countries is highly dependent on countries at the center of the global economy. Economic fluctuations emanating from the center will be reflected in the periphery, making peripheral countries vulnerable to external fluctuations. 2) In a world composed of center and periphery economies, increases in productivity and income tend to benefit the central countries because, historically, the terms of trade have moved in favor of industrial goods and against primary goods. 3) In the periphery, primary export-led activities have not been able to absorb the surplus labor from rural and urban areas and increase productivity.

One component of Prebisch’s ideas on income distribution is his historical analysis of developing countries. In the center, new capitalist techniques take place, allowing technical progress to spread rapidly to all sectors of the economy, which creates a diversified structure of production. In the periphery, the use of new technology and innovation is not widely distributed, creating heterogeneity and specialization in the production of primary goods for exports.

The power relationship between the center and the periphery is another essential piece in the explanation of underdevelopment. In the periphery, demand for primary goods depends on the changes in demand in the central economies. The center determines the structural characteristics of the periphery through technological innovation and dissemination of knowledge.

Although Prebisch presents no explicit theory of how income will be distributed within countries as development takes place, some central ideas of a theory of income distribution would include: 1) Development cannot take place without industrialization, which implies that growth in the modern industrial sector is the only way to absorb the surplus labor of the traditional sector and to enter the path to higher productivity, real wages, and reduction of inequality. 2) The state's role is to assist the economy in overcoming the bottlenecks and constraints faced by peripheral countries. Public policy can also help to confront the concentration of investment in a few backward sectors and the incapacity of the modern sector to absorb the excess labor supply from the traditional sector. Governments may also play a role with regard to deterioration of terms of trade in primary goods.

It is important to mention that Prebisch (1924) shares some other ideas regarding income distribution. For example, he highlights that concentrated land ownership (i.e. wealth inequality) and oligarchical political power were the reasons for high levels of inequality in the then rapidly growing Argentinean economy. Along these lines, Prebisch advocated for land redistribution.

We next discuss the main ideas of Juan Noyola, whose theory of inflation is a central component of L-A structuralism. Noyola identified the structural causes of inflation and the channels through which the initial increase in prices propagated to the rest of the economy (among them were; monetary policy, fiscal policy, and competing income claims between different social classes). The identification of structural causes and propagation mechanisms allowed Noyola to conclude that inflation is not a monetary phenomenon, but rather the result of structural imbalances and class struggle. Such a conclusion provided a strong argument against the prevailing monetarist view policies.

Fighting inflation would require institutional, social and political changes. For example, readjustment of real wages to avoid the damage of workers' share from total income and the resulting social conflict was one of Noyola's suggestions. In the long run, Noyola recommended that government intervention is crucial, especially in the creation of a progressive taxation system. The intention of these policies was to protect the income of those with less bargaining power. For Noyola, these policies allowed for greater control of one of the most important propagation mechanisms for inflation.

A theory of income distribution within a country would consider Noyola's view that class conflict is at the heart of inflation because during inflationary periods, different social classes attempt to protect their purchasing power. In the process of economic development, income inequality increases if the bargaining power of those at the bottom of the income distribution is low. Therefore, protecting the shares of income of those with less income and bargaining power helps to reduce inequality as well as inflation.

In his 1959 book “The Economic Formation of Brazil,” Celso Furtado provides a historical perspective of how business cycles generated social and economic heterogeneities and low diversification of production (i.e. continued reliance on the production of primary goods) in the Brazilian economy since its independence. In particular, he demonstrated that the Brazilian economy was characterized by the duality described by Lewis (1954). Furtado concluded that the industrialization problems faced by Brazil in the 1950s were the result of structural constraints on growth and that intervention by the state was required to overcome these problems (via industrial policy and through infrastructure development).

For Furtado (1964), as with Lewis, the absorption of the surplus labor might prove difficult because the industrialization process in the periphery creates a new form of “dual” economy where archaic production methods coexist with modern production methods. Hence, the increase in productivity in modern sectors can coexist for long periods with low wages keeping income inequality at high levels.

Another major contribution in Furtado’s work (1964) was the idea that sectoral composition of investment and technological options were predetermined by income and wealth concentration. For example, the modern areas of the L-A production structure have a capital-intensive sector similar to that of developed countries. For Furtado, this model of investment generates unemployment, low wages and income concentration.

Putting together Furtado’s main ideas a theory of income distribution can be constructed taking into account Lewis (1954). One scenario is that during the downward side of the business cycle, inequality may increase, but if income and wealth concentration is not high at that point in time (the gap between production methods is not concentrated in one sector), then productivity in the modern sector will be able to absorb the surplus labor from the informal rural and urban areas causing a decline in inequality. On the other hand, if wealth and income concentration is high, then expansions in the cycle will not be able to reduce inequality and contractions would worsen the exiting income distribution.

II. Comparative Analysis

There is no homogenous view on how income distribution within countries might change, in fact most A-S writings indicate how middle-income countries can be created and not very much on how distribution of income within a country will change as the nation becomes richer. The exception to this observation is Lewis (1954).

Rosenstein-Rodan, Nurkse and Myrdal share a circular mechanism behind economic development. When negative forces are at play the country is trapped in stagnation and poverty. Breaking the vicious circle can be done with the help of big investment plans in industrialization (and government intervention). With industrialization, employment generation can be a factor in improving income distribution. However, the direction in which income distribution will go is not clear. Income inequality can decrease if breaking the vicious circle means more jobs, absorption of surplus labor, or if investment in sectors is less determined by income and wealth concentration. On the other hand, Furtado (1964) points out that inequality can still persist even if the vicious circle breaks down, given a situation where growth in high productive sectors manages to coexist with low wages. Transforming the vicious circle into a virtuous one does not provide enough elements to determine the direction in which income inequality will move.

Hirschman on the other hand, seems to provide an alternative mechanism through which inequality can be affected: inter-sectoral linkages. As sectors become more interrelated (e.g. the goods produced in one sector become the raw material for other sectors), it is very likely that the benefits of the most dynamic areas will be distributed to the rest of the economy via job creation and higher wages. Although distribution may occur, it is not obvious that inequality will decrease as the strength of linkages increase. For example, sectors could be more interrelated but the tax system might be regressive. In the end Hirschman's analysis boils down to the virtuous circle provided by Nurkse, the only difference is that the vicious circle is broken down through the strategy of unbalanced growth. Hence, whether income distribution will worsen or improve as the country becomes richer is not clear.

According to Lewis, the mechanism through which income inequality may increase or decrease is clearly established. Although the existence of surplus labor had been recognized before (e.g. in Rodan 1943), Lewis puts it at the center of his model. The interaction between the modern, surplus labor, and the traditional sector determines the distribution of income among different regions of the world and also within countries. Labor is transferred from the traditional to the modern sector until the surplus labor is eliminated, thanks to the virtuous circle of investment and profits. Once the surplus labor comes to an end, inequality will start to decline. Lewis is very clear that income inequality will increase in the outset of the industrialization process and then inequality will start to decline once the surplus labor in the traditional sector comes to an end. He goes even further by recognizing that inequality originating from profits, rather than inequality coming from rents, is the type of inequality that favors capital formation and therefore is "good" for economic growth.

For L-A structuralists, one essential difference with the A-S counterpart is the role of power relations. For A-S structuralists, developed and developing countries are connected in a mutually beneficial set of relations. For Prebisch, the essential power relation is the one between the center and peripheral countries (the center determines the economic structure of the periphery rather than the domestic causes). By breaking down this power relationship, inequality will eventually decline. According to Noyola, the essential power relation is the one among different social classes. In the case of Furtado, the central power relation is the one that wealth and income concentration plays in determining sectoral investments, which opens the possibility that increases in productivity in the modern sector can coexist with low wages.

Noyola and Furtado seem to be closer to providing a comprehensive theory of income distribution. The centerpiece of Noyola's theory is the idea that different social classes will attempt to protect their purchasing power when inflation kicks in. Hence, in the process of economic development, income inequality will increase if the bargaining power of those at the bottom of the income distribution is kept low. Policies towards protecting the shares of income of those with less bargaining power and economic power will help to reduce inequality. Furtado's theory on income distribution emphasizes the role of income and wealth concentration in determining sectoral investments. High levels of concentration will prevent the decrease of inequality even when the economy is in the expansionary side of the business cycle.

In Prebisch, industrialization with the help of the state will increase the per capita income of poor countries, and presumably income inequality will decline at some point in the development process. How inequality will change as the process of development takes place is not clear. One could assume that the exhaustion of surplus labor will determine at which point of development inequality will start to decline, but this role of surplus labor is not discussed in Prebisch's work (1949). However, Prebisch (1924) points out that the concentration of land in a small group of people and the oligarchic structure of the political power were the reasons for the high levels of inequality in Argentina.

For Myrdal the so called market prices are "political prices" because they are determined by the intervention of the government and other powerful actors in society, while for Noyola an essential propagation mechanism for inflation is the conflicting claims of different social classes in society. For both authors, the bargaining power of different social classes is a relevant factor that explains income distribution within countries.

III. Conclusions

Latin American structuralists rely on the study of developing countries from a historical perspective, according to which capital accumulation and technological progress developed asymmetrically creating a center and a periphery. In contrast, Anglo-Saxon structuralists have traditionally believed historical analysis to play a less relevant role.

The Anglo-Saxon tradition does not distinguish power relations between developed (center) and developing countries (periphery). Instead, countries engage in economic activities assuming equal opportunities and mutual benefits, a belief not shared by Latin American structuralists.

Regarding views on income distribution we have found that:

In both cases (A-S and L-A), there is no homogenous view on how income distribution within countries might change as countries become more developed. What is clear is that income inequality reduction is an important concern and component of the structuralist school of thought. Among the A-S structuralists, Lewis (1954) has a unique approach to explaining underdevelopment, which distinguishes that in the early periods of development, inequality will first increase and then decline, similar to Kuznet's (1955) observation.

A distinctive characteristic between, Rosenstein-Rodan, Nurkse and Myrdal is the recognition of the existence of surplus labor in Rosenstein-Rodan. The use of surplus labor provides a mechanism through which industrialization might help to decrease inequality, but since the relationship between the surplus labor and different sectors of the economy is not clearly established, is difficult to know the final direction of income distribution as development takes place.

Regarding L-A structuralists, we observed that the essential difference with the A-S counterpart is the role of power relations. For A-S structuralists, developed and developing countries obtain equal benefits from their economic interaction, while L-A structuralists indicate the existence of a power relation between developed and developing countries. The relationship between the changes in income distribution and the bargaining power of different social classes in Furtado and Noyola, is close to providing a comprehensive theory of income distribution.

A framework for policy tools in the structuralist tradition would contain the following elements:

a) The importance of individuality of each country's experience and rejection of the idea that one size fits all (central in the neoclassical approach to development).
b) The study of the interaction between global processes and particularities of individual countries from a historical perspective and from a world system approach.
c) Formulation of development strategies on the basis of institutions, power relations, and sectoral and class relationships.
d) Comparative advantages are not given, they are created and industrialization is the way to reach high levels of growth rates in the long run and to reduce inequality.
e) Growth and development is historically determined, country specific, and requires the combination of a number of structural elements, which are responsible for a dynamic of growth, development, and reduction of inequality.

Besides the framework for policy tools outlined above, contemporary scholars have relied on the structuralist tradition to find policy tools to deal with inequality issues. For example, Breser-Pereira (2011) argues that New Developmentalism is a development strategy characterized by growth with domestic savings instead of foreign savings. What aligns New Developmentalism with the work of old structuralists is the role of the state in regulating and stimulating private investment, innovation, and income distribution; policies that increase competitiveness while protecting labor, the poor, and environment are at the heart of New Developmentalism.

The work of Kay and Gwynne (2000) borrow the relevance of power relations from the old structuralists. Kay and Gwynne reason that neoliberalism has created new interest groups (e.g. financial and exporting groups), which interact in the global economy and have reduced the room to maneuver for national governments. The power of these groups appears when policies that are perceived as mistaken are immediately penalized via capital flights. According to Kay and Gwynne, the power of such interest groups need to be restricted if a more equitable society is to emerge. Structuralism and dependency ideas have a role to play in the construction of a new development paradigm, which can make this change possible.

For Cornia (2012), the New Structuralist macroeconomics approach is a reaction to the neoclassical development strategy, and a critique of the "growth with foreign savings" model. The main claim in Cornia's work (2012) is that New Structuralist macro policies have helped reduce income inequality during the last decade in countries that implemented them. Cornia successfully presents econometric evidence, which shows a correlation between the tructural macro policies and decreases in income inequality. The channels that explain why these two variables are related are: stable and competitive real exchange rate policy, progressive taxation, and growth with redistribution.

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