

# CEPAL

## Review

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# CEPAL

## Review

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### CONTENTS

An economic policy for development. <i>Norberto González.</i>	7
An assessment of the structuralist paradigm for Latin American development and the prospects for its renovation. <i>Orvaldo Rosales.</i>	19
An outline of a neo-structuralist approach. <i>Ricardo Ffrench-Davis.</i>	37
Neo-liberalism versus neo-structuralism in Latin America. <i>Sergio Bitar.</i>	45
The challenges facing Latin America in the world today. <i>Guillermo Maldonado Lince.</i>	63
International primary commodity marketing and Latin America. <i>Mikio Kuwayama.</i>	77
Urban employment: research and policy in Latin America. <i>Víctor E. Tokman.</i>	109
Small and medium-scale industry in the development of Latin America. <i>Mario Castillo and Claudio Cortellese.</i>	127
Prebisch's ideas on the world economy. <i>Armando Di Filippo.</i>	153
Prebisch: a classic and heterodox thinker. <i>Benjamin Hopenhayn.</i>	165
Raúl Prebisch central banker. <i>Felipe Pazos.</i>	179
Dependence, interdependence and development. <i>Raúl Prebisch.</i>	197
Recent ECLAC publications.	207

## Prebisch's ideas on the world economy\*

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This article identifies three main phases in the evolution of Prebisch's ideas on the international economy. During the first of these, he outlined his concept of the centre-periphery system and its role in the fundamental structural disequilibria of peripheral countries, with particular attention to their propensity to deficits and indebtedness and the trend towards a deterioration in the terms of trade of the primary commodities they exported. He also brought out the repercussions of their narrow specialization in primary activities, associated with adherence to the principle of static comparative advantage.

The second phase, which was an outgrowth of the first, relates to the proposals in respect of international co-operation in the spheres of production, trade and finance put forward by Prebisch during the time he served as the first Secretary-General of UNCTAD.

The third phase corresponds to his more recent ideas (mainly expressed in his last two books and in *CEPAL Review*), which coincided with a period when mechanisms for international co-operation were on the wane and international trade and financial relations were increasingly subject to unilateral decisions. Prebisch's effort to fully grasp these processes led him to adopt an increasingly interdisciplinary approach. Hence his analysis of the social use of the surplus within peripheral capitalism also proved useful in comprehending the root causes which have brought about the present international economic crisis. The article concludes with a review of some of his more recent observations on the world economy and Latin American integration.

\*This article is a revised version of a paper presented at the seminar on *Latin America in the World Economy*, which was organized in tribute to Raúl Prebisch by the Institute for Latin American Integration (INTAL), the Prebisch Foundation and ECLAC and held in Buenos Aires in September 1987.

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## Introduction

The ideas of Raúl Prebisch remain extremely relevant to an interpretation of the present world economic situation and to an understanding of the position occupied by Latin America in the shifting international scene. While this statement may well hold true in regard to other aspects of his thinking about development as well, this article will concentrate on illustrating the considerable forcefulness of Prebisch's view of the centre periphery in interpreting present circumstances and in discerning questions of major significance in respect of the future of the international order.

Within the limited scope of these pages, an effort will be made to distinguish three phases in the evolution of his thought which have a valuable contribution to make both to a productive understanding of the essential features of the severe crisis affecting the world economy and to an attempt to anticipate what the future holds in store. The first phase corresponds to his fundamental ideas, formulated during the 1950s, concerning the centre/periphery system and the tendencies towards structural imbalance of the peripheral economies. The second coincides with his tenure as the first Secretary-General of UNCTAD, during which he promoted international co-operation on the basis not only of the principles upheld by the United Nations, but also of the analytical foundations of his concept of the centre/periphery system. The last phase corresponds to the period during which he founded and directed the *CEPAL Review* and developed his ideas on peripheral capitalism, with particular emphasis on the subjects of the economic surplus, the accumulation of reproductive capital and the perils of the consumer society. It was during this phase that Prebisch's thinking took on an interdisciplinary character and he became increasingly interested in the power relations which emerge from the social structure and influence economic institutions and the market mechanism.

Throughout this long period, Prebisch's ideas gradually evolved and metamorphosed, not only as a result of his own intellectual activity,

but also in response to the changes taking place in historical circumstances. Nevertheless, a basic common thread runs through his ideas which facilitates an understanding of the general trend of his thought. This thread is his ongoing concern with the factors which determine the distribution of technical progress and its benefits between the centres and peripheries, as well as within each one of these societies (Di Filippo, 1986).

### 1. *Peripheral status and structural imbalance*

At this point it will be useful to undertake a brief review of the basic ideas set forth by Prebisch during the 1950s in respect of the centre/periphery system and its impact as regards the structural imbalance of the peripheral economies. Particularly noteworthy is his concept of the international division of labour that was inherited from the industrial revolution. Prebisch held that a demographically small group of central economies, undergoing a self-sustained process of productive diversification and capable of generating technical progress on its own, interacts with a vast unindustrialized periphery. This periphery is drawn into an ever greater productive specialization in primary commodities which the centre requires in order to lower its costs in terms of raw materials and wage goods.<sup>1</sup>

The structural imbalance of the peripheries springs from this peculiar and asymmetrical position within the international division of labour and is reflected both in the sphere of employment and in the international insertion of the economies concerned. These fundamental perceptions highlight the dynamic nature and

deep historical roots of the ideas put forward by Prebisch in respect of development. There would be no point in going over concepts here which have been examined on many occasions by various authors; the following discussion will therefore be confined to a review of some of the main features of these concepts with a view to underscoring their historical relevance.<sup>2</sup>

Prebisch regarded the development of the world economy as being an asymmetrical process. The introduction of technical advances raises average per capita income in the industrial societies, but the demand for final goods and intermediate inputs does not expand at a uniform rate in the various branches of production. This asymmetry is attributable to two main factors. First of all, in accordance with the well-known principle described by Engel's law, the income-elasticity of demand for primary goods is generally lower than that of the demand for manufactured goods and for a large number of services. Secondly, the technological development of industrial activities entails a reduction in the content of primary goods per unit of final industrial product. Consequently, both consumer demand for final products and industrial demand for capital goods and inputs contribute to the asymmetrical growth of the branches of production. It should be mentioned in passing that it was some time before these ideas, which are fundamental to the theory of economic development, were given their due by academic theory. Indeed, it is only very recently that the need to construct formal models reflecting the asymmetrical nature of the growth of productive structures has been recognized and that the analytical tools needed in order to examine this phenomenon have been developed (Pasinetti, 1981 and 1987).

With these two fundamental principles as his starting point, Prebisch posited the existence of a tendency towards structural imbalance on the part of the peripheral economies. He contended that, in the international sphere, world

<sup>1</sup>See Raúl Prebisch, "Growth disequilibrium and disparities: interpretation of the process of economic development", Part I of the ECLAC *Economic Survey of Latin America, 1949* (E/CN.12/164/Rev.1), New York, United Nations publication, Sales No.: 51.II.G.1. See also, "The economic development of Latin America and its principal problems" (E/CN.12/89/Rev.1), New York, United Nations publication, Sales No.: 50.II.G.2, written in 1949 as an introduction to the ECLAC *Economic Survey of Latin America, 1948* and later published in the *Economic Bulletin for Latin America*, vol. VII, No. 1, Santiago, Chile, February 1962.

<sup>2</sup>See, among others, the following publications concerning the thinking of ECLAC in the 1950s and early 1960s. Essentially, these writings take up and develop the ideas of Raúl Prebisch: ECLAC (1969); Rodríguez (1980); Gurrieri (1982); Bacha (1974); Di Filippo (1981).

demand for primary products would grow more slowly than the demand for manufactures. Consequently, as exporters of commodities and importers of manufactures, the peripheries would be inescapably marked by a structural propensity to deficit and indebtedness. In parallel fashion, within the sphere of employment the global development of the world economy would witness a shift of the labour force away from primary activities and towards secondary and tertiary ones. Hence, should the peripheries persist in their narrow specialization in primary activities in strict adherence to their static comparative advantages, they would ultimately find themselves facing the dilemma of having to accept either a large-scale and increasing underutilization of their labour force or the migration of their manpower to those regions of the world where the industrial development process was in full force. This accounts for Prebisch's insistence on promoting the industrial development of the peripheries. It should be stressed that neither Prebisch nor ECLAC ever single-mindedly espoused the idea of a predominantly closed type of industrial development based primarily on import substitution; on the contrary, they underscored the need to promote competitive industry, capable of sustaining itself through exports of manufactured goods as well. Growth based on import substitution did not spring from any strategy dictated by ECLAC, but rather from the imperative of historical circumstance during the period between 1914 and 1945, when the foundations were laid for the industrialization of most of Latin America's large and medium-sized economies (Prebisch, 1986).

Another fundamental idea—which, in its original form, Prebisch shared with Hans Singer—is that of the deterioration in the international terms of trade for commodities *vis-à-vis* those for manufactured goods.<sup>3</sup> Prebisch continued to elaborate and expand upon this idea until it came to be a logical extension of his theory of structural imbalance in the international sphere and in employment. Seen from this angle, "the deterioration thesis" may be regarded as a necessary outcome of the overall

significance of his ideas on the centre/periphery system.

It is important to delve a bit more deeply into the "deterioration thesis" as postulated by Prebisch, because it is this theory which marks the confluence not only of his ideas on the structural imbalance of the peripheries, but also of his ongoing concern with the economic and social forms taken by the appropriation of increases in labour productivity arising out of the dissemination of technical progress. The above-mentioned concept of differing elasticities gave him grounds for asserting, on the one hand, that the sluggish expansion of "central" demand for commodities constituted a very real restriction to the growth of the peripheral export economies. Any unilateral expansion of the supply of these products above and beyond the requirements of demand would, due to the price elasticities involved, lead to a sharp fall in their prices. Consequently, if the primary product-exporting economies were to attempt to overcome the tendency towards deficits and indebtedness inherent in their peripheral condition by making an effort to eliminate their deficits through an increase in exports, the result could prove counterproductive, since such a step might well lead to a steep decline in prices and the worsening of the existing deficit. The existence of surplus labour—an intrinsic feature of peripheral status—made it either impossible or much more difficult for workers employed in primary activities to raise their wages in line with productivity increases in the output of primary goods for export. As a result, profit margins were higher in these export activities in the periphery and the entrepreneurs in these sectors were more inclined to forgo proportion of their profits in the form of price cuts. The case was just the opposite in the central economies exporting manufactured goods, where the bargaining power of labour allowed it to increase its real wages in step with improvements in labour productivity, as in fact happened following the Second World War.

In contrast with the argument formulated by Singer, Prebisch's "deterioration" thesis also includes an interpretation of the cyclical nature of this phenomenon. A discussion of this aspect of his theory is, however, beyond the scope of this brief review.

<sup>3</sup>For an examination of the essential features and evolution of this thesis, see Di Filippo (1987).

## 2. *The relevance of Prebisch's fundamental ideas*

Prebisch's ideas on structural imbalances and the deterioration in the terms of trade within the centre/periphery framework continues to constitute a productive way of addressing the issue of Latin America's international insertion. However, although the basic structural focus remains fully valid, the pertinent historical data have changed over the past 35 years. Prebisch's subsequent analyses and interpretations also reflected and incorporated these changes, as we shall see when we analyse the later phases of his thinking. At this point we are only concerned with two of his theses. Firstly, that of the peripheries' tendencies towards deficits and indebtedness; and secondly, that of the deterioration in the terms of trade.

The trade deficits characteristic of the peripheral countries arise out of the greater expansion of demand for manufactured goods than for primary products in the world economy. The statistical data corroborate this observation, since they indicate that during the postwar period the demand for manufactured goods has grown far more rapidly than the demand for primary products, and thus provide ample confirmation of the principles underlying the thesis of imbalance. From the standpoint of the development of the countries of Latin America, the important point is not whether their balance of trade in goods shows a surplus or a deficit, however, but rather the far broader and deeper thesis, also formulated by Prebisch, that the region's rate of growth is closely linked to its import capacity, which, in turn, continues to be a function of the centre's demand for the region's exports of primary products. Should its exports fall, then the region, in order to continue with its adjustment to external conditions, will be faced with the need to choose one of two possible options: it will either have to bring about a reduction in its imports and, hence, in its rate of growth or it will have to rely on the inflow of external savings, either in the form of international co-operation, i.e., on preferential terms, or in the form of conventional financing through the private sector.

Throughout the entire postwar period, Latin America has been dependent on external sav-

ings, judging from the deficit consistently registered by its balance-of-payments current account. The continuing validity of Prebisch's theses lies in the fact that the region obtains more than 75% of its export earnings from the sale of primary products, which makes it highly vulnerable to fluctuations in the demand for these goods on the world market.

The evolution of the Latin American economy during the 1980s has provided dramatic evidence of the validity of Prebisch's theories regarding peripheral status. First of all, commodity prices have not only followed the downward trend seen throughout the whole of the long postwar period, but have suffered a veritable "collapse" during the 1980s. Secondly, external inflows of capital have dried up, simultaneously subjecting the region to a sharp decrease in its import capacity and to a virtual suspension of external financing. A dramatic turnaround in its prospects for development during the 1980s has thus been brought about by the brutal cutbacks in imports it has made in order to balance its external accounts and the diversion of internal savings it has been obliged to make in order to pay the interest on its debt.

To summarize, the evolution of the external economic environment during the closing years of the 1970s and thus far in the 1980s has had devastating repercussions on the Latin American economy which, in structural terms, are attributable to its peripheral status, as described early on by Prebisch in the 1950s: a dependence on world demand for primary products; a heightened vulnerability to variations in their prices; and a situation in which its growth potential is heavily influenced by its capacity to export primary products and/or obtain external financial resources.

If one were to single out one area of the international economy in which the theoretical factors discussed by Prebisch are the most clearly apparent in empirical terms, it would surely be that of the terms of trade between commodities and manufactured goods, rather than his thesis on the structural imbalance of the peripheries, whose corroboration requires special precautions and considerations. Data from a variety of sources (World Bank, International Monetary Fund, UNCTAD, etc.) provide categorical proof of the downward trend in the real prices of

commodities throughout the whole of this century. Indeed, by the end of 1986 these prices had fallen to such an extent that they were even lower than during the depression of the 1930s.<sup>4</sup> The steep decrease observed during the 1980s is a clear reflection of the causative factors identified by Prebisch: different price and income elasticities, both on the demand and the supply sides; the unequal ability of the various agents of production to appropriate increases in labour productivity; and the tendency of technical progress to reduce the proportion of primary product inputs per unit of final industrial product. Prebisch's observations regarding the economic cycle are particularly elucidating in respect to the collapse in prices observed in the 1980s. During the current phase of slow growth in the centres, the deterioration in commodity prices has become even more pronounced, particularly as a result of the oversupply which the peripheral countries themselves have helped bring into being as they strive to earn foreign exchange in order to meet the burdensome commitment of servicing their swollen external debts.

### 3. *The UNCTAD phase: the impact of Prebisch's ideas within the sphere of international co-operation*

The need for international co-operation was stressed by Prebisch not only in recognition of the ethical principles of the United Nations but also as a consequence of his own analysis of the centre/periphery relationship. The rationale for his advocacy of North-South co-operation lay in the asymmetrical nature of international economic development. If it were given over to the unrestricted interplay of market forces, the system would surely lead to the commercial and financial asphyxiation of the peripheries; hence the vital importance of co-operation in these areas. In the sphere of trade, such co-operation could not, however, be based upon the same criteria as those governing co-operation among the industrialized countries. For example, the "most-favoured-nation" principle established under GATT, involved applying the same stand-

ards to competitors of vastly differing capacities. In contrast to this "formal reciprocity", as he himself called it, Prebisch proposed "real reciprocity", which would take into account the structural asymmetry between the centres and the peripheries and thus require the former to grant trade preferences to the latter in order to offset the tendencies towards structural imbalance arising out of the peripheries' status as exporters of primary products. For the same reasons, financial co-operation in relation to trade and development was also required. UNCTAD was established in response to this approach, which maintained an uneasy coexistence with the more orthodox philosophy, espoused by the IMF, the World Bank and GATT, in favour of the free operation of market forces.

In his first report to UNCTAD as Secretary-General of the newly-founded institution, Prebisch drafted what can only be described as a "manifesto on North-South co-operation". This document cannot be fully comprehended unless it is considered in the light of his earlier "Latin American manifesto", which was published in 1949 when he was at the head of ECLAC. In respect of North-South co-operation, his report to UNCTAD constitutes a logical extension at the international level—although this time from an action-oriented perspective—of the basic ideas underlying the diagnostic analysis of Latin America which Prebisch had propounded when at ECLAC.<sup>5</sup>

If the fruits of his efforts are examined from the privileged vantage point afforded by an *ex-post* historical perspective, it must be admitted that although his objectives were ethically justified and had a rational basis, they never met with full acceptance within governmental and entrepreneurial circles in the central countries. Prebisch's ideas clashed with those of the three leading institutions (World Bank, IMF, GATT) presiding over the world economic order and were at odds with the logic of market liberalization favoured by the major international firms in the developed world. Nonetheless, even a cursory reading of the arguments set out in his first report to UNCTAD reveals that Prebisch was

<sup>4</sup>See, among others, ECLAC (1986), the World Bank (1986), Sarkar (1986) and Sapsford (1985).

<sup>5</sup>This report to UNCTAD was published by the Fondo de Cultura Económica under the title *Nueva política comercial para el desarrollo*, Mexico City, 1964.

advocating international North-South co-operation as a strategy designed to ensure the harmonious development not only of the peripheries, but also of the industrial centres. What he was putting forward was, essentially, an equitable formula for gradually overcoming the structural asymmetries affecting both the centres and the peripheries.

With the benefit of hindsight, it might also be said that the ethical justification and scientific rationality of his ideas regarding co-operation, while essential to the task he had undertaken, were not enough to ensure its success. Those achievements that were engineered within UNCTAD (the Generalized System of Preferences, the associations of commodity producers and consumers, compensatory financing arrangements, etc.) came into being either during the latter part of the most dynamic period in the history of the world economy (1945-1970) or as a result of exceptional circumstances (the first major oil crisis), which made it possible to wrench concessions from the industrialized countries. Unfortunately, the slowdown of the world economy in the 1970s marked the onset of a deterioration in the structure of international co-operation. In this new setting, international economic negotiations began to disregard the spirit of co-operation championed by the United Nations and to be increasingly based on the power (in production, trade, finance, etc.) of the countries or blocks of countries represented at the negotiating table. In other words, the long-term decline of the industrial centres in terms of their development has revealed, as so often before throughout history, the role played by power relations as an underlying force in market dynamics.

It was precisely during the third phase in the evolution of his thinking that Prebisch devoted particular attention to the manner in which the power relations arising out of the social structure affect market relations, influencing them so strongly that an interdisciplinary analysis is required in order to grasp them in full. This new perspective was manifested in the way he went about examining the social struggle to appropriate the surplus in the Latin American economies, as well as in his study of the impact of this phenomenon on the processes of development and democratization. These ideas, whose pur-

pose was to arrive at an understanding of peripheral capitalism, nonetheless prove equally useful in interpreting some of the fundamental causes which have brought about the present international economic crisis.

#### *4. Social use of the surplus, "consumerism" and capital accumulation*

At this point it may be useful to provide a brief synthesis of the ideas which Prebisch developed in this field, prior to examining their relevance to an understanding of the present international crisis.

The concept of surplus developed by Prebisch was an outgrowth of his ongoing interest in studying the social and economic forms of appropriation of increases in labour productivity. Similarly, his interest in the "social use of the surplus" —to employ his own terminology— is no less than a new approach to the study of the forms of utilization of increases in labour productivity (Prebisch, 1981).

At this stage in his thought, Prebisch was concerned with those forms of capital accumulation tending to prevail in contemporary consumer societies, as well as with their detrimental impact on the possibilities of growth. He saw the "consumer culture" which has spread out from the centres as constituting one of the features of the "imitative capitalism" of the peripheral economies. Within a line of thought which had already been developed by other Latin American writers, he impugned the premature adoption by poor peripheral economies of consumption patterns appropriate to developed societies. This trend was aptly described by Aníbal Pinto (1973 and 1976) as "a caricature of the consumer society".

Prebisch made a theoretical distinction between reproductive and non-reproductive forms of capital accumulation. These terms did not refer to any specific characteristic of given capital goods, but rather to contrasting "styles of accumulation". Reproductive accumulation was that which raised the productivity of labour while simultaneously increasing employment opportunities in the economic system as a whole.

In order for these two things, which were apparently mutually exclusive from a static viewpoint, to occur simultaneously, the agents responsible for the accumulation process in the public and private spheres would have to adopt an austerity-oriented and "productivist" approach. Thus was because successive increases in labour productivity made possible by the introduction of technical progress had to be diverted away from consumption, and particularly from the imitative consumption of luxury items, so that they could be reinvested in a productive manner that would continue to bring about rapid increases in labour productivity. As this increase in productivity gathered speed, the process of accumulation would have to keep pace with it in order to maintain a balance in the labour market.

In contrast, non-reproductive accumulation was that which was aimed at diversifying existing forms of consumption and rendering them more complex. Since it did not increase labour productivity, this form of accumulation slowed down the growth rate of the surplus, thereby limiting the possibilities of subsequent accumulation. It was precisely on these non-reproductive types of accumulation that imitative capitalism in the peripheral regions was based; moreover, these modalities of accumulation were accompanied by a struggle over the distribution of wealth among the different social sectors which led to disordinate levels of inflation and jeopardized the progress of the democratization process.

Although these ideas were developed on the basis of an observation of peripheral capitalism, they also proved valid as a means of anticipating the evolution of some central economies (Prebisch, 1984). In examining the "stagflation" that affected the industrialized world during the 1970s, Prebisch attributed the phenomenon to insufficient reproductive accumulation and excessive public and private consumption, trends which were particularly strong in the main dynamic centre of contemporary capitalism. The huge trade and fiscal deficits and scant rates of reproductive accumulation of the United States economy attest to the fact that in recent years this country has been living beyond its means by making use of its monetary power, which has allowed it to finance these unprecedented imbalances with external savings.

Prebisch also took an interest in the extraordinary growth of the Japanese economy, whose style, which is similar to that adopted by other Asian nations, is in clear contrast to the consumerism prevalent in the main dynamic centre. The Japanese economy corresponds much more closely to a model of reproductive accumulation designed to achieve rapid increases in labour productivity, which are then reinvested in order to speed up the process even further. This style of development, oriented towards the export of manufactures, strongly protected against external trade and financial interference and based on close collaboration between the public and private sectors, is what led to the so-called "Japanese miracle". Thanks to the extremely swift increase in labour productivity, Japan simultaneously accomplished three decisive results: it raised the standard of living of its labour force, maintained higher profit margins than those of the industrialized Western economies and came to represent an overwhelmingly competitive force on international markets (Prebisch, 1981).

The outcome of these disparate economic trends is apparent in the type of relationship which has gradually emerged between the United States and Japan. The United States has a deficit-laden and indebted economy and utilizes its monetary power to finance a life style beyond the reach of its actual economic means while it brings pressure to bear on Japan to moderate its competitive drive. For its part, the Japanese economy maintains large surpluses in its trade with the United States. These surpluses are then recycled in the form of financial flows which help to absorb the United States deficits. It is only through international co-operation and the harmonization of the two countries' external policies that it will be possible to overcome these macroeconomic imbalances, which are decisive factors in the present international crisis, without serious repercussions.

This is not the place to elaborate further upon these observations. It is sufficient to stress the undeniable usefulness of these analytical categories in arriving at an understanding of the underlying causes—or at least some of the most significant ones—of the acute friction and trade and financial imbalances characteristic of the present international economic crisis.

5. *Prebisch's later observations on the world economy and on Latin America*

Following the publication of his last book on peripheral capitalism (1981), Prebisch continued to observe the evolution of the world economy and to present his views in the *CEPAL Review*. In his final essay, he returned to the topic which had been his constant concern: the sharing out of technical progress and of its fruits in the course of international dealings. In a few brief paragraphs he linked his new concept of the surplus with the long-standing, but omnipresent problem of the deterioration in the terms of trade. It is worthwhile reproducing his words here, inasmuch as they provide a telling example of the interdependence of the various components of his theoretical approach, including those developed during different phases in the evolution of his thinking:

"I have already said that there are factors which account for the unfavourable reaction of the centres to imports of manufactures from the periphery. I think that for a proper understanding of this fact it is indispensable to recall the dynamic role of the economic surplus of enterprises that I have sought to explain in earlier articles. In the surplus is mainly embodied that part of the fruits of the system's increasing productivity which is not transferred to the labour force. This is a matter of profound dynamic significance, since the surplus is the source of a considerable proportion of the capital accumulation of enterprises. Thus, as the evolution of demand calls for more and more diversification, capital investment also shifts towards production of goods that are diversified. Inter-enterprise competition is directed towards capturing markets in the diversification process rather than towards reducing prices, except in the case of those goods that have been surpassed by others deriving from the incessant innovations aforesaid.

"Here a point arises which must be stressed: the shift in investment is effected by virtue of the growth of the surplus, and this growth occurs precisely because, in general, and thanks to diversification, prices of manufactures do not fall. If there were no diversification resulting from ceaseless innovations, consumer demand would tend to reach saturation point.

"This is a phenomenon characteristic of capitalist development. It happens, however, that when imports from the periphery acquire competitive capacity [in the central economies] through the combination of technical progress with relatively low wages, competition in this case is based on price reductions, and adversely affects not only the growth of the surplus but also the ability of industries hard hit by competition to redeploy their forces and invest in the diversification process or step up their productivity. This explains why entrepreneurs and workers are antagonistic to imports from the periphery. Clearly, an additional element today is unemployment, which, as we have said, stems from the sluggishness of the economies of the centres".

A few pages later he goes on to say: "The time has now come to pose this other question: why do the centres look with favour upon a downward movement in the prices of these primary products while they take pains to withstand a fall in the prices of the manufactures they import from the periphery? The answer is very simple. A reduction in the prices of primary products enlarges the economic surplus of the enterprises [which] purchase them, whereas a decline in industrial prices weakens their surplus and consequently their capacity for accumulation" (Prebisch, 1986, pp. 204 to 206).

In these paragraphs, which were written shortly before his death, when he was 85 years of age, an outline is given — Prebisch considered the essay from which they are taken to be a set of "notes" — of fresh and promising conceptual interrelationships that he would undoubtedly have continued to develop, had time allowed.

However, during this period his attention was not directed solely to the central elements of his theoretical concepts. He also had keen insights into the new and burning monetary issues which began to surface in the 1970s. In this connection, he placed stress on a perspective that was linked to the role of the underlying power relations in the market mechanism, a concept which has already been commented upon in an earlier section. In the sphere of international monetary relations, this same perspective led him to undertake a critical analysis of how the utilization of the international monetary power of the United States had influenced the international monetary system and how it

had thereby also affected the market relations of the world capitalist economy as a whole. The announcement of the inconvertibility of the dollar in the early 1970s, together with the creation of the Eurodollar market and its connection with the growing ability of the transnational banking system to expand the money supply with no substantive supervision by any international authority, thus became objects of his concern. In the late 1970s, the stagflation observed in the industrialized countries—a trend which had a particularly strong impact on the United States economy—led him to consider further not only the consumerist style of development of the Western centres, but also, once again, the unilateral use of monetary power by the United States. Subsequently, in analysing the sharp turnaround which occurred in the monetary and financial policies of the centres at the beginning of the 1980s, Prebisch laid stress on the nature of their repercussions on the peripheral countries and on Latin America in particular. Nor did the part played by the decrease of commodity prices in the industrialized nations' success in reducing their rates of inflation escape his attention as he kept a close watch on the world situation. In particular, the topic of Latin American indebtedness prompted compelling insights into the origin of the monetary and financial changes which had set off the debt crisis.

Shortly before his death, as he addressed the twenty-first session of ECLAC, he said: "This is a dilemma which must be clearly seen; no solution for it will be reached in the absence of a political decision on the part of the governments of the creditor countries. Why a political decision? Because the origin of this problem is political. The Eurodollar market was born of a political decision on the part of the larger countries, especially the United States. Leaving the Eurodollar market unregulated, despite the warning voices that were raised at the time, was a political decision. Covering the fiscal deficit of the United States, not in the traditional and orthodox fashion through an increase in taxes and a reduction of expenditure, but by absorbing domestic saving and gigantic quantities of saving from the rest of the world through astronomically high interest rates, is a political decision. How then can we do other than maintain that the debt problem is essentially political? Because of the

nature and origin of this situation, and because of the serious consequences that its persistence will imply for all the countries affected and, in the last resort, for the industrial centres, too, it calls for a forward-looking approach and for understanding of the dangerous threat to the world economy that it involves, since it is not only the problem of the debt that is at issue, but also, as has been said over and over again at the present session, other problems which are superimposed upon it" (Prebisch, 1986a, pp. 14-15).

On the same occasion he underscored the imperative of clarifying the role of ECLAC in respect of the import substitution policy which the countries of Latin America began to apply during the crisis of the 1930s. His words on this topic are revealing. They not only constitute a testimony of the past, but also provide a clear outline of the role which import substitution could play, should the present international crisis deepen:

"I should also like to comment—since we are talking of the renovation of ideas, of ideas that lag behind events—on the foreign trade policy of the Latin American countries. When did import substitution begin in Latin America? During the great world depression, when the monetary policy of the United States and the enormous rise in customs duties shattered the whole system of multilateral trade and payments that had been working very well. The slump in our countries' exports was formidable, and import substitution was the only way out. I had an active part to play at that time, and I do not remember that in the prevailing situation there was anyone crazy enough to say 'The thing is not to substitute domestic production for imports but to export manufactures'. Export manufactures where? To a world that was out of joint and where protectionism was a normal way of safeguarding economies? Import substitution was the only solution possible. It was not a doctrinaire imposition. It was imposed by force of circumstances. Then came the difficulties of the postwar period, until at last, with Europe reconstructed and the world economy set on its feet again, the opportunity and the need to export manufactures did arise" (*ibid.*, p. 15).

After recalling that in 1961 ECLAC had already put out a warning regarding the asymmetry of Latin American industrial policy and

the need to promote the export of manufactures, Prebisch made a number of further observations regarding the present situation, which, on account of their undeniable relevance, deserve to be quoted in full:

"This is not a question of doctrinaire preferences. The extent to which our countries should go on combining import substitution with exports depends upon the receptive capacity of the centres. If the growth rate of the centres remains far below what it was in the past and protectionist measures continue to proliferate, the need for import substitution will be much greater than if thriving developed economies throw open their doors to exports not only of manufactures but also of primary products from the developing countries. As I said, everything ultimately depends on the receptive capacity of the centres; the need to export is not a whim of the developing countries, but a requirement of their growth" (*ibid.*, p. 15).

#### 6. *The issue of integration*

However, Prebisch tended to take a pessimistic view of the possibilities for greater dynamism and openness on the part of the world economy, and in particular the United States economy, to exports from the periphery and from Latin America in particular (Prebisch, 1986, p. 210). Hence his insistence on import substitution (although now at the regional level) in connection with his well-established ideas and recommendations regarding the desirability of Latin American integration, which date back to the 1950s. In respect of this subject —to which he returned in, *inter alia*, an essay written in 1986— he put forward a number of recommendations which, putting aside any considerations relating to their validity or practicability (aspects that we shall not attempt to examine here), reveal him to be a thinker who was turned towards action and who possessed unswerving faith in integration as a factor of Latin American unity. What he said was this:

"It must be recognized, however, that the effort expended over more than two decades has produced very scanty results. Accordingly, the reasons why we have not advanced as much as in

the early days might have been thought possible should be subjected to careful scrutiny. A retrospective review leads me to the following conclusion: in ECLAC we allowed ourselves to be seduced by the idea of a Latin American common market, which gradually cleared a way for itself and took shape in the arrangements generally known. What I am saying is not that this idea must be abandoned, but that there should be a change in the form and timing of its materialization. The crux of the matter always has been and still is the trend towards an imbalance with the centres which must necessarily lead us to substitute domestic production for imports from the central countries. It is there, in my opinion, that efforts should be concentrated, leaving other measures, aimed at trade liberalization, for a later stage. Thus, for example, the preferences that our countries could grant one another in respect of importing consumer goods are not going to resolve that basic problem to which we alluded. Nor is this all; I think that import substitution under a preferential régime comes up against major obstacles. The countries whose industrial development is farthest advanced are in a position to export capital goods or intermediate goods to the relatively less or least advanced countries while the latter cannot participate to the same extent in trade of this kind. It is on their shoulders, however, that the cost of such operations tends to fall, since they are made to pay higher prices than are quoted on the international market for the capital goods and inputs which they import from the more advanced countries. For this and other reasons, I am more inclined to think that the advanced countries should grant their exports subsidies equivalent in significance to their customs protection. Of course the subsidies régime would have to be established by common accord under a new agreement, but it would not suffice in itself to ensure a relatively balanced trade. The least or relatively less advanced countries would still be in an inferior position unless special corrective measures were taken; one of these would be for the countries benefiting most by the trade in question to share with those that gain least the investment required to possibilitate a satisfactorily balanced trade not bilateral but multilateral among all the participant countries" (Prebisch, 1986, p. 208).

We have deliberately left these rather lengthy references to the topic of Latin American integration until the last. We have done so, first of all, because the style in which these paragraphs are written illustrates Prebisch's constant quest for concrete economic policy measures that could serve as a means for putting the results of his diagnoses into practice, and secondly, because the issue of import substitution on a regional scale, within the context of a more intense drive for Latin American integration, attests to the congruency and continuity over time of his main lines of thought. These

ideas take on particular importance within the present international crisis situation in that they call up dilemmas which the region faced once before —although under different historical circumstances— between 1914 and 1945.

Finally, by way of conclusion, there is perhaps room for one last remark. The ideas of Prebisch, which we have reviewed all too briefly here, are not only a part of the history of Latin American economic and social thought. They also constitute *idées-force* which continue to help shape history.

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