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The global crisis of capitalism and its theoretical background

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Central and peripheral capitalist countries alike are facing the present crisis without having discovered how to deal with the fundamental dilemmas of accumulation and distribution, which are clearly evidenced in the trend towards an imbalance between the growth rate of private and public expenditure and that of reproductive investment, and in the difficulty —especially acute in the periphery— of finding solutions for the problems of growth, employment, the external bottleneck and inflation. Experience shows, once again, that these problems will not be resolved by the application of monetarist or Keynesian criteria, which means that new principles of macroeconomic regulation must be established.

After putting forward this thesis in general terms (section I), the author turns his attention to the international propagation of inflation and the role played therein by the United States (section II), before going on to the core of his analysis, i.e., presenting the causes accounting for the aforesaid disequilibrium, which pivot upon the appropriation, retention and sharing-out of the surplus (section III). In the last part (section IV) he analyses the incidence of the crisis in the centres on the periphery and the specific nature of the prejudicial effects on the latter stemming from structural factors and from policy decisions, both external and internal.

The crisis is a matter of economic facts, of the ideas in the light of which attempts are made to interpret it, and of the policies that seek to cope with it; the periphery's only way out of it will be through an autonomous effort of intellectual reflection and of political action.

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I

Internal dynamic disequilibrium and inflation

We are witnessing a crisis which in its nature and its manifestations outdoes even the severity of that of the 1930s. It cannot, in my view, be explained in the light of theories which emerged in the centres over a century ago; neither those that exalt the virtues of capitalism nor those that condemn the system.

They are theories that have been left behind by events and likewise by the giant strides of scientific knowledge. Capitalism has evolved unceasingly and, as technical innovations develop and spread, great changes take place in the structure of society, accompanied by others of major significance in the power relations that so strongly influence the tempo of development and the social distribution of its fruits. To all this are added the increasingly notorious effects of the ambivalence of technique.

The anachronistic character of these theories is very serious both in itself and in its implications, since they are incapable of interpreting the facts and are counterproductive in their modes of action. Time and time again reality overbrims the narrow mould of concepts which seek to give it a purely economic cast, eliminating, by a sort of doctrinaire asepsis, social, cultural and political elements which form an integral part of it and which, together with technical and economic factors, are of growing importance in the structural mutations of society.

It is not surprising, therefore, that within these narrow bounds there is still talk of the general equilibrium towards which the system tends when it is not subjected to disturbing interventions. In other words, when the so-called magic of market laws is respected.

There is no such thing as a tendency towards general equilibrium. Quite the contrary: the evolution of the system makes for structural disequilibria of major significance, both in the centres and in the periphery, as well as in centre-periphery relations.

In the course of more than three decades I think I have got to the bottom of the explanation of this trend towards disequilibrium between the centres and the Latin American region of the periphery. I have tried to demonstrate the serious theoretical errors stemming from the centres and from their mistaken attitude towards our phenomena. And I have likewise gone deeply into the tendencies towards internal disequilibrium within the periphery itself, whence new forms of inflation have been arising.

I have reached the conclusion that in the centres too the trend towards internal disequilibrium is becoming more and more marked: a disequilibrium between the growth rate of private and public expenditure and that of the reproductive investment which increases employment and productivity, and without which expenditure cannot evolve along progressive lines. From this imbalance also emanate the problems of inflation in the centres. Accordingly, to our peripheral countries can be ascribed the doubtful merit of having been the forerunners of this inflation deriving from dynamic disequilibrium.

Be that as it may, it is a matter for consternation that the weapon consistently used to attack these problems should be the monetary instrument. Highly efficacious in the past as a means of correcting the inflationary deviations of the system, it has now become counterproductive in face of the new social forces that are accompanying structural change. The question is no longer one of deviations, but of a struggle for redistribution in which the aim of the labour force —if I may be allowed to use this concept in a very broad sense— is to increase its participation in the growing productivity of the system, both directly, and through the social services provided by the State. Moreover, the tendency of the State is to share out the productivity increment more and more.

Thus consumer expenditure is continually mounting. To the conspicuous consumption of the social strata advantaged by their disproportionate share in the fruits of technical progress, are added not only the growing consumption of private and social goods and services on the part of the labour force, but also State spending, both civil and military. However, the different forms of expenditure do not show increases in some cases to the detriment of others, but are superimposed upon one another. And inevitably their rate of growth tends to outstrip that of reproductive capital accumulation.

Given the prevailing system, the monetarist instrument is the only one available to attack the inflation deriving from this dynamic disequilibrium. But it is no longer a fitting one; and the consequences of its application are disastrous. The facts suffice to testify that the social cost is enormous. Yet recognition of the impossibility of combating this new form of inflation with monetary regulation is slow to dawn. Some other kind of macroeconomic regulation is imperatively required to correct the tendency towards dynamic disequilibrium, both in the centres and in the periphery.

The *concept of economic equilibrium* is totally out of touch with reality, inasmuch as it overlooks the structural phenomenon of the economic surplus. I maintain that however fully the rule of free market competition be observed, only part of the productivity increment attributable to technical progress is transferred to the labour force, while the rest is appropriated and retained as an economic surplus by the holders of the means of production, especially the upper strata of society where those means are concentrated.

The economic surplus plays a vital role in the dynamics of the system, since it is the primordial source of reproductive investment such as multiplies employment and productivity and continuously augment the surplus itself. But it is also a source of considerable expansion of the consumption of the upper strata, increasingly stimulated by the techniques for the diversification of goods and services which, it is true, also tend to step up the consumption of the lower strata as the productivity of the system makes progress.

During the past history of capitalism, it has been possible for the upper strata to appropriate the surplus by virtue of the passiveness of the labour force and the *laissez-faire* attitude of the State.

The surplus is a historical category which is based essentially on social inequality; it corresponds to a specific power structure. In the course of structural change the labour force progressively, although very unequally, develops its trade-union and political power, and struggles to obtain a larger share in the productivity increment; the State does the same, in order to cover both its increasing social expenditure on behalf of the labour force and the outlays deriving from its own dynamics, which, in their turn, reflect the changes that have occurred in the power structure.

In so far as the State, in order to cover the social services referred to as well as the expansion of other expenditure, resorts to taxation of which the burden has to be borne by the labour force, the latter tries to recoup itself by means of wage increases. This tends to push wages up faster than productivity rises, thus weakening the growth rate of the surplus and therefore that of capital accumulation.

Some of the taxes also fall on the surplus and adversely affect the development of reproductive investment and, consequently, of productivity, at least as long as State investment and expenditure do not help to improve matters.

Thus, as the passiveness of the labour force and the *laissez-faire* policy of the State are modified, the tendency for wages to increase faster than productivity and the slackening of the latter's rate of growth bring consequences in their train that are more and more disturbing, given the nature of the system.

Every rise in wages has the twofold effect of raising costs and boosting demand in such a way that the higher costs can be transferred to prices in so far as the rate of increase of wages rise outstrips that of productivity. And hard upon this rise in prices follows a fresh wage increase, if the labour force has enough power to obtain it. This is the origin of the inflationary spiral, deriving from the pressure of costs and intensified by the upswing in rates of interest that succeeds the rise in prices.

The upward movement of prices is really due to the endeavours of enterprises to defend the appropriation and retention of the surplus. And there is no spontaneous mechanism whatsoever whereby the increase in costs can be absorbed at the expense of the consumption of the groups benefitting by the surplus so as not to weaken the rate of accumulation. That is not how the system functions. It tries to protect the apropriation of the surplus by the groups in question where both their consumption and their investment are concerned.

It should be taken into account, however, that if the real remunerations of the labour force are improved a portion of them may be used for accumulation, thus offsetting, to some extent at least, the weakening of capital accumulation on the part of enterprises. But neither is there any mechanism that spontaneously leads to this sort of compensation. What is of essential interest to enterprises is to defend the surplus and use it freely for their own investment rather than to let it be drawn upon for accumulation by the labour force. The same might be said of accumulation by the State.

It is not so much a question of resolving the technical problem of accumulation in order to promote the dynamics of the system, as of preserving the appropriation of a large proportion of the fruits of technical progress by the owners of the means of production. The system's need to speed up the rate of accumulation in order to increase employment does not represent a responsability intrinsically incumbent upon the social groups that appropriate the surplus. It is other elements that determine the rate of accumulation, and above all a factor of a cultural nature: the degree of austerity of these social groups, or, in other words, their resistance against the pertinacious incitement to consumption, spurred by the ever-increasing diversification of goods and services. Whatever degree of austerity may have been practised in the historical development of capitalism, it must be acknowledged that this is not a characteristic of peripheral capitalism.

Let us now revert to the defence of the surplus through price increases, which causes inflation to spiral when the labour force is no longer passive and the monetary authority allows the necessary creation of money. The growing distortions which accompany this amplification of the spiral sooner or later induce the monetary authority to restrict credit. The consequences are common knowledge: a decline or contraction of the growth rate together with tighter and tighter compression of the surplus and a slump in employment.

It is precisely in the decrease in employment that the key to this monetary policy lies. For sooner or later it leads the labour force to accept a deterioration of its real remunerations until the wage squeeze permits of a new increase in the surplus and in its dynamic role, as well as in the consumption of the advantaged social groups.

Furthermore, a rise in interest rates accentuated by a restrictive monetary policy, implies a substantial transfer of real income from productive activity (surplus and remuneration of labour force) to financial activity, and slows down the tempo of economic activity, which then contracts.

Such, in a few words, is the way in which a notable success in curbing inflation has been scored, first of all in the main dynamic centre of capitalism. In a recent commentary on this fact, *The Economist*[1] noted that this result had been achieved by squeezing real wages in order to increase the profits of enterprises (i.e., to reestablish the surplus). A very laudable thesis, according to the periodical —which has gained a wide circulation both in the centres and in the periphery, and which supports monetary policy as a means of combating inflation. Here are the terms in which its remarks are couched:

"Falling real wages, like falling oil prices, are correcting an imbalance that has harmed the world economy for 10 years. Too-dear oil and too-dear labour both helped to cause stagflation. Their demise could herald a new age of low unemployment and low inflation, especially if too-dear money also ended. When that happens, the world will enjoy many happy New Years."

The economic and social cost of a restrictive monetary policy is tremendous, as we have already pointed out. But according to its defenders, this is a cost that has to be incurred in order to restore the system to health: i.e., in order to correct what they consider excesses brought about by the exaggerated claims of the trade unions, as well as by the increasing social benefits that contribute to the hypertrophy of what is no longer a *laissez-faire* State. In fact, the neoclassical economists generally accept with resignation (and not without a measure of complacency in some cases) the economic and social cost in question for the sake of remedying the consequences of the violation of market laws by the labour force, as well as by abusive exercise of the power of State.

Violation of market laws, because, according to the neoclassical theories, if the market is allowed to operate freely, with no interference whatsoever, the economic system will tend towards equilibrium. And given this equilibrium, workers, entrepreneurs and capital will be remunerated in accordance with their contribution to the production process. Whence derives a conclusion of supreme importance in neoclassical theory (although it is not usually explicitly stated): the free play of market forces disseminates throughout society the fruits of technical progress which find expression in the steadily rising productivity of the system, when this is left to its own devices.

These arguments, of course, disregard the structural phenomenon of the surplus; not only does accumulation increase, but so does the privileged consumption of the social groups that benefit by technical progress. It is precisely this manifest inequality in consumption that causes the twofold pressure for redistribution exerted by the labour force and the State. Only the system, given its *modus operandi*, precludes efficacious fulfilment of the design of equitable distribution.

Let some thought be given to the significance of these facts. The labour force finds itself compelled to accept a compression of its real wages so that the system may recover its capacity for accumulation. And for that to happen, unemployment must increase. Can it be supposed that if a reactivation of the economy and a rise in employment levels occurs, the labour force will meekly renounce its aspirations in favour of accumulation and more lavish consumption on the part of the advantaged strata? Or will it be necessary to recognize that the system, in the present structural phase, is continually exposed to inflationary pressure, which weakens with unemployment and recrudesces with the reactivation of the economy?

There is nothing surprising, then, in the peculiar thesis of those who maintain that the regular operation of the system entails a certain coefficient of unemployment in order to moderate wage demands.

I believe I have reached a clear and categorical conclusion. It is not feasible to seek the social betterment of the less favoured groups through wage increases that raise the enterprises' production costs. A historical phase in the evolution of capitalism is coming to an end without a solution's having been found for the fundamental problem of synchronizing distribution of the fruits of technical progress and accumulation of reproductive capital.

[1] 24 December 1983.

Moreover, to dream of resolving it by market laws would be a fatal illusion. The market, in so far as it operates correctly, is efficacious from the economic standpoint. But its social efficiency is partial and limited and so is its ecological efficacy. It is not the market in itself that should concern us, but the underlying structure of society and the power relations inherent therein, as well as the ambivalence of technique. Nor must we labour under the delusion —much more dangerous still— that the abolition of the market will resolve these and other problems, since that would invest those who manage the system from the summit with a power which, besides jeopardizing the system's efficiency, would prove incompatible with the progressive democratization of society.

In face of the trend towards dynamic disequilibrium which is so strikingly evidenced in the fiscal deficit, an attitude observable today, both in the United States and in the European countries that gave most impetus to the Welfare State, is concern for the containment of social services (besides what obviously relates to military expenditure). Of course I do not believe that the considerable human welfare potential that technical progress has brought in its train is exhausted. But a radical rectification of the trend towards dynamic disequilibrium is necessary, since if it were corrected it would be possible to realize the system's considerable potential for social betterment.

To this propensity to dynamic disequilibrium are added the adverse consequences of irresponsible exploitation of non-renewable natural resources, and other serious ecological repercussions. To prevent or counteract these effects it is essential to increase the amount of capital per unit of output in order to reestablish the rate of increase of productivity. Accordingly, this rate is unfavourably affected not only by a falling-off in the intensity of accumulation, but also by the need to make technical progress ecologically sound.

Perhaps it may seem strange to lay so much stress on the trend towards dynamic disequilibrium between expenditure and accumulation when it is recalled that half a century ago Keynes asserted that the operation of the system tended to engender over-saving. His vigorous imagination led him to suggest that the building of the pyramids of Egypt might have been, up to a point, a consequence of over-saving, which meant that the superfluity had to be invested in that way. Lively imagination and literacy polish too, such as used to be found in the great classics, in contrast with the heavy and muddled style that characterizes many of our economists. Keynes, then, largely attributed the depression of the 1930s to this phenomenon of over-saving, which, in my opinion, was no such thing, but a cyclical maladjustment. Be that as it may, Keynes' concept led many of his followers to ascribe unemployment to a shortage of demand caused by over-saving. It was not granted to the eminent economist to foretell the trend towards structural disequilibrium between the rate of expenditure and that of capital accumulation —a disequilibrium in which an insufficiency rather than a superabundance of saving has been apparent.

It is worth while to pause a moment here. When unemployment is cyclical the Keynesian expansion of demand is advisable, within certain limits; but when it derives from the aforesaid structural disequilibrium between the rates of expenditure and of accumulation such expansion would help to intesify the inflation caused by the disequilibrium in question. And when it is sought to combat inflation with monetarism, the effects are counterproductive, as was pointed out above. In face of inflation and structural unemployment, neither monetarism nor Keynesianism will do. Other modes of regulation become essential.

The explanatory accounts of the trend towards dynamic disequilibrium and of its inflationary effects that I am presenting in this first section originally related to peripheral capitalism. But, as I have already said, observation of facts has convinced me that these phenomena are also common to the centres, which should hardly be surprising, inasmuch as the periphery has copied from them the process of appropriation of the fruits of technical progress. The only difference is that in the periphery the trend towards dynamic disequilibrium is much more marked, owing to the specificity of its capitalism, which largely stems from the historical time-lag in its development.

In any event, I felt it desirable to restate my interpretation of these phenomena as published in various articles in this *Review* and in my book on peripheral capitalism.[2] The criticisms I have received and the evolution of my own thinking have, I believe, enabled me to work out a clearer and more accurate presentation, which I shall set forth below (section III), at the risk of inevitable redundancies.

II

International propagation of inflation

Let me dwell first on a few considerations relevant to the international propagation of inflation. I believe that to a large extent this phenomenon is a general consequence of capitalist development, but I do not doubt that inflation in the United States —the system's main dynamic centre— has given great impetus to such propagation, both because of its importance in the economy and because of the twofold role as national and as international currency which the dollar has acquired.

This role as an international currency carries with it the great privilege of creating money and utilizing it free of cost, and, at the same time, the enormous responsibility of ensuring that its creation is consonant with the requirements of world development.

The dominant factor in the creation of money, however, has been, on the contrary, the United States' internal inflation. Inflation has spilled over on to the rest of the world.

And just as it contributed to the great development euphoria in days that are now receding farther and farther into the past, the United States' current policy of containing inflation by means of extremely high rates of interest has brought about a worldwide economic contraction, which in the periphery accentuates the gravity of its own problems. The abundant creation of inflationary dollars at the international level is therefore being followed by a movement of deflationary return of those dollars to the United States, in response to the attraction of the rates of interest aforesaid.

In its early days, up to the mid-1960s, inflation was relatively moderate, but later the exceptional growth of both social and military expenditure, as from President Johnson's term in office, gave great impetus to the spiral, until the rise in petroleum prices (beginning in 1973) stepped it up to unusual proportions. It is often said that the upswing of oil prices was the determinant of inflation, with no memory of the fact that convertibility had been abandoned years before in consequence of the inflation that was developing.

The inflationary expansion of demand in the United States, as well as its investment abroad, could be partly met with the product of the rest of the world, especially in times of overvaluation of the currency. The said capital investments, particularly in Europe, helped to mitigate technological backwardness and to bring about an exceptional increase in productivity and rates of growth.

The inflow of dollars would have caused a dangerous secondary accentuation of inflation if the countries concerned had not decided to deposit a large proportion of these resources in the Eurodollar market. This market was considerably enlarged by substantial deposits of financial surpluses from oil. It was a favourable moment for tapping an appreciable share of these resources by the sale of long-term securities and by issuing loans, above all to developing countries. This would have been an advantageous way of procuring a three-cornered reversion of these resources; originating in the major consumer centres, mainly in the United States, they would have returned there if long-term loans had been made to developing countries, which, in their turn, would have used them to purchase capital goods from the centres in question.[3]

[2] *Capitalismo periférico. Crisis y transformación*, Mexico City, Fondo de Cultura Económica, 1981.

[3] This is not an a *posteriori* reflection. On the contrary, I had an opportunity to put this idea before the Secretary-

Events are showing, however, that private financial interests have outweighed sound long-term considerations. The international banks in which the funds deriving from petroleum (as well as those originating elsewhere) were deposited gave great impetus to operations consisting in short-term loans granted mainly to developing countries and to some of the socialist countries. It was not only such resources that were involved, but also the inflationary multiplication of money which was added to the dollars flowing from inflation in the United States. For every dollar that reached the Eurocurrency market, the international private banks created several additional dollars by expanding their credit, and thus aggravated inflationary pressures.

These operations were subject to no regulation whatever at the international level: a point worth recalling now that the entire world is suffering their consequences. It was some time since long experience had led to the regulation of internal creation of money (although it gradually lost efficacy, as was remarked in the foregoing section). Yet the international operations of private banks were conducted without regulation of any kind, under the sole guidance of the profit incentive, and brought in very substantial gains.

The lust for profit took precedence over elementary considerations of foresight and responsibility. And the borrower countries ran into debt without much thought for the future. There was, in short, a convergence of irresponsibilities. In some cases, short- and medium-term loans were spent on investments that ought rather to have been made on a long-term basis. And in others, they helped to pay the higher petroleum prices or to defray the cost of excessive consumer imports encouraged by internal measures; or they were used to cover military expenditure. What is more, some Latin American countries that obtained plentiful resources from their petroleum sales also engaged in a drive to over-accelerate their investments and their rate of development by means of loans of this kind.

General of the United Nations when he asked me to undertake an emergency operation to combat critical situations in developing countries currently affected by the rise in petroleum prices. The Secretary-General submitted my proposition to the General Assembly.

As usually happens in the event of such abuses, theoretical justifications were by no means lacking: international market forces had to be left to operate without restriction. The free play of market forces would entail the most advantageous allocation of resources. The private banks would be more efficient in this respect than the official international credit institutions; and thus they came to acquire the lion's share of world financing.

I spoke earlier of the deflationary return to the United States of some of the dollars previously poured out on the world by the spill-over of inflation. This return, as is common knowledge, is due to the exceptional upswing in rates of interest. It is worth while to dwell for a moment on this singularly important phenomenon.

Inflation deriving from the fiscal deficit, as well as from the distribution struggle, is yet another manifestation of the trend towards disequilibrium between expenditure and reproductive capital accumulation. The two processes feed each other. As regards inflation of fiscal origin, rather than introducing appropriate adjustments in expenditure and taxation, preference was given to attracting saving to the State in order to cover the deficit.

It is true that because of the nature of the system increased taxation would also have had an inflationary impact, for the reasons set forth in section 1. And an appropriate income policy would have been required to moderate its effects. In any event, allocating a considerable proportion of saving to covering the deficit had much the same sort of adverse influence on capital accumulation and productivity as taxes would have exerted on the surplus. Moreover, the rise in rates of interest on saving was accompanied by a restriction of credit and an increase in bank interest rates so as to prevent an inflationary transfer of resources to the financial market. The adverse effects of credit restriction are common knowledge. They were not confined to the United States, inasmuch as the high interest rates —as has already been pointed out— caused a return of dollars, raising the cost of money and resulting in world deflation. Thus the return of dollars to their original source brought very serious problems to the countries concerned, compelling them to carry their own restrictive measures to extremes.

A distinction should be drawn between the international propagation first of inflation and then of deflation, and the internal inflationary phenomena explained in section I. International inflation has helped to aggravate these. The same thing is true of the periphery, whose own problems have been seriously complicated as a result of the international monetary vicissitudes.

All this involves a high level of unemployment everywhere witd a colossal waste of development potential. If these adverse consequences and their social incidence are compared with the euphoria of the years of prosperity, it may well be asked whether, in the long run, slower and steadier growth would not have been preferable to exceptional rates of development followed by a slump in the tempo.

This question strikes, of course, right to the heart of the matter, i.e., to the very process of appropriation and distribution of the fruits of technical progress, as well as the accumulation of reproductive capital. This is the fundamental problem that must be resolved in face of the irremediable dissolution of a historical category of capitalist development, whose positive results cannot be denied, notwithstanding the serious disturbances that were being hatched in the evolution of the structure of society.

Lastly, international monetary reform is being discussed, and the periphery has not been indifferent to the proposition. Bretton Woods has been left behind by events. But it is also advisable to query whether an international reform could be efficacious and lasting if the large countries did not undertake a process of internal change of their own in order to correct their tendency towards dynamic disequilibrium between expenditure and reproductive capital accumulation. If this tendency is not rectified in time and continues to be a source of inflation, phenomena may occur that are incompatible with the disciplined creation of money to meet the real needs of the international economy.

III

The appropriation and retention of the fruits of technical progress and the distribution struggle

Since in section I we attached so much importance to the structural phenomenon of the surplus, the time has now come to explain, firstly how it comes about, next how it is retained, and lastly how the social struggle to share in the fruits of thechnical progress triggers the trend towards dynamic disequilibrium between the rate of expenditure and that of reproductive capital accumulation. This trend inevitably leads to inflation and cannot be contained by means of the monetary instrument without that huge economic and social cost on which at the due moment we laid stress.

Let us begin, then, with a simple schematic explanation of the economic surplus. The surplus is closely linked to technical progress, which finds expression, thanks to capital accumulation, in a continuous superimposition of new technical layers of increasing productivity on technical layers in which productivity is less. This is a process which is incessantly renewed.

It happens that when a technical layer is added in which productivity is higher than in those preceding it, the wages and salaries of the labour force thus employed do not improve correlatively with the increment in productivity. Within the play of market laws, an improvement will be obtained only by that part of the labour force which, at all levels, possesses the increasing skills that technical progress demands. The productivity increment is the result of these skills plus capital accumulation in which technological innovations take shape. The wages of the rest of the labour force employed in new technical layers do not increase correlatively with productivity for a very simple reason: competition on the part of the manpower which is left behind in lower-productivity layers where income is less, and of the labour force entering the market in consequence of population growth. This competition prevents wages from rising in keeping with the increased productivity of the new technical layer.

I have applied the term surplus to the productivity increment which, not being transferred to the labour force, remains in enterprises and corresponds to the means of production. A clear distinction must be drawn between the surplus and the remuneration of those who organize and direct productive activity, whether they are the owners of the means of production or not.

The surplus has its origin, then, in structural heterogeneity, that is, in the diversity of technical layers, productivity and payment of the labour force. It is conceivable that capital accumulation and the skills needed to meet its requirements may tend to lead progressively to homogeneity, with similar levels of productivity, and equal pay for equal skills. In that case the surplus would peter out, as would likewise its dynamic role in accumulation, and other forms of capital accumulation would have to be put in its place. In any event, the process would be a relatively slow one, to which a threat would be constituted by the incessant diversification of goods and services which militates against reproductive capital accumulation, as well as by population growth, especially in the periphery.

Meanwhile, the redistributive power of the labour force and of the State gradually achieves what market laws are slow to accomplish. And as redistribution takes place, the expansion of expenditure which it involves is added to the ever-increasing expenditure of the social groups benefiting by the surplus. Thus the system tends towards that dynamic disequilibrium between the rate of expenditure and that of reproductive capital accumulation which was mentioned in section I.

This tendency towards disequilibrium cannot be explained, however, without showing —likewise briefly— how the surplus is retained in enterprises, instead of being socially disseminated as the neoclassical theories assume; and how in the course of the structural changes in society the redistributive power of the labour force and of the State weakens the growth rate of the surplus, to the detriment of the rate of reproductive capital accumulation.

My interpretation is based on study of the dynamics of the production process and the various phases that occur during the time it takes, from the primary phase to the stage when the final goods (both consumer and capital goods, between which there is no difference where the production process as such is concerned) are launched on the market.

This introduction of the time factor is essential, as is likewise the growth of production. Otherwise it would be impossible to explain how the increment in productivity which has been achieved in the various phases can be absorbed without a fall in prices. For if enterprises do not transfer the whole of the productivity increment to wages, the demand stemming from what they pay out will be insufficient in relation to the increase in productivity.

Herein lies the significance of the time factor in the dynamics of the production process. In order to understand it, the various phases of production under way must be clearly distinguished from the final stage of output of end goods. Demand for the latter does not derive from the income that the enterprises have paid out formerly in the course of their production but from the income they are paying out during the process of producing new final goods which will be put on the market later on.

Such, in the dynamics of production, is the effect of the time factor. Because of it, the amount of goods in process of production, during a given period of time, is larger than the quantity of final goods in the same period. In other words, final goods lag behind current production. Thus, the increase in final goods in any period in relation to the one before it could not be absorbed without the expansion of demand deriving from the income paid out by enterprises in the course of the production under way between those same periods.

The aditional amount of final goods results both from the increase in employment and the rise in productivity. And if demand expands enough, the productivity increment stays in the enterprises in the form of a larger surplus (or an increase in profits, in a first approximation).

It should be explained that this larger surplus is not all obtained when the final goods are sold on the market, but step by step appears in advance in each phase of the production process, in accordance with the demand expected by the enterprises concerned. Thus partial surpluses emerge. If demand for final goods is sufficient and confirms the expectations entertained, the same rate of demand can continue for the whole of the production under way. Otherwise, adjustments in one or other direction will supervene, according to whether demand for final goods does or does not expand sufficiently to absorb the increase in these.

We are now in a position to introduce the creation of money into our argument. We were saying that the income paid out in the course of production generated the demand for final goods. If this demand is sufficient enterprises in the final phase recover the income they paid out in due course and obtain their partial surplus. If production were *static*, the money thus obtained by the said enterprises would suffice for the purchase of goods in process in the preceding phase and payment of their own labour force. And the same thing would happen in every phase. On the contrary, in the course of *increasing* production the money obtained by enterprises in the various phases would not be enough to step up their own employment and the purchase of goods in process of production in the preceding phase, the corresponding partial surplus included.

Thus, as production under way increases, enterprises have to resort to the creation of money by the bank system, save to the limited extent that they may have available stocks of money (for simplicity's sake, we shall eliminate this possible increase in the circulation of money relation, which makes no difference to our argument).

The role of the monetary authority is to permit the creation of the money required for the growth of income in production under way so that the increment in demand thus generated may be equivalent to the increase in output of final goods. In this way monetary stability can be maintained.

There are two principal sources of an increase in demand, namely, the growth of ongoing production, as has been explained, or the expenditure of the State, when its income does not suffice to cover its disbursements and recourse is had to the creaction of money. Inflation likewise has its origin in these two main sources.

We will now consider first the inflation stemming from ongoing production, and then that of fiscal origin. The two are closely interrelated, as will be seen in due course.

The additional income paid out by enterprises in the course of production under way corresponds to the increase in employment and in salaries and wages. In the play of market laws wage increases are related to the rise in productivity that enterprises expect to achieve. In other words, the rate of increase of wages corresponds to the rate of growth of productivity (it should be recalled that another part of productivity, that which is not transferred to the labour force, goes to swell the surplus).

What happens when the labour force is no longer passive, and acquires the necessary power to increase its wages at a rate higher than the growth rate of productivity, whether in quest of a genuine improvement or in order to recoup itself for taxation?

Obviously, in such a case the expansion of demand originating in production under way outstrips the increase in productivity in respect of final goods. An inflationary movement thus begins whose persistence will depend, firstly, upon whether the monetary authority raises the rate of creation of money in order to cope with higher wages; and, secondly, upon the continuance of the struggle for better pay. If both conditions are fulfilled, spiralling inflation will inevitably ensue.

It may usefully be asked, before proceeding farther, whether the monetary authority, in the fulfilment of its responsibilities for preserving price stability, could not refuse to grant such an increase in the creation of money. If this were to happen, enterprises would be unable to raise prices and would find themselves compelled to defray their heavier costs out of the increment in productivity, to the detriment of the growth rate of the surplus, or of the surplus itself, according to the strength of the pressure for redistribution.

Clearly, besides reducing the profitability of enterprises, this would adversely affect the rate of capital accumulation and consequently of employment. The opposition put up by enterprises to this restrictive policy, as well as its social consequences, would preclude its pursuit for any great length of time. Enterprises will spare no effort to defend the surplus and its growth.

In this case, an increase in remunerations outstripping the growth rate of productivity will involve an expansion of demand accompanied by additional creation of money in order to raise prices.

But this is not all. The price rise will entail an upswing in rates of interest. Otherwise, a flight of money abroad will take place. And thus the financial costs of enterprises will rise, pushing up prices first and then wages. And the spiral will attain greater proportions.

We were saying a moment ago that enterprises try to defend themselves against the onslaught of wage increases by putting up prices. They succeed in doing so, but the effects obtained are momentary, for if rates of pay are raised it has to be at the expense of the growth of the surplus. The defence in question is therefore relative, since in this way the growth rate of the surplus rises and falls. Moreover, the rise in interest rates operates to the partial detriment of the surplus and of wages. Thus it happens that the holders of liquid resources are able to defend the real value of their money more efficaciously than those who are defending the surplus.

This first phase of the inflationary spiral may be accompanied by some increase in production. But it is also marked by steadily worsening distortions, both internal and external, which it is needless to consider here because they are well-known and because they make no difference to our basic argument. Sooner or later, however, the monetary authority will attempt to contain the inflationary process, to which end it will ultimately resort to the only instrument at its disposal, i.e., the restriction of credit accompanied by increases in interest rates which exceed the rise in prices, in consonance with the degree of severity of the restrictive policy.

The close of the first inflationary phase ushers in the second, that of the intention to contain inflation. To meet the requirements of enterprises and the pressure of labour itself, the monetary authority had been compelled to facilitate the creation of money and thus unleash inflation. Now it has to backtrack. To do so by means of the monetary instrument is an exceedingly difficult task, but if it is tenaciously carried out inflation can be curbed. The time has come to explain the different manifestations of this anti-inflationary policy, making use of the production under way-finished goods scheme set forth above.

The case we are about to consider is characterized by the firm determination of the labour force to preserve, if not to improve, its real income, by outstripping price rises in the course of the spiral. We already know, however, that sooner or later the unemployment caused by restrictive policy calls a halt to wage adjustments.

Unemployment is an immediate consequence of this policy and is subsequently accentuated by successive decreases in the growth rate of production under way or even by negative rates.

When the monetary authority first refuses to allow the rate of creation of money to keep pace with the rise in the income paid out by enterprises, the latter will tend to raise wages at the expense of employment. Production under way, like employment, will be unable to increase as much as the income aforesaid or will have to be reduced, according to the strength of the upward pressure of salaries and wages.

While this is happening in the case of production under way, final goods continue to increase by virtue of the lag deriving from the time taken by the production process. The time factor must always be borne in mind in order to understand this line of reasoning. Some time will elapse before the slackening of production under way makes itself felt in the supply of final goods. Meanwhile, production in process continues to decline until wages cease to rise, as will be seen later. Thus there is a disparity between supply and demand with respect to final goods. The increase in demand deriving from the production of future goods under way is insufficient to absorb the increment in current goods, and the result is an unsalable glut of them on the market.

This left-over supply slows down the rate of demand for goods in process in all their phases. Thus, demand also proves insufficient to absorb productivity increments in these phases and the growth rate of the partial surpluses and therefore of the global surplus is correspondingly reduced, as the rates of production and employment slacken. Thus the initial reduction accompanying credit restrictions is supplemented by the consequences of insufficient demand.

This further decline in the rate of production under way takes place while wages are continuing to rise. Accordingly, the production in question is subject to a twofold pressure: exerted firstly, at the beginning, by credit restriction, and secondly, at the end, by the insufficiency of demand for final goods. The continued increase in remunerations and in rates of interest goes on pushing up prices, while the rate of production under way diminishes or becomes negative. Herein lies the explanation (in this case) of the formerly unknown phenomenon of an upward trend in prices and a contraction of production and employment (stagflation); it is basically due to the fact that wages continue to be adjusted to the rate of inflation.

To revert to the foregoing question: the shortfall in demand is continuous, because, owing to credit restriction, the income and demand generated in the production under way are not sufficient to absorb the supply of final goods. And supply surpluses are constantly making an appearance, with the consequences described above.

But this succession of movements towards contraction cannot be indefinitely prolonged. Increasing unemployment ultimately quells the labour force's endeavours to recoup itself for the upward trend of prices in the course of the spiral. Wage increases dwindle until at last they peter out altogether. And as this happens the rate of decrease of the income and demand generated by production under way begins to weaken. But owing to the time factor, it is some while before this weakening comes to affect the supply of final goods. The disparity between supply and demand, then, continues, although becoming less marked. Thus the supplies left over gradually diminish and consequently production under way declines less steeply.

We now enter upon the third phase, with a highly significant phenomenon. The slackening of the downward trend in production under way and employment means that the decline of the corresponding income slackens correlatively, without this being offset by ever-smaller wage increases. And as this process of weakening takes time to spread to final goods, the disparity between the decrease in demand and the decrease in supply continues to grow progressively less. Both diminish, but in the case of demand for final goods the process is slower than in that of supply. In this way the inadequacy of demand and the impulse towards contraction of production are also reduced.

To all this must be added the fall in financial costs. For as wage increases diminish, interest rates are brought down, and, consequently, the decline of income and demand deriving from production under way is still further lessened.

Thus, in the third phase while the demand originating in the production under way declines, it does so at a rate lower than the rate of decrease of the supply of finished goods. So that the demand shrinks faster than the supply of final goods —still lagging behind— until the two break even when wages have ceased to rise. At this point the surplus supply of final goods will have been exhausted and so will the movement towards contraction of the economy.

Equivalence between demand and supply does not necessarily mean that the next stage will be that reactivation of the economy without which it will be impossible to reinstate the surplus and its dynamic role. In default of an expansionist policy, it may well be asked whether a spontaneous movement of recovery does not take place. My answer to this is in the affirmative, although such a movement has to be supported by credit expansion. I will go on to explain.

When mentioning the increase of income in the course of the production under way and the corresponding expansion of demand, I omitted —in order to avoid premature complications— to point out that a part of demand is deflected towards services, when it gradually returns to final goods. In this way some of the money created by the bank system remains in the services sector and continues to circulate there in the increasing course of production under way.

In turn, when an expansion of demand is followed by its decline, the part that is deflected into services becomes less than the part that returns in the form of demand for goods.

In my opinion, this return is a spontaneous element of reactivation, both in the case we are considering and in that of cyclical depression. The same might be said with respect to foreign trade. When production expands, demand tends to switch towards imports and to increase internally in respect of exportable goods. And when a contraction occurs the opposite happens, to the benefit of demand for final goods or those in process of production. All of which means that it is indispensable to introduce the notion of time and space into analysis of the dynamics of growth.

Let us now revert to the implacable logic of monetarism. Following on the preceding argument, the conclusion is reached that it is possible to do away with the inflation caused when the rate of increase of wages is higher than that of productivity. The increase in question is not only that whereby the labour force proposes to improve its real income, but also that with which it claims to recoup itself for the increase in State expenditure, deriving either from the social advantages which the labour force itself obtains, or from other outlays, of which the cost ultimately falls, in one way or another, on its shoulders.

The worst of all this is that, given the system of appropriation of the surplus and of redistribution, no means other than monetarism are available for correcting the type of inflation with which we are concerned.

This is unquestionably an aberration, imposed by a system which is incompatible with the structural changes of society and the consequent changes in power relations. The aberration has its roots in the system itself. The upholders of neoclassical theory fail to recognize it, as has been remarked elsewhere. For in their view monetarism is the way to reestablish the correct functioning of the system.

In reality, this attitude on the part of neoclassicism is comprehensible, since according to its arguments the fruits of technical progress are socially disseminated by competition; we have tried to show, however, that even under a régime of absolute economic freedom this does not happen, but instead a large proportion of the productivity increment is retained and increased mainly in the hands of the upper strata. Consequently, the strivings of the labour force to improve its real income in excess of the rate of productivity and at the expense of the surplus are fully justified from the standpoint of redistributive ethics. But the system allows neither this nor State participation at the expense of the surplus, and reacts in the way we have explained.

Furthermore, the economic and social (and possibly political) cost of credit restriction is enormous. It means reducing economic activity with the consequent unemployment and cutting down the surplus until it disappears altogether —depending upon the degree of severity of the restrictive policy—, to the detriment of capital accumulation. A considerable amount of real income, moreover, is transferred from productive activity (enterprises and labour force) to financial activity.

This last point is deserving of special mention. The raising of interest rates in accordance with the rate at which prices rise implies defending not only small and medium-scale savers, but, above all, groups with large liquid financial resources. What is more, when the inflationary spiral has attained disquieting proportions, positive interest rates are apt to soar, while unemployment increases and productive activity suffers. In other words, while real income contracts, an increasing proportion is appropriated by the social groups in question.

We said that the surplus is adversely affected in the course of anti-inflationary policy and might be converted from positive to negative. It is true that the surplus is not always used in full, especially in peripheral capitalism, for the purpose of increasing reproductive capital. Imitation of the consumption patterns of the centres represents a very powerful brake on accumulation, not only in the upper strata but also, although much less intensively, at lower levels of the social structure.

This unsatisfactory utilization of reproductive capital accumulation potential, combined with the rapid rate of population growth in the periphery, makes a notable contribution to social marginalization, whether in rural areas or in the towns, or rather, to the shift of marginalization from the countryside to the city. This shift is of great socio-political importance, since the dispersion of the socially backward strata over vast rural areas is one thing, and quite another is marginalization in huge urban conglomerates where these strata awaken to awareness of their social situation and of their political power to participate in the struggle for redistribution.

To close this section, mention should be made of what was said in the appropriate context to the effect that negative interest rates, which would undoubtedly prove favourable to productive activity, tend to cause a flight of money abroad, as has happened in Latin America in recent years, sometimes on a very large scale. Exchange controls may prove efficacious in stopping the flight of foreign exchange, but not for long, since they give rise to manipulations, on the part of both exporters and importers, aimed at diverting foreign exchange from the official market and negotiating it on the free market —especially when there is a big difference between the respective quotations.

A clear distinction must be drawn between inflation deriving from the fiscal deficit and inflation stemming from the labour force's efforts to improve its well-being by recourse to wage increases outrunning the rate of productivity or to social advantages or employment under the State, the cost of which, in the last analysis, has to be borne largely, if not entirely, by the labour force itself, and sooner or later leads to a monetarist reaction.

It should be stated from the outset that the two forms of inflation are closely interlinked and react upon each other. Inflation caused by the fiscal deficit pushes up prices and pulls down the real wages of the labour force. This implies a substantial transfer of real income from the labour force to the enterprises; but it is very short-lived, since because of price increases interest rates also rise, so that part of the income increments (or generation of inflation) of enterprises is transferred to financial activity.

It should not be supposed, however, that the case in hand is similar to the one we described earlier. The proposal to correct the inflationary effects of the fiscal deficit by means of a policy of monetary restriction leads to results which are far from efficacious even though so heavy a social and political cost has to be paid. The slackening of the rate of productive activity and of employment attributable to this policy ultimately helps to increase the fiscal deficit.

The fiscal deficit can be combated only by increasing taxation and reducing expenditure. But as was remarked in section I, if the tax burden has to be borne by the labour force and this latter has the power to recoup itself, the taxes in question become inflationary. And if the burden falls on the surplus and weakens the rate of accumulation, the rate of productivity also declines. For the deficit is a manifestation of the tendency towards dynamic disequilibrium, and consequently eludes the conventional methods of attack.

Albeit the two forms of inflation are of different origin, they influence each other, giving impetus to the spiral. The inflation that derives from the spiral leads to pay increases on the part not only of the State but also of enterprises, and causes or intensifies cost and price inflation. This, in turn, causes or aggravates the fiscal deficit. And if it is attacked with the monetary instrument, bringing about a contraction, as was explained a moment ago, this has an adverse incidence on the State, generating or increasing the deficit.

The problem has become unmanageable, both in the centres and in the periphery, failing an endeavour to strike at the roots of the tendency towards dynamic disequilibrium.

After these brief remarks on inflation caused by a fiscal deficit, it is time to revert to the inflation that stems from wage increases outstripping the rate of productivity. We have explained before how the policy of monetary restriction works. In the end, the insufficiency of demand produces contraction and unemployment; and that finally puts a stop to wage increases.

If a fiscal deficit occurs at the same time, however, monetary policy cannot achieve these effects, since, as rates of pay are reduced and the disparity between supply and demand dwindles, the fiscal deficit brings in its train an increase in inflationary demand which wholly or partly offsets, or altogether overrides, the tendency towards equivalence between the two. If this is so, monetary policy cannot contrive to curb inflation.

We have said nothing of inflation of external origin, whether it increases costs directly or indirectly through rising prices. If the labour force has power to recoup itself it will react by insisting on higher pay, thus triggering or accentuating the spiral. Monetarism will have to impose a further wage squeeze so that the surplus can be re-established. In the end the burden of the cost will fall on the labour force.

In this case, as in connection with the role of monetary policy, if rates of payment have been contained by the severity of unemployment, it may be asked what will happen if a reactivation policy, which is inevitable, increases employment once again. Is it conceivable that the labour force will renounce its claims as it had to in an unfavourable situation of large-scale unemployment? I do not think so. Sooner or later it will try to recover the real income that it has lost, making room for inflation to escalate afresh. Herein lies the basic problem not only of peripheral capitalism but also of capitalism in the centres, given the nature of the process of appropriation of the surplus, income distribution and reproductive capital accumulation.

IV

The crisis in the periphery and the incidence of the crisis in the centres

The notorious consequences of the crisis in the centres foster a certain proclivity in the periphery to blame them for the serious ills and vicissitudes of our development process. It is often forgotten how deep-seated is the tendency towards internal disequilibrium in our development which joins forces with these external factors.

The trend towards internal disequilibrium has been accentuated by the crisis in the centres, but it dates from far back, and in the days of the boom in the centres was already harshly apparent in the shape of stubborn forms of social inflation. As it evolved, significant marks of specificity were to emerge, of which the explanation lay mainly in the time-lag in the history of our development.

In what did this specificity consist? There are three features of signal importance. The first relates to the great structural heterogeneity, the wide diversity of technical layers and the distance between them. On this account, it would seem that the proportion of the surplus appropriated chiefly by the upper strata is larger than in the centres. The second emanates from imitation of the conspicuous consumption patterns of the centres, especially those of their upper strata. In this way a substantial proportion of the reproductive capital accumulation potential which the surplus represents is squandered. And lastly, there is the negative effect on the surplus itself produced by the trend towards dynamic disequilibrium which has so greatly influenced inflation, as well as by the measures adopted to contain it. These effects have intensified the structural tendencies towards an imbalance in relations with the centres which are characteristic of peripheral development, again to the detriment of the periphery's surplus and its dynamic role.

To put it briefly: productivity is lower in the periphery because of its historical time-lag. But there is no such time-lag in the imitation of consumption which tends to spill from the upper strata downward, but with enormous disparities.

All this is damaging to reproductive accumulation, a point that needs emphasizing, because of its adverse social implications. There is not enough capital to remedy social marginality by increasing employment, either among the rural population or among the population that has moved from the countryside to the towns. Thus absorption of manpower falls short of what is needed, detrimentally to the rate of productivity and, therefore, to the rate of growth and to capital accumulation potential. This state of affairs is aggravated by the exceptionally rapid rate of population growth.

The vicious circle that cramps development possibilities is plain to be seen: accumulation is less than it could be because conspicuous consumption, mainly on the part of the upper strata, and insufficient productive employment in the lower strata, preclude the socially efficacious development of reproductive capital accumulation potential.

Of course there are other factors that operate in the same direction, including the hypertrophy of the State, in which another manifestation of the vicious circle is apparent. Inadequate accumulation, not only as regards the lower strata but throughout the system, generates a relatively redundant labour force which in the end is employed mainly by the State, a circumstance that ultimately militates against reproductive accumulation.

For all these reasons the productivity of the system is less than it might be, both in absolute terms and in respect of its growth, in contrast with the tendency shown by private and social spending and by State expenditure to increase at high speed, as revealed by our theoretical explanations. Understandable, then, is the nature of the dynamic disequilibrium which generally finds expression in very high and mounting rates of inflation.

This is the specificity of peripheral development as regards the appropriation of the surplus, accumulation, productivity and the struggle for redistribution.

In our countries the inflationary spiral usually brings highly significant political consequences in its train. It is true that the democratization process is difficult and immature, and when inflationary distortions contribute to its interruption, authoritarian governments, urged on by dominant groups, stop or regulate wage increases in order to contain inflation. The facts show that this has done more to re-establish the surplus and enhance the splendour of the privileged consumer society than to increase reproductive capital. And inflation has continued on account of other factors, mainly the fiscal deficit or the deterioration of the terms of trade.

Accordingly, regulation of wages having failed, all that is left is monetarism, which enjoys such prestige in some centres. All too well do we know the serious economic and social consequences which have followed in its wake. There is no point in listing them again.

It is small comfort to the periphery to say that the centres have fallen into similar aberrations. Or to observe that the effects of their crisis have done a very great deal to aggravate the tendency towards an imbalance in our relations with the centres, a matter that we shall go on to discuss.

This is a longstanding phenomenon that ECLA has tried to elucidate since its earliest days, when it analysed the calamitous impact of the great world depression on our development.

That crisis of capitalism in the centres, many as were the evils by which it was accompanied, nevertheless had the virtue of triggering a reaction against passiveness on the part of the periphery. Until then a mere looker-on at the sweeping current of industrialization in the centres, the periphery, under the temporary constraints of the depression, took its first decisive step towards mingling in that current and thus embarking upon its industrialization effort and combating the external disequilibrium which for the first time was making itself felt with disquieting intensity.

It necessarily had to do this through import substitution. As years went by, it started upon the venture of exporting manufactures, benefiting by the boom period in the centres. This was a very positive event, which, however, helped to weaken import substitution policy. Not without a certain amount of anathematizing in some cases. The pendulum, which had swung too far in the direction of import substitution policy, thus went to the other extreme. It was thought that on the basis of exports of manufactures our countries could attain high rates of development; and not only was import substitution policy neglected, but also, as a corollary, no further serious thought was given to the regional market and reciprocal trade.

The present grave crisis of capitalism has dispelled great illusions. The perceptible decline in the rates of development of the centres is very unfavourably affecting exports of manufactures and their prices, while the cost of imports is rising. In the centres, again, there has been a recrudescence of protectionism, which, of course, had not been done away with during the years of prosperity. The liberalization of trade had related mainly to the goods resulting from technological innovations which were exceptionally nutritious to the trade of the centres. The periphery was once again left on the sidelines, without active participation.

The outlook is not promising; on the contrary, development projections for the centres are really discouraging, at least as far as this decade is concerned. Unemployment is very serious there and constitutes a formidable barrier to imports from the periphery which compete with the centres' own production.

But the obstacle is not set up by unemployment alone. In the boom years, when immigration of foreign workers was allowed, nothing of importance was done to overcome the reluctance to import goods from the periphery.

I am inclined to think that there is something more in this than a circumstancial fact. It is in my view a new structural phenomenon to which no response has as yet been made in the shape of new trade formulas.

A moment's reflection is justifiable to promote discussion of this question. First and foremost, let us not forget comparative advantages. Undoubtedly, exporting from the periphery manufactures with a relatively low technological content would make it possible to purchase manufactures with a high technological content from the centres. Centres and periphery alike would benefit from their comparative advantages. Obviously, while the industrial development of our countries was still in embryo, comparative advantages in trade in manufactures could not possibly exist. Now they can.

What is it that leads the centres to forego these advantages, prejudicially to themselves as well as to the development of the periphery?

To understand this, the changes that take place in the structure of production of the centres should be borne in mind. The rise in productivity has enabled them to increase the surplus and capital accumulation, with the consequent expansion of employment, income and global demand. And although this process has weakened, the composition of demand has gone on continually changing. As the result of technological innovations, productivity is stepped up, and in addition the goods and services offered to meet demand are increasingly diversified. This process is accompanied by constant occupational shifts, occasioned not only by the labour force increment which makes for activities where the growth of demand is most thriving, but also by the displacement of workers who were already employed in activities less favoured by demand. Similarly, the capital investment deriving from the surplus undergoes corresponding shifts.

In consequence of the dynamic disequilibrium in the centres the growth rate of accumulation and employment has slackened, with the consequent decline in the rate of absorption of manpower.

The periphery has managed to assimilate the patterns of production of the centres in respect of manufactures with a relatively low technological content and can compete with the centres' own output of this type at lower prices, causing unemployment and reducing the surplus and, therefore, accumulation, to the detriment of manpower shifts. That the dimensions of this phenomenon have often been exaggerated does not mean that it does not exist. True, it has barely begun and the centres are reacting with various restrictive measures. Viewed in the light of future prospects, this fact represents a major obstacle to the increasingly dynamic role that the periphery could play, for the first time, in the development of the centres.

This incipient external vulnerability of the surplus in the centres explains why even in boom years they did not liberalize imports of peripheral manufactures.

It should be taken into account that the instrument of international competition is not so much reduction of prices as diversification of goods. Prices generally fall when innovations result in the appearance of other and superior goods which attract demand.

This type of competition from the periphery touches the centres on the quick in these times of dynamic disequilibrium which have brought with them large-scale unemployment. And if this happens in the case of goods stemming from technological innovations, demand for which is usually brisk, matters are much worse when competition from the periphery affects goods for which demand in the centres grows slowly in comparison with demand for other goods. In addition to the effects of the sluggish rate of development of the centres, imports from the periphery are subject to unilateral restrictions which prevent them from enjoying the comparative advantages that the centres are still blazoning *vis-à-vis* the industrialization of the periphery.

It is no use expecting that the centres will throw open wide their doors. And even if they were to reach agreement with the periphery on regulatory formulae, this could not be expected to resolve the external problem of our development. A weighty reason for meditating upon the economic fractionalism of the periphery which we have been incapable of combating with vigour and resolution.

In face of the above-mentioned facts and prospects, the periphery should give serious thought to utilizing its own development potential, without neglecting on that account any positive action it can undertake in relation to the centres. As long as the latter do not succeed in rectifying their trend towards dynamic disequilibrium, the effort to expand exports of manufactures will continue to be arduous, both because of the diminished rate of development of the centres and owing to their notorious restrictions.

It is needless to point out the adverse effects of these facts on development. Their significance is twofold. In the first place, they contribute to the external bottleneck just as in the past, and perhaps even more intensively, since the external imbalance also sets limits to genuine external financial co-operation. Secondly, the tempo of exports and the unfavourable terms of trade help to compress the surplus. And the combination of these two negative factors calls for radical changes in peripheral development in order to offset the twofold trend towards disequilibrium.

To these structural factors are added the effects of certain conjunctural measures which are adopted in the centres in order to cope with the crisis of structural origin. I am referring mainly to the anti-inflationary policy of the leading dynamic centre. The recessive effects on the economy are common knowledge: contraction of employment and high interest rates. Undoubtedly a notable success has been scored in reducing inflation. We have already explained its huge cost, above all for the weaker elements in the social structure. But this cost is not confined to internal affairs. As has been pointed out by OECD, whose members are the great centres, one-third of the cost in question has fallen on the primary production countries.[4]

It never rains but it pours. To our inflationary crisis and its aggravation by the external factors cited, are superadded the effects of the conjunctural measures in question, which help to give greater impetus to inflationary pressure on the part of both the labour force and the State. And recourse is had to conventional measures to combat ills that are growing more serious every day.

Obviously, the burden of the heavy service payments on the external debt worsens and complicates the ills in question. Not the debtor countries alone but all are concerned, since they are obliged to follow internally the high interest rates prevailing in the centres, in order to contain the flight of capital. Even where an appropriate anti-inflationary policy to succeed in reducing internal rates, those others will still be a stumbling-block. A reactivation policy is difficult *per se*: even more so, if this unfavourable situation remains unchanged.

The need for vigorous reactivation is widely felt in the Latin American region of the periphery, especially in those countries which have pursued a policy of constricting production in order to correct the structural external imbalance accentuated by the above-mentioned conjunctural measures. The formula recommended from outside, and also advocated by local orthodoxy, is nothing new in Latin America: to abstain from artificial interference with imports and thus allow the play of market forces to re-establish equilibrium.

This leads me to discuss another aspect of the crisis we are experiencing: the crisis of economic ideas. It is a serious and disquieting crisis which makes itself felt in a variety of ways. One is the persistence of conventional ideas in face of new phenomena which have arisen out of the changes in the structure of society. This happens both in the centres and in the Latin American region of the periphery. As far as the latter is particularly concerned, there has been a great retroversion towards theories which we had thought definitively left behind. Lastly, cases have arisen in which, on the pretext of restoring conventional ideas, mistakes have been committed in their name through manipulating them with disastrous consequences.

As regards the first instance, we need not expatiate on what we have already said of the dynamic disequilibrium whence new forms of inflation derive. The outdated formulas of monetary policy involve counterproductive effects, and a huge economic and social cost, without correcting the structural factors to which the said disequilibrium is due.

Both the centres and the periphery are slow to understand this, and cannot reconcile themselves to acknowledging the imperative necessity of changing the whole process of appropriation

[4]See OECD, *Economic Outlook*, No. 32, Paris, 17 December 1982, p. 8.

of the surplus, of capital accumulation and of redistribution of the fruits of technical progress.

Counterproductive use of the monetary instrument is commonly justified on the grounds that its purpose is to reinstate the market laws violated by the redistributive power of the labour force and the hypertrophy of the State. While the economic efficiency of these laws should not be overlooked, it is under their unrestricted rule that the structural phenomenon of the surplus emerges, from the appropriation of which ultimately emanates the dynamic disequilibrium between expenditure and reproductive investment —the primary source of the new forms of inflation.

The magic of the market had long been renounced where the creation of money was concerned. Experience had shown that it could not be left to the guidance of the profit incentive. Monetary regulation by the State through the central banks was then imposed. Efficacious as was this macroeconomic regulation in former times, it now has to give place to other forms of regulation in order to prevent inflation.

But what had happened in the international field is not exactly that these new forms are lacking but that everything that was positive in monetary regulation was thrown to the winds. Market laws had to be left to multiply the monetary resources flowing from the leading dynamic centre and use them in pursuit of the profit incentive. That would be the most advantageous allocation of resources. All too well-known are the lamentable consequences of this lack of regulation, which, it would seem, have not yet come to an end.

Let us now pass on to the swingback to conventional ideas that we thought had been discarded once and for all in the Latin American region of the periphery. I am referring to what we had called the outdated pattern of the international division of labour, which had left the periphery stranded on the edge of the tide of industrialization in the centres. It is not that this pattern was devoid of logic. Rather did it ignore significant structural differences between the periphery and the centres. These differences warranted a carefully-thought-out industrialization policy envisaging import substitution first and exports of manufactures later. What this implied was not dispensing with market laws but establishing basic structural conditions which would make them dynamically efficacious in peripheral development.

Now, the neoclassical theories on which that outdated pattern was based have broken out again in our countries and have spawned measures whose effects on industrialization have been deplorable. Unquestionably excesses and abuses in industrial development had to be set right. But that in no way rended it advisable to take rash steps of serious import which sought to justify an anachronistic retrogression.

The centres, it is true, have sung the praises of this swingback which was preached in the name of old-fashioned economic theories. How can such ideological pertinacity be explained when even in times of long-drawn-out prosperity the centres abstained from extending their liberalization to manufactures from the periphery? What is more, how is it possible to justify the proliferation of new restrictive measures which set aside the principle of comparative advantages so strongly recommended to us by the centres?

Lastly, I should like to make a few observations on certain ways in which conventional ideas have been manipulated in the periphery.

One of these has been overvaluation of the currency, obstinacy in maintaining an exchange rate which did not follow the course of domestic inflation. The damage caused to industrial (and also in some cases agricultural) production has been considerable. Industries have been ruined by excessive external competition and in a brief space a tenacious effort to export manufactures has been virtually wiped out.

Overvaluation has been invoked as a means of containing imports and, through lower prices, domestic inflation. But surely was this not one of the advantages of the gold standard? It is true that in the good old days of the gold standard the conjunctural expansion of imports entailed a decrease in monetary reserves and therefore a correction of inflationary expansion. But as far as I remember, this was never thought to be compatible with the continuance of the fiscal deficit or other internal factors responsible for inflation.

In former times the gold standard was an important element of relative monetary stability, and, despite its disappearance, some of the principles it involved retain their validity. But it must be acknowledged that in the Latin American region of the periphery its spontaneous operation intensified the external vulnerability of our economies. Experience gradually taught the advisability of certain regulatory measures to preserve stability in face of external fluctuations. But as a result of the manipulation of certain principles, measures of this kind were abandoned, and the monetary market was left completely exposed to international vicissitudes. And the decision to do this was taken precisely when the aberrations of the Eurodollar market, to which we referred in section II, had become notorious. This market was very far from affording a paradigm by which our monetary or financial policy ought to be inspired. Or, worse still, a paradigm that should lead us to do without a policy of our own, letting history repeat itself spontaneously through the play of international forces. Another lamentable case of manipulation of concepts!

In our countries we had begun to think for ourselves, to sift the ideologies of the centres through the screen of our own experience. And also to recognize clearsightedly the shortcomings of our own development. The lessons of this crisis are highly important. They must be conned with dispassionate objectivity. We must set out anew on the path of our intellectual autonomy; and always bear in mind that the centres have shown interest in the development of the periphery only when it suited their own economic, political or strategic interests. They have never been concerned with the underlying social depths of peripheral development. In short, it has been no concern of theirs that the periphery should cease to deserve that name. Let us embrace the conviction that such a change, whether in ideas or in facts, cannot come from outside. It must be our own work: a Latin American achievement, compatible, of course, with new forms of international co-operation and coexistence.