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Review

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I

A global view of the crisis

1. *The vigour of capitalism and the weakening of its dynamic force*

The Latin American periphery in the global crisis of capitalism

*Raúl Prebisch**

Capitalism is in the throes of a profound crisis deriving from the social changes accompanying the evolution of technology and its contradictions. These changes find expression in dynamic disequilibria which affect the internal economies of both the central and the peripheral countries, as well as centre-periphery relations. An analysis of these disequilibria constitutes the nucleus of the article (sections ii and iii), which then puts forward considerations relating to the crisis of conventional economic ideas (section iv) and ends by outlining a policy to grapple with the current crisis.

From the standpoint of the periphery, correction of the external disequilibrium calls for wariness towards recommendations that encourage trade and financial "openness", and for paramount emphasis on import substitution at the subregional and regional levels and on the establishment of a new overall framework for renegotiation of the external debt, involving a considerable extension of maturity periods and reduction of interest rates.

The internal disequilibrium, in its turn, cannot be overcome unless the appropriation, accumulation and distribution of income are radically transformed by means of macroeconomic regulation of the global surplus through a democratic process in which all social groups take part, in particular those which have been left without a share in the fruits of development. This is a problem that both in theory and above all in practice is extremely hard to solve. But there is no other way of facing up to the crisis, since the play of market laws and a purely monetary policy have shown themselves impotent to tackle the dilemmas of today with lasting success.

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We are living through a worldwide crisis of capitalism. The evolution of technology and its effects on the structure of society, along with its contradictions, have brought with them new and complex phenomena which had never before occurred in the development of the system and now go beyond the bounds of the theories formulated in the second half of the nineteenth century. The capitalism of today is in fact very different from that of the past, both in the centres and in the periphery, which are integral parts of one and the same system. This crisis in the Latin American sphere can only be understood within the global context of the system.

After rates of development so high as to be unprecedented in the history of capitalism, the reversal of the trend is a matter of grave concern. It seems unlikely that these rates will return in what remains of this decade or even beyond it. Unemployment obstinately persists, despite certain improvements, and there has unavoidably been a regression in social services and at best a postponement of the hope of raising the real income of broad strata of the population.

What is happening in capitalism? Is it that, after enormous capital accumulation, especially in the centres, the notable capacity for expansion which prevailed until a short time ago has been lost? Far from it; I believe that this crisis is rather a consequence of the vigour of capitalism, of its ceaseless technological innovations, of its proved ability to extend material well-being to great masses of people.

The mutations in the structure of society and in power relations which accompany the evolution of technology, coupled with the contradictions arising from its ambivalence, are driving present-day capitalism into disequilibria unknown in those earlier times.

In this paper we shall mention two basic disequilibria which jeopardize the economic surplus and consequently the accumulation of reproductive capital, and end by plunging the system into crisis: the internal disequilibrium with its adverse effect on the rate of accumulation,

detrimentally to the multiplication of employment, productivity and income (whence stems the internal vulnerability of the process), and the imbalance in relations between the centres and the periphery, which the latter tries to correct through the export of manufactures, thus in turn giving rise to external vulnerability of the economic surplus.

To this must be added a phenomenon of great importance: the elimination of the gold standard which characterized capitalism in the past. This standard, with all its faults, imposed a monetary discipline, which does not exist in contemporary capitalism, subject as it is to all the ups-and-downs of the dollar in its double role of national and international currency.

I am far from claiming that my explanation of the crisis is exhaustive. I merely stress the influence of technology and its contradictions. This is a presentation which, being schematic, omits special cases and circumstantial factors.

2. *The internal vulnerability of the surplus*

I have referred in the first place to the accumulation of reproductive capital. This process is based on the capacity of certain higher groups in the social structure to appropriate and retain a major part of the fruits of the technical progress reflected in the steady increase of productivity. This is the meaning of the economic surplus. A meaning eminently dynamic, since the surplus has always been and still is the primary source of reproductive accumulation.

It is a matter not only of the appropriation of a lion's share of the fruits of technical progress but also of its persistent retention in these higher groups. The development of capitalism has not been characterized by the social diffusion of these fruits through a fall in prices correlative with the rise in productivity; in the interplay of the market only a partial distribution to the labour force takes place. This has had highly important internal consequences for the dynamics of capitalism, one of which is the present crisis, since the surplus has become vulnerable to the detriment of the system's capacity to expand.

In the system's past, the surplus seemed invulnerable. And now we see that this was only a phase in the development of the system or, so to

speak, of a historical category. The labour force was passive and entirely subject to the rule of market laws; it did not dispute the power of the advantaged groups to appropriate a large share of the fruits of technical progress. Nor was the State moved by considerations of redistribution; as far as the free play of market forces was concerned, it was a *laissez-faire* State.

The progressive strengthening of the redistributive power of the labour force and of the State is an expression of the changes which occur in the social structure and power relations as technology evolves and penetrates that structure, and democratization gains momentum.

Thus there develops a distribution struggle which ends by weakening the growth rate of the surplus and with the passage of time leads to the crisis of the system. But this is not all: the evolution of technology brings with it great contradictions too. Among these are, on the one hand, the technological innovations which increase the actual quantity of goods and services themselves, and, on the other, those which diversify them more and more, creating new designs or new types of goods and services. And all this is fostered by the mass communication and social propaganda techniques.

Thus to the weakening of the growth rate of the surplus by the distribution struggle we must add the persistent incentive to consume at the expense of the dynamics of the system. Hence arises a growing tendency to disequilibrium between the rate of expenditure (including non-reproductive investment) and the rate of reproductive capital accumulation. And this has an adverse effect on the growth rate of employment, income and productivity.

The dynamics of the system depends, then, on the growth of the surplus and this, in its turn, is based on social inequality. And when the evolution of the system tries to correct this inequality, the end result is internal vulnerability of the surplus and a decline in the rate of reproductive accumulation, with serious dynamic consequences. Obviously, if technical progress increases production, its purpose is to increase consumption. It is not there that the root of the problem lies, but in the tendency of consumption to grow faster than accumulation.

3. *The external vulnerability of the surplus*

The surplus used to be invulnerable thanks also to the passivity of the primary-producer countries. Because of the very dynamics of the system these countries had not yet achieved industrialization. This was the origin of the periphery in the global system of capitalism.

With the fragmentation of the periphery, which had no dynamics of its own, large masses of its population were left on the sidelines of development. But the periphery is becoming industrialized and has succeeded in exporting manufactures based on relatively less advanced techniques, which compete with those of the centres, mainly thanks to lower prices. This creates an incipient external vulnerability of the surplus which, although not yet a major factor, aggravate the effects of the internal vulnerability.

Faced with this external vulnerability, which is only just emerging, the centres resort to imposing restrictions, in one way or another, on imports from the periphery. And they deprive this latter of the resources needed to satisfy its growing demand for imports of diversified and technically advanced goods which it cannot yet produce owing to the tune-lag in its industrialization or to the lack of natural resources for the inputs of such goods. In this way the trend towards external dynamic disequilibrium is superimposed on the effects of the internal disequilibrium of the periphery, thus reducing the speed of its development.

The fact is that with a productivity lower than that of the centres, the periphery tends to imitate their patterns of consumption, especially in respect of technically advanced goods. The Latin American countries are anything but austere, so that the trend towards internal imbalance is more pronounced than it was in the centres at a similar stage of their development. The two disequilibria are closely linked.

4. *The waste of productive resources*

Neither the centres, nor much less the periphery, have found a solution to the internal dynamic disequilibrium, which ultimately culminates in a new type of inflation that did not arise in the capitalism of the past and which cannot be handled now with the monetary instrument. The

monetary instrument is an anachronism: it provokes or accentuates unemployment without correcting the basic factors of disequilibrium. So it is not surprising to come across the peculiar argument that an appreciable unemployment coefficient must be maintained in order to lessen the distribution struggle; in other words, to revert to those times when the labour force was passive and the State unconcerned. Could this be called optimum use of productive resources?

Again, the external defence of the surplus by the centres, by the application of all sorts of restrictions on imports from the periphery, is another counterproductive method of tackling this problem, since it deprives centres and peripheral countries alike of the acknowledged advantage of international trade.

It is not just the crisis of the global system of capitalism that is in question. It is also a crisis of ideas and forms of action which have manifestly been overtaken by events.

5. *The macroeconomic regulation of the system*

It is not possible to retrace our steps and return to a passive labour force and a *laissez-faire* State in order to restore the invulnerability of the surplus. Nor yet to diffuse the surplus in such a way that the fruits of technical progress are socially distributed through a fall in prices. Capitalism has never functioned like that. There has always been a surplus; the praxis of the system has not accorded with conventional theories, however much their validity may have been asserted.

To solve the problem the primary requisite is that the surplus perform as effectively as possible its dynamic role, which is to step up the rate of accumulation and employ with increasing productivity and ever-rising incomes the increment of the labour force as well as the manpower which has been relegated with lower productivity to the bottom of the social structure. Social use of the economic surplus is essential.

This calls for macroeconomic regulation of the rate of expenditure and the rate of accumulation; in other words, we must not assign to present consumption the grain which should be set aside as seed for the expansion of production.

Is the surplus to be raised so as to increase its accumulation by the social groups at present

favoured under the system? Or should accumulation be concentrated in the hands of the State? Or are we to allow the labour force a share in the process, thereby fomenting the social diffusion of capital? These are questions of fundamental importance for the transformation of the system if dynamic efficacy and distributive equity are to be fully achieved.

6. *The primordial role of the market*

It is imperative to raise productivity if this transformation is to be economically and socially successful. But it is not enough to strengthen the rate of reproductive accumulation. It is equally essential to take full advantage of the productive potential of capital and labour, both through entrepreneurial initiative, and through the increasing skills of the labour force, whose contribution to production is also indispensable. Of primary importance in all this is the role of economic incentive in every participant in this process.

If the transformation of the system is to be tackled with vigour there must be a rational combination of the social use of the surplus and the positive elements of the market, simultaneously correcting the negative factors stemming from the contradictions of technology and promoting entrepreneurial competition.

This crisis of capitalism is a crisis of accumulation and not of the market, despite the negative elements and flaws in its operation.

7. *Crisis of capitalism and crisis of socialism in practice*

Capitalism is centripetal in the play of market forces. Its dynamics is based on the concentration in private hands of a large part of the fruits of technical progress in the form of surplus. But the mutations of the social structure help to give impetus to democratization and to the progressive evolution of individual liberties, among them entrepreneurial freedom and the role of incentive, which have such a marked influence on the steady stepping-up of productivity.

This process and the dynamics of the system itself bring about likewise a centrifugal trend towards diffusion of the fruits in question which ends by jeopardizing the growth of the surplus. This is the source of the crisis of accumulation

and distribution. Democratization requires, therefore, that this process be transformed.

In socialism in practice the surplus is appropriated by the State and retained in its hands, a situation which invests those who dominate the system with invincible economic and political power. By virtue of this concentration, decisions on what is to be produced and what consumed are taken at the summit of the system, detrimentally—as its leaders increasingly recognize—to freedom of initiative on the part of enterprises and to productivity incentives, with the result that the dynamic role of the surplus is affected. The crisis of socialism in practice is, then, a crisis of productivity.

Accordingly, a question of vital importance comes to the fore. To what extent would a democratization process which, apart from its intrinsic significance, boosts entrepreneurial freedom and the play of incentives, be compatible with this concentration of power at the summit of the system?

8. *The vicissitudes of the dollar and the crisis*

The tendencies towards disequilibrium arising from the evolution of the system are aggravated by the fiscal and monetary indiscipline of the leading dynamic centre of capitalism. The international consequences of all this are closely linked with the double role of the dollar as national and international currency. We cannot conclude this preliminary overview of the crisis without referring to so vital an aspect of the subject.

It is hard to produce gold. Herein lay the relatively stabilizing virtue of the gold standard, notwithstanding its flaws. The liquidation of the gold standard helped to give the dollar its present role as international currency. The dollar is produced with no difficulty at all, which implies conferring on the producer country the privilege of creating it, and at the same time the responsibility for doing so correctly.

The internal inflation resulting first from the dynamic disequilibrium in the leading centre of capitalism and aggravated subsequently by the rise in oil prices, prevented the regulation of the creation of the dollar as international currency. The internal inflation has spilled over into the

rest of the world, spreading the bonanza during those long years which ended halfway through the 1970s.

And now we are witnessing the opposite phenomenon: that of *the flow of dollars* towards the country in question, attracted above all by the high rates of interest deriving from its type of anti-inflationary policy. This has produced the economic crisis of the rest of the world, accentuating domestic factors which help to provoke recession.

All this has serious implications for international trade. First, the inflationary euphoria liberalized the centres' trade; and now the recession and the suction of dollars from the whole of the capitalist world are seriously disturbing this

trade, encouraging protectionism and upsetting the functioning of the multilateral régime.

But this is not all. The international abundance of this currency in that first phase of bonanza created the Eurodollar market; and this, in the absence of any regulation, has provoked the phenomena whose serious consequences are now manifest. To the fiscal and monetary indiscipline of the United States has been added international financial indiscipline, with very adverse effects on all countries, especially on the Latin American periphery.

The reform of the international monetary system poses, then, a problem much more profound than the reconditioning of a mechanism. It is a problem of power relations on the international plane.

II

The trend towards internal dynamic disequilibrium and the inflationary process

1. *The structural origin of the surplus*

The appropriation of the economic surplus is a structural phenomenon, since it is in view of the heterogeneous structure of society that the possession of the means of production enables their owners to appropriate a large part of the productivity increment resulting from technical progress. The successive innovations in which this progress manifests itself do not spread simultaneously throughout the economy; new technical layers with higher productivity are superimposed on earlier technical layers with lower productivity, and tend to eliminate the latter. This is the dynamic process in which capital accumulation plays a fundamental role (in respect both of physical goods and of manpower training).

In the play of market laws» enterprises require personnel to cope with the higher-productivity technical innovations incorporated by new capital investment. This demand mainly favours those groups which possess the increasing skills required by technology (including those

concerned with the more and more complex organization of the production processes). The supply is naturally limited in these groups and the labour force concerned has the capacity to share spontaneously in the productivity increment. Lower down in the scale of skills, however, the supply of labour becomes relatively abundant. Thus, as this labour force is employed in new technical layers of increasing productivity, the comparatively plentiful supply precludes a corresponding rise in its remuneration.

We have described as economic surplus that part of the productivity increment which, owing to this regressive competition, is transferred to the labour force only partially or not at all, and thus remains in the hands of the owners of the means of production.

Accordingly the generation of the surplus is affected by market laws (manpower supply and demand) and by the heterogeneity of the social structure. It should be noted that the surplus, which ultimately derives from technical progress, comprises profit, interest on capital and land rent.

It must also be stressed that the surplus is augmented by profits which originate not directly in technical progress but in frequent deviations from market laws, such as internal or international restrictions on competition, in addition to inflationary swelling of the surplus. All this helps to exacerbate the distribution struggle.

In this structural heterogeneity the distribution of power is of vital importance. The appropriation of the surplus by the privileged social groups is based on the economic power to do so, conferred by their ownership of the means of production, and the political power to protect the process. This is not to deny the importance of individual aptitudes in the generation of the surplus. Similarly, differences in social power carry considerable weight in the acquisition of the diverse skills required by technical progress in the production of goods and services. And this social power is combined with the aptitudes exhibited by individuals in the vast gamut of activities.

Be that as it may, the intensity of the generation of the surplus depends, on the one hand, on the rate of accumulation of reproductive capital which is invested successively in new technical layers, and on the other, on the labour force which remains in lower-productivity layers and on the growth rate of the labour force.

Such, in very schematic terms, is the nature of the accumulation process based on the economic surplus. The techniques which increasingly raise productivity generate in their turn the accumulation of reproductive capital, which makes it possible to incorporate new techniques and increase productivity: this is the dynamic sequence of the system based on the surplus.

2. The weakening of the growth rate of the surplus and of the efficacy of its use

The dynamics of the surplus tends to weaken in the course of development. In the first place, the penetration of technology goes hand in hand with continuous changes in the structure of society and in the power relations which arise from these. And, secondly, the evolution of technology presents serious contradictions. All this tends to weaken the aforesaid dynamic sequence. The rate of accumulation has an adverse influence on

that of productivity, and vice versa. And thus the rate of multiplication of employment and income likewise declines.

In the earlier days of capitalism the power of the groups obtaining the lion's share of the fruits of technical progress was predominant. However, the structural mutations manifest themselves, *inter alia*, in a change in power relations. Thus, with the advance of democratization in the growing urban conglomerates which are characteristic of capitalism, and in which the structural mutations of employment are most in evidence, the trade-union and political power of the labour force sprouts and develops, although with great disparities, since the labour force is far from being homogeneous, as are also the social groups favoured by the surplus. Be that as it may, this twofold power obstructs the power of appropriation of the surplus which was formerly the undisputed prerogative of the owners of the means of production. In this way the labour force pushes up the rate of its private consumption, along with its social consumption via the State. In other words, the labour force tends to raise its real income above what is due to it in accordance with market laws and the dynamic need to increase the surplus and with it the rate of accumulation.

The same effect occurs when the State, in addition to this and other forms of redistribution in favour of the labour force, expands its functions to the detriment of the growth rate of the surplus, in so far as these do not contribute to the productivity increment. The State plays its part either by increasing the taxes and charges which fall on the labour force and which the latter strives to recoup, or by taxing the surplus. In either case the consequences are much the same.

The changes in power relations have great dynamic importance. In the structural stages in which the power of the higher strata is pre-eminent, there is nothing to hamper the growth of the surplus except cyclical or accidental factors: the labour force lacks redistributive power and the State is unconcerned with redistribution. The surplus is invulnerable. This is not the case when the aforesaid changes in power relations supervene and are intensified.

The significance of these changes cannot be understood without probing into the social sig-

nificance of the surplus. The surplus is a clear expression of a basic distributive inequality. And in the evolution of the system the labour force tries to correct this inequality by raising its wages above what is in keeping with the play of market forces. In its turn the State, impelled by the political power of labour, concedes increasing social advantages and employs manpower which, owing to insufficient accumulation and other factors, cannot find employment in the open market. Thus attempts are made to correct the essential inequality of the system.

A distinction must be drawn, however, between this social objective and the means employed to achieve it: means which sooner or later lead to the crisis of the system.

3. *The contradictions of technology*

This crisis is a manifestation not only of the vulnerability of the surplus but also of the way in which it is used, that is, of the proportion of the surplus and of income in general that is allocated to reproductive accumulation. Here we are up against the contradictions of technology. What are these contradictions? They are of different types.

Let us look first at those which continually stimulate consumption. While there are technical innovations operating to raise the quantity of goods, others supervene which arouse consumer aspirations at a faster rate. These latter are those techniques which in different ways provoke an increase in demand through the incessant diversification of the same goods and services and the creation of new ones. All this is due to the portentous evolution of techniques of propagation of these consumer aspirations and of communication techniques.

The increase in consumption which thus occurs first manifests itself in the upper strata, both in consumer expenditure and in non-reproductive investments of a recreational and ostentatious character, and subsequently in the lower social strata, in proportion to the growth of labour's redistributive power, although naturally with diminished force. Thus these diverse forms of private and social consumption continue to appear one after another, no one type benefiting at the expense of the rest, but at the expense of the rate of accumulation. To this must be added

State expenditure and investment, which, even if in part reproductive, affect the surplus of the enterprises.

In the old days of capitalism the social efficacy of the accumulation process depended basically on the prevailing degree of austerity; that is, on the proportion of the economic surplus which was devoted to reproductive accumulation instead of to consumption. The more intensive the accumulation, the deeper was the penetration of productive technology which raised the productivity and income of all the strata until it reached the lowest groups.

However this may have occurred in those past times, it is certain that today the growth of consumption, stimulated by diversification, is a considerable obstacle to capital accumulation, the consequences of which are manifest in the trend towards dynamic disequilibrium which characterizes contemporary capitalism in general.

In underlining the influence of diversification on the rate of accumulation we cannot omit to mention the Keynesian thesis on the tendency of the system to generate an excess of saving, which is a very different thesis from that of dynamic disequilibrium set forth in these pages. When Keynes began to write his general theory, at a time of worldwide depression, diversification had not attained the dimensions which it later reached. It was therefore conceivable that the relatively slow growth of consumption would create an imbalance between the rate of expenditure and that of reproductive accumulation opposite to that which was to appear later in the system. How is it possible, then, despite Keynes' acute intellectual insight, to suppose that he could anticipate the momentous technological innovations which caused a flood of private and social consumption to the detriment of the system's saving and its own dynamics?

In addition to the contradictions between the techniques which increase the quantity of goods and those which diversify them, there are other contradictions which we shall go on to mention next. I refer in the first place to the evergrowing contradiction resulting from the ambivalence of those techniques which raise productivity but at the same time signify pollution of the environment and irresponsible exploitation of non-renewable natural resources. The effort to cor-

rect this ecological damage generally implies the investment of more capital per unit of production, and the same happens with the results of scientific and technological advances in relation to population growth.

4. The dynamic disequilibrium in peripheral capitalism

The dynamics of the system rests, then, on the structural inequality wherein the surplus is generated. And in the course of development this surplus becomes vulnerable, prejudicially to the intensity of reproductive accumulation.

The foregoing explanations concerning the vulnerability of the surplus and of the accumulation process in the course of structural change relate to capitalism in general. It is very important, however, to note the great differences, in relation to the centres, which occur in peripheral capitalism, owing mainly to the time-lag in its development and to its eminently imitative nature.

In contemporary capitalism there is a very pronounced structural heterogeneity in the periphery compared with that of the centres, which has been diminishing in the course of development. Thus, in the periphery, notwithstanding the differences between countries, there is still a very great diversity of technical layers and productivity. And the proportion of the labour force in lower-productivity layers is considerable, as well as population growth. Consequently, as technical layers of high productivity are incorporated, a bigger proportion of the fruits of increased productivity than in the centres is not transferred to the labour force employed in those and is therefore retained in the enterprises in the form of surplus under the sway of market laws.

If the capitalism of the periphery were austere, this larger relative surplus would permit a high rate of reproductive accumulation, giving greater impetus to the dynamics of the system. But this is not the case, and the marked tendency to imitate the centres' advanced patterns of consumption is a serious obstacle to reproductive accumulation. High consumption and investment of a recreational and ostentatious character in the privileged consumer society of the upper strata: this is the dominant feature of the social

structure of the periphery. And as the labour force improves its income, both through market laws and through its redistributive power, it naturally tends to increase its private and social consumption, which is superimposed on the privileged expenditure of the upper strata. This redistributive power manifests itself much earlier than it did in the corresponding stage of structural change in the centres. In other words, the time-lag in development and in the incorporation of technical progress does not signify a lag in imitation of the patterns of consumption: quite the contrary.

With regard to State expenditure, its volume tends to be relatively higher than that of the centres at similar stages of their development. This hypertrophy of the State is a factor in the lower rate of accumulation, although part of the State expenditure and investment contributes in one way or another to a rise in productivity.

This is the reason why the trend towards an internal dynamic imbalance between the rate of expenditure and that of reproductive accumulation, accentuated by the high rate of population growth, appears prematurely in the periphery in comparison with what happened in the centres at similar stages of their structural evolution, and why the social inflation stemming from this phenomenon has also occurred earlier and also acquired much greater dimensions.

5. The retention of the surplus

Why does this dynamic disequilibrium manifest itself in a new type of inflation which had never made its appearance before? Put another way: why does this imbalance not manifest itself simply in a slackening of the rate of employment, productivity and income, i.e., in a reduced dynamics of the system without the emergence of inflation? This question cannot be answered satisfactorily without elucidation of another matter of unquestionable importance. We have explained above that the economic surplus stemmed from the heterogeneity of the social structure in which the power of the higher strata, which own the greater part of the means of production, enables them to appropriate a large part of the fruits of the growing productivity of the system. In that case, if the surplus is appropriated in this way, why is there no

tendency for competition among enterprises to be diffused socially through a fall in prices?

This does not happen, however. If this mystery has not been cleared up it is perhaps due to the line of reasoning relating to the individual enterprise. If there is a surplus in an enterprise owing to greater productivity, competition will push up the production of this enterprise or of others and eliminate the surplus: all that would remain would be the remuneration of the entrepreneurs. If this happens in an individual enterprise, why does not the same thing occur in the enterprises as a whole? Why is the argument relating to the microeconomy not transposed to the macroeconomy?

We shall attempt to explain this. To increase output the individual entrepreneur has to raise employment in the course of the production process, and the additional income thus generated filters through the whole economy without perceptibly increasing demand for the goods manufactured by this enterprise.

In contrast, if the enterprises are taken as a whole, the growth of the production in process characteristic of the dynamics of the system generates an increase in income which results in an increase in global market demand. This increase in demand created by the growth of the production of goods in process which will enter the market later on is what permits the absorption of the productivity increment incorporated in the finished goods that constitute current supply. If this were not so, demand would be insufficient to absorb the productivity increment, thus causing a fall in prices.

But in the growth of production time is of great importance. In effect, the incomes which are paid out in the production in process in order to obtain finished goods later on generate an increase in demand as a result of the additional employment and the rise in wages in the play of market forces. This increase in demand does not wait for the subsequent appearance of the respective finished goods, but is directed at the goods finished today, so to speak, without prices being brought down by the corresponding productivity increment. Hence the productivity increment remains in the enterprises in the form of surplus and is added to that which had been generated before.

In fact, the surplus is generated bit by bit in

the different layers of production in process. In this way the global surplus is built up, which is incorporated into global demand together with the income corresponding to the labour force.

Consequently, in the course of the growth of global production in the system there are two variables of prime importance: on the one hand, the increment in demand deriving from the income corresponding to the increase in the production in process of future goods, and, on the other, the productivity increment in the supply of current goods.

6. *Social inflation*

It is obvious that if this increase in demand deriving from income were to exceed the productivity increment in the production in process, prices would tend to rise.

Here the monetary authority plays its part, since it is responsible for the creation of money with which the enterprises have to pay the increase in wages. Such is the regulatory function which is entrusted to it. The evolution of capitalism has in this case also brought about major changes in the fulfilment of this task.

What is it that ensures equivalence between the rise in demand in a determined period and the increase in the supply of goods existing in the same period, augmented by the greater productivity? We cannot answer this question without a brief reference to the cycle, which is the growth pattern of the capitalist economy. In the ascending phase of the cycle the growth of demand tends to exceed that of supply owing to the rise in employment and wages in the play of market forces. Hence prices go up and the surplus increases more than productivity: these are increases of a transitory nature. The central banks, responsible for monetary stability, try to prevent the rise in prices from exceeding moderate limits in order to palliate, if not ward off, internal and external pressures in the system. When these limits are overstepped, the banks will follow a restrictive policy which curbs the ascending phase and provokes a cyclical downturn by reversing the earlier movements.

A descent might also occur through the evolution of the phenomenon itself. Thus when the enterprises, instead of using a part of the surplus in accumulation which is gradually

soaked up in the cyclical process, allocate it to payment of income in the production in process, as a result of which there is no corresponding increase in demand to absorb the productivity increment, a fall in prices occurs.

In my earlier writings on this subject I have referred to another important aspect which I merely mention here in passing so as not to complicate the issue. The increase in income deriving from production in process is not all immediately transformed into demand for final goods, but is diverted towards services. When the cyclical descent occurs, this demand returns to goods and contributes to the reactivation of the economy, which brings about a new upturn.

The monetary authority has a difficult role to play. It has gradually acquired experience in the task of regulation, not without failures as in the Great Depression, which originated in the main dynamic centre of capitalism. The Keynesian innovation is explained by this failure in regulatory action.

Be that as it may, in contemporary capitalism, in which the labour force has considerable trade-union and political power, and the State no longer adopts a *laissez-faire* policy, the monetary authority encounters problems which it had never had to face before.

In the capitalism of the past, when through market forces or incipient trade-union power wages rose beyond the level determined by the market and prices went up, the monetary authority had sufficient power to bring wages down again or even prevent them from rising by means of restriction. Monetary regulation was effective.

But in modern capitalism a veritable confrontation of powers has arisen: on the one hand, the redistributive power of the labour force; on the other, the regulatory power of the monetary authority. If wages rise through trade-union power and the monetary authority is firm in applying its policy of restraint, enterprises will not be able to raise both employment and wages.

They will therefore be forced to sacrifice the former in order to pay the increase in wages. This raises their costs and prices. An inflationary spiral follows, together with unemployment.

The monetary authority has considerable theoretical support for this policy: the support of the conventional theories which consider that trade-union power represents a violation of market laws, just as does exaggerated growth of the State. This theoretical support in its turn coincides in the main with the interests of the dominant groups. And if the monetary authority tenaciously persists in the severity of this policy, a time will come when the volume of unemployment will end by destroying trade-union power.

In previous articles we have enlarged on these topics. The growth of demand can also derive from the abuse of credit directed towards consumption or investment, i.e., patterns of earlier capitalism which are reproduced in current capitalism and increase the inflationary spiral. Similarly, the fiscal deficit tends to soar, as is generally a sign of internal dynamic disequilibrium. Sometimes an attempt is made to tackle it by counterproductive credit restraint, particularly when trade-union power is strong. Here we confine ourselves to a brief account of how the mechanism of retention operates, and how, when it exceeds its bounds to the detriment of the surplus, the monetary authority attempts to correct it at considerable economic and social cost: the cost of the recovery of the surplus through unemployment.

If that were a final solution of the problem of dynamic disequilibrium this cost of a restrictive monetary policy might perhaps be justified. But this is not so. There is a need for other forms of macroeconomic regulation of the system.

Of course the employment of force by the State to defeat trade-union power has also failed to solve this problem, as Latin American experience shows. And its political cost, in addition to its economic and social cost, is enormous.

III

Centre-periphery relations and their trend
towards disequilibrium1. *The time-lag in peripheral development*

In earlier pages we have attributed a decisive influence on the dynamics of development to the fact that the part of the fruits of technical progress which was not transferred to the labour force was not reflected in a fall in prices. This same fact likewise explains the division of the system into centres and periphery.

However these fruits were distributed internally in the centres during those earlier days of capitalism, the growth of global demand has concentrated in them, along with the investment necessary to meet it. And therein also lay the source of the succession of technical innovations which characterized the system.

This, then, is another important consequence of the phenomenon of the surplus. The concept of periphery could hardly find a place in the conventional theories that have omitted this phenomenon.

This is why the primary-producer countries remained on the sidelines of industrialization. The centres had no interest in investing in them, except in the development of exportable primary production and its allied activities.

Why did they not invest, in view of the advantage of cheap labour in the periphery? The economic fragmentation of the latter has had its effect on this. In my view, however, the diversification of demand which is developing in the centres has been the major factor. We have explained this phenomenon and it calls for further emphasis. As technical progress increases the quantity of goods and raises income, particularly in the more privileged social groups, a large part of demand is not directed to these same goods owing to a trend towards saturation, but rather to new forms of goods or different goods resulting from other technological innovations which become more and more important in the course of development. And the capital accumulation deriving from the surplus, as well as the labour force, follows the impetus of this dynamic. Thus

the logic of the system itself was giving the centres a dominant role.

As the periphery was left on the fringe of technical progress, it could not participate in this diversification of production. The diversified goods came to it in accordance with the dominant precept of the international division of labour, i.e., in exchange for primary exports.

It was a case of appendicular development. Thus there was no global expansion of capitalism but only a partial and asymmetrical growth. That alluring image of worldwide capitalist expansion and its progressive social penetration did not materialize. And industrialization did not come spontaneously but at the decision of the periphery itself, taken especially from the time of the great world depression of the 1930s, in order to combat the adverse consequences of the crisis. This new stage was increasingly inspired by imitation of the ways of life in the centres and of their institutions.

Appendicular development has since then been giving way to what we might call the dawn of the integral development of the periphery. Meanwhile, the centres were reinforcing their economic and technological superiority. So the periphery had to resort to protection in order to industrialize. It was a protection improvised and abusive of the main but, all in all, it enabled the periphery to grow more rapidly than at the generally slow rate of its primary exports.

In the adverse conditions, first of the Great Depression and later of the Second World War, there could be no thought of exporting manufactures to the centres: industrialization had necessarily to be based on import substitution for the domestic market. This was followed by some degree of inertia until the spectacular rates of development of the centres up to the middle of the 1970s, and incentive measures in some peripheral countries, gave a start to the export of manufactures.

Thus, little by little, the passivity which had characterized the periphery in the capitalism of

the past began to disappear. But in the centres, even in their long years of prosperity, there was no general policy favourable to this new form of international division of labour which differed from the earlier schemes. There was no clear-cut response to the periphery's insistent pleas for better treatment for its exports of manufactures. The periphery was in fact excluded, save in minor respects, from the great liberalizing movement which occurred at that time among the centres.

Despite the substantial changes which are thus taking place, concepts wholly corresponding to appendicular development linger on in the centres. Some years ago it seemed as though former ways of thinking would undergo a degree of modification, but now we are witnessing certain regressive manifestations, especially in the United States, where we have recently seen a vigorous resurgence of economic liberalism.

In those early days, prompted by their own convenience, the centres were not anxious for capitalism to penetrate the periphery beyond its appendicular role. This also suited the interests of the dominant groups in the periphery. There was, indeed, a coincidence of interests; and great masses of the population, especially in the rural areas, were relegated to a position of exclusion from development.

According to these concepts formulated in the centres, the periphery should be unreservedly open to the international economy, and this called for strict observance of the principles of the international division of labour, without artificial measures hampering the operation of economic laws; and it should likewise be unconditionally open to foreign capital.

While these principles of the international division of labour increasingly strengthened the economic linkage among the centres, the periphery remained economically fragmented outside this unifying process. This fragmentation, the openness to trade and finance, and the growing economic and technological superiority of the centres, were strong pillars supporting the hegemony of the centres, particularly that of the leading dynamic centre of the time.

These remarks are not prompted by a mere urge to probe into the past which would be irrelevant to the purpose of these pages. That is not so; the fact is that these concepts of appen-

dicular development represent in my view the background of certain attitudes well-known at the present time. In these days of headlong advance in service techniques we are recommended to open up to them, and also to imports of goods in which these technical advances are displayed. There is a renewed attack on import substitution. And at the same time emphasis is laid on the advantages for our development of free foreign investment through the efficient channel of the transnational corporations.

We have repeatedly maintained in ECLAC that import substitution is not a doctrinaire preference but a response to the consequences of the time-lag in industrialization and to the above-mentioned economic and technological superiority of the centres.

2. Innovations diversifying goods and services

It is impossible to understand the exclusion of the periphery from the liberalizing movement in process in the centres without taking into account the technological innovations which give great impetus to diversification. Liberalization was in the last analysis the result of these innovations carried out in the main by the transnational corporations and of the dominant role they play in the trade of the centres.

The increase in productivity and in the surplus enabled them to shift capital and labour from the activities where the growth of demand was relatively slow to those benefiting by the innovations in question.

Trade was stimulated by shifts in demand rather than by a fall in prices. Prices fall mainly in the case of goods for which demand is weakened by shifts to new forms or new goods: it is a residual decline.

Demand for diversified goods also tends to accelerate in the ever more imitative capitalism of the periphery. But in contrast with this, production of these goods, owing to the time-lag in industrialization, is continually overtaken by the growth of demand. So this latter has to be satisfied by imports, whose rate of growth exceeds that of primary exports, save in exceptional cases.

3. *The trend towards external disequilibrium*

Thus to the trend towards internal dynamic disequilibrium is added that of external dynamic disequilibrium. The periphery attempts to correct it by the export of manufactures. But the centres are reluctant to accept them freely.

In fact, a new phenomenon is emerging on the international plane, since peripheral competition, contrary to what is happening internally in the centres, is characterized not so much by diversification of goods as by the fall in their prices, since they are precisely those goods for which demand tends to grow relatively slowly in the centres; and this gives rise to the aforesaid new unprecedented phenomenon, namely, the incipient external vulnerability of the surplus in the centres. Although the unemployment arising from peripheral competition is not excessive, it is added to that stemming from the internal dynamic disequilibrium, and the centres defend themselves with measures restricting imports, thus warding off a fall in prices adverse to the growth of the surplus.

Consider what all this means. The internal dynamic disequilibrium, as we have tried to show above, leads inevitably to a new type of inflation; and the monetary authority has no other instrument available for combating it than credit restriction. We already know that the results of this are counterproductive in that they cause a considerable waste of productive resources. All in all, the monetary instrument is very far from correcting the factors responsible for structural disequilibrium. At the same time, the restrictions which hamper the imports of the periphery mean that the reciprocal advantages of trading industrial goods which are technologically simple for others produced with spearhead technology are lost, to the detriment of the rate of development of centres and periphery.

This is what was thought some time ago when the transnational corporations thrust their ways into the industrialization of the periphery. During those long years of prosperity in the centres, it was assumed that the transnationals would play a very important part in the internationalization of production, through the development of new patterns of industrial trade, thanks to which the periphery would be able to counteract its external disequilibrium. But this has not happened,

since although the transnational enterprises play a major role in peripheral industrialization and in the reciprocal trade of peripheral countries, it is no less true that through the very nature of their technological innovations concentrated in the centres, they do not contribute substantially to the penetration of peripheral imports into the said centres.

4. *The external vulnerability of the surplus*

The external vulnerability of the surplus of the centres is not something that can be analysed outside the context of their global development. We have seen how a shift of demand is brought about by the diversifying innovations of technology. The diversification of demand could not take place without the growth of income arising from the growth of productivity and the formation of the surplus, which is the main source of capital accumulation to meet these changes in demand. The more intensive this dynamic phenomenon, the greater are the possibilities of displacement of the surplus of those industries where the growth of demand is relatively slow.

Now, the vulnerability of the surplus is occurring in the centres because of their internal dynamic disequilibrium and is also beginning to occur through peripheral competition. This makes an upward shift more difficult and leads to the restriction of imports of peripheral origin.

This does not mean that if the rate of development of the centres were high external vulnerability would be unimportant. I am inclined to believe that this is not the case. In the boom years, when important centres satisfied part of their high demand for labour through foreign immigration, they still refrained from liberalizing their imports of manufactures.

It is not only a question of political pressures opposed to liberalization. Consider for a moment that the dynamics of the system is basically sustained by the growth of the surplus. Fundamentally, defence of the surplus runs counter to liberalization, and avails itself, as we already know, of all sorts of restrictive measures.

It might be argued, however, that cases also occur of internal competition. Internally the reduction of the surplus in the industries affected is offset by its increase in those competing successfully. The global surplus still main-

tains its capacity for accumulation within a single country. On the other hand, in the case of external competition, the increase in the surplus occurs in the periphery while its decline takes place in the centres.

The concept implicit in the conventional arguments, according to which technical progress results in a fall in prices and accumulation depends on the movement of interest rates, hinders the elucidation of these phenomena. It is often said in the centres that the activities affected by peripheral competition must defend themselves by technical innovations which reduce their costs. Quite right. But it must be considered whether these activities are going to continue producing the same goods or whether they intend to employ their surplus in diversification. So this is a different case from that of peripheral competition.

5. The agricultural surplus and its vulnerability

This last consideration leads me to deal with the very important problem created by technical innovations in agriculture. There the possibilities of diversification of goods are extremely limited, particularly when the innovations are extended in one form or another to the whole sphere of production. Land cannot be shifted like capital to the production of diversified goods. Hence innovations which increase the volume of production beyond the absorption capacity of demand bring with them a fall in prices owing to the relatively low elasticity which characterizes these goods. The fruits of technical progress thus tend to be transferred to the consumers, often leaving the agricultural producers in a precarious situation.

This fact explains the interventionist measures of the State in major countries. Hence in the United States there have been attempts for a long time past to curb the fall in agricultural

prices through various measures restricting production of exportable goods or imports of goods subject to external competition. Much the same thing happens in the European Economic Community. And when the safeguards are not sufficient, recourse is had to dumping excess supplies at any price on the international market.

This happens even in periods in which the excellence of market laws is being preached, especially when the periphery advocates the desirability of agreements on primary products to correct or mitigate the deterioration in the terms of trade.

I always remember, because of its intrinsic significance, the recommendation made to us by one of the most eminent experts of the United States when we began to maintain in ECLAC that industrialization was an inevitable requisite of development. If you want to develop, he told us, do your utmost to introduce technical advances into primary production. But how can we employ the redundant labour force which the increase in productivity brings with it? How can we prevent, or at least minimize, the deterioration aforesaid? Industrial protection —moderate, of course— would have the virtue of shifting agricultural investment into industry and other activities to achieve this objective.

In reality, it was a question of different interests. What interested and continues to interest the centres is a fall in the prices of the primary products they import. This assertion might seem to contradict what we have said in this same section about peripheral competition. The contradiction is only apparent, since a fall in the prices of primary products enlarges the surplus of the centres while a fall in the price of manufactures diminishes it.

This leads me to insist, at the risk of tedium, on the importance of including the surplus as one of the key factors in the internal and international sphere.

IV

Theories and reality of development

1. The image of general equilibrium

Recognition of the great importance of enter-

preneurial initiative in the market and of economic incentive to stimulate it, as well as of the role of this incentive in the efficiency of the labour force,

is helping to exalt the significance of the neoclassical theories. I fully share this recognition (which socialism in practice can no longer escape) but I am very far from considering that the market and the laws of its operation constitute the supreme regulator of the economy.

The neoclassical theories argue thus: if left to themselves, without disturbing interventions, the market forces make for general equilibrium in the economic system. This conception of equilibrium and the mathematical rigour of its demonstration is the most seductive feature of these theories.

It has cost me an effort to discard them after having convinced myself, through observation of real phenomena, that the evolution of the system inevitably leads to disequilibrium: to internal dynamic disequilibrium, both in the centres and in the periphery, and to disequilibrium in the relations between the two.

This never was—and still is not—the view of the neoclassical theorists, because they circumscribe the market to the positive elements mentioned above and to the significance of the price system. But they overlook, in contrast, the action of other factors responsible for such disequilibria, which remove the market farther and farther from the neoclassical model.

2. *The most significant differences*

I devote this sub-section to analysing the divorce between the aforesaid theories and reality, beginning by presenting the main differences between neoclassical thinking and the real functioning of the system which I have tried to interpret in the foregoing pages.

According to neoclassical arguments, the fruits of technical progress are distributed socially by virtue of the interplay of competition. I contend that a large part of these fruits is retained in the hands of the owners of the means of production in the form of surplus. The surplus is sustained, therefore, by social inequality.

The surplus has a great dynamic role, since it is the primordial source of the reproductive capital accumulation which multiplies employment, productivity and income. The complete fulfilment of this role calls, on the one hand, for a passive labour force and a *laissez-faire* State, and, on the other, requires that a high proportion of

the surplus be dedicated to accumulation instead of to consumption. This has been the capitalism of the past, at least in respect of the growth of the surplus.

The free play of market laws and the ever-increasing trend towards the diversification of goods and services do not ensure the fulfilment of these conditions.

In fact, in the course of the evolution of the system the labour force and the State are eager to share in the fruits of technical progress to the detriment of the growth of the surplus and reproductive accumulation. This hampers the fulfilment of the dynamic role of the surplus, and the crisis of the system supervenes. The crisis is the *dénouement* of contemporary capitalism.

This crisis is outside the scope of the neoclassical theories, which say nothing of the social structure and its mutations. They also omit from their arguments the contradictions of technology: the ecological deterioration and the population growth resulting from scientific and technological progress. For the neoclassicists all these are exogenous phenomena which need not sully the doctrinal purity of their lucubrations. It is a fact that Malthus pointed out at the beginning of the nineteenth century the potential conflict between the growth rate of the population and the limited resources of the system. But this phenomenon also was left out of the theories of general equilibrium constructed by the neoclassicists decades later. They recognize now, however, the necessity of regulating population growth—but not the need to regulate the system!

From another standpoint, the neoclassical theories assume the spontaneous expansion of capitalism throughout the world. But this is contrary to fact. The primary-producer countries were left on the sidelines of industrialization in the earlier days of capitalism. Their development was essentially appendicular to that of the centres.

According to the theories in question, industrialization must be spontaneous and not achieved artificially by means of protection. But the crises in the centres forced the periphery to deviate from market laws and to seek industrialization. In this way their integral development began to evolve.

Thanks to its deliberate industrialization the periphery has with the passage of time become

competitive in a wide range of goods. But the centres object to accepting market laws on the international plane and diverge from them by applying all kinds of restrictions to imports from the periphery. They preached comparative advantages when the periphery had no industries. And now that it has them they ignore them.

When all is said and done, the evolution of the system, through structural change and the contradictions of technology, is far from conducting the best utilization of productive resources, as the neoclassical theories maintain.

Incidentally, the neoclassical economists also overlook the time factor in the production process and therefore do not grasp the important phenomenon of retention of the structural surplus.

They assumed implicitly that "supply creates its own demand", that is, that the creation of income coincides with the production of the corresponding goods. They did not perceive that demand comes from the income generated in the process of production of future goods and not in that of the current supply, this being a fact of major importance.

3. *The free play of market laws*

Their remoteness from reality definitively accounts for the impotence of the neoclassical theories in face of the system's trends towards disequilibrium. To tackle internal disequilibrium they resort to monetary restriction which, besides involving a great waste of productive resources, does not remove the basic factors which provoke it and exposes the system to its reappearance. And as regards external disequilibrium, when the periphery attempts to correct it by adding its exports of manufactures to primary products, the centres have recourse to all kinds of protectionist measures to prevent external vulnerability of the surplus, at the cost of the comparative advantages of trade.

It is really paradoxical that, despite the divorce between theory and reality, they continue preaching the virtues of the free play of the market, and contending that market laws lead to a better allocation of productive resources. Better for whom? If the reference is to the social groups structurally favoured in the distribution of the

fruits of technical progress, the allocation would be correct. But in the case of the less privileged groups and the lower strata relegated to the bottom of the social structure, it is very far from being so.

Again, if it is a question of the centres, the allocation of resources would be correct for them from the global standpoint. But if we consider the periphery, which the free play of market laws had left on the sidelines of industrialization: could it be said that the free play of the market would bring with it the best allocation of resources from the international point of view?

This problem of exclusion had no chance of being resolved without the deliberate industrialization of the periphery.

The centres opposed the protection through which the periphery gave decisive impetus to the industrializing process. They maintained that in the play of market forces the correct solution was to reduce wages in order to offset the economic and technological superiority of the centres.

And with this in view they preached monetary devaluation. Devaluation would bring down the prices of the primary products which were now competitive. This solution was unacceptable to the periphery since in that way it would transfer to the exterior at least a part of the fruits of technical progress; but it was highly desirable for the centres, since a fall in commodity prices would expand their surplus.

From its earliest days ECLAC set itself to clarify these problems and affirmed the economic justifiability of protection within certain limits, always provided that its global cost was lower than the loss of export earnings. Within these limits, protection would make it possible to raise the rate of internal development.

In this matter there is a basic problem for the centres too. The periphery has only just begun to export manufactures, thanks to the incorporation of technologies from the centres and to lower wages. And as it makes headway in its industrialization, its exports will be able to enter progressively upon increasingly advanced lines of technology. Thus the centres are confronted with a serious dilemma. If they continue to impose unilateral restrictive measures, they lose or curtail the comparative advantages of trade. And if they reduce wages, taking indirect advantage of devaluation, this will obviously result in the

transfer to the exterior of part of the productivity of their own export activities.

This would not be a sporadic occurrence, but touches the very dynamics of the system which demands the persistent growth of the surplus.

The impotence of the neoclassical theories in face of the system's external and internal disequilibrium leads them to stray from their own principles, however much they may continue to affirm that market laws conduce to an optimum allocation of productive resources. But these disequilibria are not the only cases.

In the previous section I mentioned the problem that technical progress poses in agriculture. Whereas in manufactured goods diversification defeats the trend towards saturation of demand, agriculture's scant possibilities of doing so expose it to the transfer, internally or externally, of the fruits of its technical progress. A problem which, like those mentioned above, is far from having reached a rational solution.

4 *The development ethic*

If the neoclassical theories have not faced up to the distribution struggle which evolves in the course of development it is because they harbour a latent ethic when they sustain that in general equilibrium of the system the remunerations of the factors are determined in consonance with their contribution to the productive process. The argument is perfectly logical, but far removed from reality owing to the contradictions of technology and the changing structure of society.

Hence the great flaws in these arguments which cannot be put right by mathematical subtleties.

Here we come to the nub of the problem. It is clear that if the fruits of technical progress were distributed as the neoclassicists maintain, there would be no justification whatsoever for trade-union and political action of a redistributive kind. But this is not the case, as a large part of the fruits of technical progress are seized and retained by the social groups favoured under the system, both through the power of appropriation of the surplus and through the social power of the privileged groups.

This provokes the aforesaid action to obtain a part of these fruits. In view of the nature of the system, the labour force cannot raise its own pri-

vate and social spending at the expense of the consumption of the privileged social groups; its expenditure is added to that of the latter and also to the expenditure of the State, all this to the detriment of the growth rate of the surplus and therefore of reproductive investment. To re-establish the dynamics of the system unemployment is created by means of the monetary instrument.

In this way the burden of adjustment falls on the labour force. Of course, as the dynamics of the system is based on social inequality, if an attempt is made to correct this inequality beyond certain limits the system reacts with inflation. The monetary instrument to combat it imposes a regression on the labour force, not only in respect of the progress made in its own private and social consumption beyond the limits determined by market laws, but also in order to cope with the expenses of the State in so far as it cannot reduce them; and, in addition, to satisfy the consumption of the privileged social groups.

In the second half of the nineteenth century the rigour of the neoclassical theories and their concept of general equilibrium claimed to give a scientific response to the Marxist theory of surplus value; they alleged, in effect, that the Ricardian theory of value adopted by Marx had no scientific meaning. And even if it had, they tried to show that the interplay of competition would dissolve the surplus value socially, just like the economic surplus, as has been mentioned elsewhere.

If the structural nature of the surplus were ignored, together with the contradictions of technique and the changes in the social structure (i.e., an important facet of reality), the Marxist theory could be impugned with solid arguments. The neoclassicists, at the time, believed that they had destroyed it, without envisaging its enormous political significance; just as nowadays they do not grasp the nature of the surplus and its decisive role in capitalist development.

The concept of surplus value refuted the ethic underlying neoclassical thinking. Nevertheless, the theoretical reasoning on which this ethic is based went so far as to argue that the surplus value arbitrarily deprived the workers of a portion of the social product which was theirs by right. The same could be said of the economic surplus, i.e., that the owners of the means of

production take what is not their due. Strictly speaking, the surplus represents an important part of the fruits of technical progress, which in its turn derives from scientific advances. If we had to assign them by right, going back through time to the long series of scientists and technological innovators, we should be confronted with a problem impossible to solve scientifically.

There is no scientific solution. The solution is basically ethical: the surplus belongs to society as a whole and must be used in accordance with ethical principles.

It is essential that this distribution, guided by ethical principles, should be dynamic and not statically frittered away. Thus, for technical progress to penetrate ever more deeply into the structure of society, extending its fruits to the whole community, a sufficient part of these fruits must be devoted to the accumulation of reproductive capital. Hence equitable distribution and accumulation form an integral part of the ethic of development. And to comply with it there is a need for rationality, that is, a rationality linked to the attainment of ethical objectives.

5. *The macroeconomic regulation of the surplus*

These ethical objectives could not be achieved through the play of market forces but only by the regulation of the surplus and its social use.

In what does this regulation consist? We must start from this initial concept: the market is not effective in determining the global part of the surplus which has to be devoted to expenditure and reproductive accumulation. We have already explained elsewhere how the private and social expenditure of the labour force and the civil and military expenditure of the State are superimposed on the expenditure of the privileged social groups; and we have likewise argued that there are no spontaneous mechanisms within the market which will ensure the compatibility of these different expenditures with one another and as a whole, or the volume to be devoted to reproductive accumulation. These compartments of expenditure could be justified as separate items, but not as a whole, if the rate of the necessary accumulation is taken into account.

A rate of expenditures which debilitates that of accumulation inevitably compels their reduction to a lower level than would have been the

case if they had grown spontaneously. But the reduction does not equitably affect all the social groups but falls on the weakest parts of the system.

It is essential for the two elements to be macroeconomically regulated if they are to be dynamically compatible. This is a primordial requisite of development.

6. *The social efficacy of capitalism*

This tendency to dynamic disequilibrium did not occur in those early days of capitalism to which we have referred elsewhere. Does this mean that the above-mentioned theories were at that time consonant with the reality of capitalist development? This would be a serious theoretical error. Certainly there had been no crisis like that of the present time, apart from the cyclical crises. I say this because in those days, just as now, one of the basic assumptions of the theory had not been fulfilled, namely, social dissemination through a fall in prices correlative to the increase in productivity, inasmuch as it was not transferred to the labour force: it remained in the form of surplus. But even in those times the market could not ensure *per se* the social efficacy of capitalism throughout the whole context of the system, i.e., a deeper and deeper penetration of technique into the structure of society thanks to the accumulation of the surplus. This depended fundamentally on the degree of austerity of the system, that is, upon an essentially cultural phenomenon.

It is conceivable, however, that in an austere form of capitalism too a crisis of accumulation could supervene, even given a passive labour force and a *laissez-faire* State, or, in other words, even if the essential conditions of the neoclassical paradigm were present. The crisis would result from progressive euthanasia of the surplus.

In fact, the higher the rate of accumulation, the more intensive would be the shift of labour from lower to higher technical levels. And as the proportion of the former gradually declined and the heterogeneity of the structure was thus progressively corrected, there would be a spontaneous increase in the capacity of the labour force to raise its pay in correlation with the increment in productivity through the play of market forces itself, even in the absence of redis-

tributive power. And as the surplus is the part of this productivity which is not transferred to the labour force, the paradoxical outcome would be a weakening of the rate of accumulation itself and transformation of the process would once again become indispensable.

If I digress for a moment from this hypothesis it is in order to reinforce a conclusion to which I attach great importance. I have repeatedly said that the dynamics of the system is based on the surplus, which is a clear expression of social inequity in the distribution of the fruits of technical progress. In the course of democratization, the trade-union and political power of the labour force endeavours to mitigate this inequity and thereby helps to make the surplus vulnerable, as does also the evolution of the State. The results of these phenomena lead to the crisis of accumulation. And I have just noted likewise that, with the passage of time, the austerity of the system could also culminate in a crisis of the accumulation process, if we were to carry theoretical reasoning to an extreme by ignoring structural change and the contradictions of technology.

What does this theoretical conclusion signify? It signifies that the dynamics of the system based on the surplus constitutes a historical category in capitalist development and this category in one way or another ends in crisis. It is a historical category that has not been surmounted.

The system has no spontaneous formulas for resolving this crisis. The crisis has to be resolved through the rational transformation of the process of accumulation and income distribution. It is imperative, then, to enter upon a new historical category if the system is to preserve and increase its capacity for human welfare, both in the centres and above all in peripheral capitalism.

7. *Theories and interests*

I have contended on more than one occasion that the persistence of the neoclassical theories was due not only to their rigorous logic but also to their conformity with interests of great political weight.

In the earlier days of capitalism the existence and enlargement of the surplus was a desirable thing for the social groups. It was for the play of market forces—the law of supply and demand—

to determine wages; and for the State to take a *laissez-faire* line regarding income distribution.

In the second half of the nineteenth century, neoclassical theories had ignored the structural phenomenon of the surplus under the influence of the dominant interests. It naturally suited those interests that there should never be any counterweight to the appropriation by the higher strata of a large part of the fruits of technical progress.

It is not surprising that, with the progressive evolution of the trade-union and political power of the labour force and with the proportionate rise in State expenditure, the neoclassicists should have criticized these developments as constituting a violation of market laws.

Neither is it surprising, in the light of this interpretation, that the neoclassicists advocate a monetarist policy to counter the inflationary crisis of the system, since this ultimately means the curbing of the trade-union power of the labour force to the extent of forcing it to accept lower wages in face of the resulting unemployment. This is why even governments in favour of social equity find themselves forced to pursue such a policy in order to correct the dynamic disequilibrium, since in view of the nature of the system they have no other ways of regulation at their disposal.

Thus is shattered the illusory belief that in the course of democratization the power of the dominant groups will ultimately be counteracted. Illusory, because sooner or later the need to give impetus to the dynamics of the system induces such governments to reestablish the surplus, making the cost fall on the labour force, albeit unevenly. In the end, thanks to the monetary instrument, the power of the privileged strata prevails.

In the same way the crisis of the system leads the State to halt or curtail its social expenditure, generally in advance of other expenditure, including that of a military nature, in order to reduce or eliminate the fiscal deficit which is frequently an expression of the dynamic disequilibrium of the system.

It is obvious that this is an attempt to restore the passivity of the labour force and the distributive unconcern of the State, without regard to the fact that this is not an arbitrary phenomenon but the result of the appropriation of a

large part of the fruits of technical progress by the upper strata.

If considerations of equity prevailed, the labour force would have to participate more and more in the fruits of technical progress and in the process of accumulation. This must inevitably be achieved at the expense not only of the consumption of the privileged social groups but also of the consumption aspirations of a part of the labour force, in order to raise capital accumulation and productivity, especially in those strata relegated to the bottom of the social structure.

Herein lies the fundamental problem which has to be tackled in capitalism by the political art of development; despite its vigour, the crisis of the system is leading to a marked frustration, involving a regression in wages and social services to a level lower than would have been attained if a regular rate of growth had been achieved.

A transformation of the process is required: a very difficult task which requires first of all a theoretical elucidation. Instead of the distribution struggle which ends in dynamic disequilibrium and inflation, a social consensus will have to be reached under the aegis of the State.

Experience will show whether we shall have to pass through successive upheavals before achieving that social consensus which, inspired by equity, will rationally restore the dynamics of the system; and which will also attain this objective in full compatibility with the spontaneous evolution of entrepreneurial initiative in the market. This last does not imply overlooking the serious defects of the market, which are usually euphemistically referred to as imperfections. We have come a long way from Adam Smith's vision of thousands and thousands of enterprises in full competition. It would have been difficult if not impossible in those days to imagine the phenomenon of concentration which stems not only from the demands of technology but also from the process of accumulation itself.

Likewise in line with the dominant interests of the centres were the theories of trade and the international division of labour, which historically so greatly delayed peripheral industrialization.

There was in fact a concordance of interests between the exporters of manufactures from the centres and the primary exporters of the periph-

ery, always opposed to a protection which increased the cost of their imports of consumer and capital goods.

This earlier concept of the international division of labour left great masses of the periphery on the sidelines of development. Sooner or later the pressure of these masses and also of certain leader groups would have brought about industrialization; the crisis in the centres was to be responsible for speeding it up. The fact that protection has been abusive and arbitrary is another matter.

Similarly, the weight of interest of activities adversely affected by, the industrial and agricultural imports of the centres is reflected in restrictive or prohibitive measures against peripheral competition, without any consensus having been reached to ensure enjoyment of the reciprocal advantages of trade.

8. *A global theory of development*

The effort to interpret this crisis of capitalism in the light of conventional theories leads to great frustrations both in thinking and in action. It calls for the formulation of a global theory of development which will integrate both centres and periphery, since they are part of a single system.

The view has sometimes been taken that, after devoting ourselves to analysing the peripheral phenomena which evolved within our own field of vision, we conceived the odd notion of developing a peripheral theory different from the theories elaborated in the centres. These latter suffered, in our view, from a false sense of universality, which gave rise to conclusions as to the *praxis* of our development which reality proved to be unacceptable. It must be remembered, however, that neither the theories nor the conclusions had got to the bottom of the vital process of accumulation and its structural significance. Undoubtedly an analysis of this phenomenon could help us in formulating a global theory of development.

This global theory must go beyond purely economic aspects. It will have been noted that I do not speak of the economic system but simply of the system. For the system of capitalism integrates diverse elements which could not be omitted from a global theory. We have already

mentioned that the social structure is subject to continuous mutations which go hand in hand with the penetration of technology and that this latter presents increasing contradictions. A global theory could hardly be confined within the arbitrary framework of an economic theory when reality embraces at one and the same time technical, economic, social, cultural and political elements all interlinked by relations of mutual dependence. In the course of the mutations of

the social structure there are also changes in power relations, which intervene both in the initial appropriation of the fruits of technical progress and in their subsequent redistribution. That the play of these relations extends to the international field is implicit in our reference to the hegemony of the centres over the periphery, especially that of the leading dynamic centre of capitalism. We shall deal with this in the next section.

V

Concluding remarks

1. *Inflation in the periphery and its political significance*

Never until now had the Latin American periphery experienced such a combination of factors prejudicial to its development. The consequences of an over-protracted international crisis aggravate and complicate the internal crisis of our countries.

All of them, in varying degree, are hard beset by inflation. And this is certainly not a merely monetary phenomenon, as we have tried to bring out in the present pages. It derives from factors operating deep in the heart of society and tearing it apart. It is there that the structural consequences of the evolution of technology and its contradictions combine to take effect.

The *laissez-faire* State and the passive labour force are things of the past. *Laissez-faire* as regards income redistribution, but not with respect to the original distribution of the fruits of technical progress, inasmuch as the State depended on a political power which rested on the social groups benefiting by the appropriation of those fruits, mainly in the form of economic surplus.

Today these groups are confronted by others whose growing power is fostered by the democratization process. These groups appeared to be carrying more and more weight in the struggle for redistribution. But this development caused a gradual erosion of the political power on which the State is based, since the said groups, in the course of a redistribution struggle, tend to

override the State. The State is not showing ability to dominate them and channel distribution and the capital accumulation process.

Faced with the impotence of the State and the erosion of political power, the system inevitably develops a trend towards exacerbation of the inflation spiral. And the attempts to contain it are short-lived as well as being counterproductive. For the only instrument remaining to the State is anachronistic, depressive and regressive: i.e., the monetary instrument.

What is happening to the State is really paradoxical. It is tending towards hypertrophy, with manifold responsibilities militating against its own efficacy; and with a proliferation of interventions which undermine the economic freedom of enterprises and individuals and increasingly incapacitate the State itself from fulfilling the role of supreme regulator that the market fails to perform.

The solution of this grave problem is not to be sought only in institutional changes which will promote the correct functioning of the democratic process and the restoration of that political power on which the State must be based. This is important, but it is not all. There is also an inescapable need to transform with a strong sense of social equity, the processes of appropriation of the fruits of technical progress, of their distribution and of the capital accumulation which will give vigorous impetus to economic development.

It will not be possible to suppress the growing diversity of interests which the changes in the

social structure bring in their train. But it is imperative to introduce concord and discipline into the distribution struggle through a social consensus which will restore the political power of the State and bestow on it the aforesaid regulating function.

The time has come for a great synthesis between this regulating function of the State and the play of market forces, in which the economic freedom of enterprises and consumers can be exercised with a minimum of obstruction.

A very arduous, intricate and complicated task. It must be preceded by a major effort of enlightenment and persuasion, by a dialogue free of dogmatic preconceptions. But this requires time and purposeful perseverance.

In the meantime there are immediate solutions to be undertaken. That social consensus which must come sooner or later should be initiated without delay through an income policy which, while guiding the system on the road to equity, encourages the participation (and also the responsibility), of the labour force in the task of reproductive accumulation. This calls for the prior recovery of the surplus, especially where it has suffered severely from inflation. There will have to be fiscal discipline combined with wage restraint in order to achieve the said recovery of the surplus with a view to promoting reproductive accumulation.

And here there arises the need for a decision of great economic and social importance. Will accumulation remain solely in the hands of the hitherto advantaged social groups, or will it also be progressively shared by the broad social strata, which are compelled—at least momentarily—to rein in their aspirations?

It is common knowledge that some time ago IMF unilaterally established a régime of conditionality which is disquieting to all of us and which is apt to be inspired by dogmatic principles which are not in keeping with the requirements of peripheral development. At one time or another the Fund has mentioned the need for an income policy. It is lamentable, however, that despite its great experience it has not worked out such a policy and submitted it to debate in the appropriate fora. It has delayed doing so, perhaps because it continues to regard peripheral inflation as a monetary problem, without probing into its deep-lying structural origin, that is,

into the problems of the system's dynamic disequilibrium.

The other problem which we have examined in this article is the trend towards external dynamic disequilibrium in the development of the periphery. The conventional economists of the centres frequently continue to deny the existence of such a trend, influenced as they are by the concept of a system which makes for general equilibrium on the international plane as well.

The ideas of these thinkers, as those of their counterparts in the peripheral countries, are strongly reminiscent of those concepts which were dominant in the days of the appendicular development of the periphery. The doors had to be opened wide to foreign capital and no (reputedly artificial) measures were to be taken to promote industrialization.

It was then that a concept arose which, without being explicit, was dominant in the days of appendicular development and still remains in force, as has been explained in another chapter. The centres were interested in peripheral development only in so far as it served their own interests.

This is the explanation of the opposition to peripheral industrialization. The idea was anathema to the centres at the very outset, especially where import substitution was concerned, as we also remarked in the appropriate context. And on finally accepting industrialization as a *fait accompli* they recommended that the accent should rather be placed on exporting manufactures. And when the periphery was able to do this, the centres, far from adopting an attitude consonant with this recommendation, added new constraints and restrictions to those which they had maintained for a long time past.

This is how the matter stands today, and yet there is a tendency to return to certain earlier ways of thinking against which we should be on our guard in time, because of their great significance for our countries.

I refer to the turn which is apparently being taken by the foreign policy of the United States.

2. *Significance of the United States' new economic policy*

This country is in the throes of an external disequilibrium of growing dimensions, originating

in part in the overvaluation of its currency; this in turn is a result of the extraordinarily high interest rates through which it is drawing off abundant resources from the rest of the world in order to cover part of its fiscal deficit.

The said overvaluation vigorously boosts United States imports and discourages its exports. But for one reason or another it chooses to correct the resulting external deficit not by means of fiscal or monetary adjustments but through direct measures concerning trade.

Its aim is to encourage exports, particularly of technologically advanced goods, and likewise of services in which technical progress has also been highly intensive. And it underlines, at the same time, its intent to carry out this policy on bases of reciprocity, which means that the liberalization of trade with the rest of the world in respect of those goods and services exported by the United States should be accompanied by the liberalization of its imports from these countries.

There is talk at the moment about a new round of international negotiations on liberalization similar to those which have been so successful in the past in the trade of the centres.

To embark on this subject would be to go beyond the scope of these reflections. I should merely like to refer to the significance of this new policy for the periphery. But first it would be well to recall the terms in which the problem of its trade with the centres is posed.

In this trade there is a persistent trend towards external imbalance which we have explained elsewhere: a structural trend different from the phenomenon which is now occurring in the United States.

There are only two ways of correcting this imbalance, namely, an export expansion and import substitution. The pace of the substitution does not depend on a doctrinaire preference but on the degree of receptivity of the centres to peripheral exports: this cannot be repeated too often.

It would seem obvious that if the periphery complied with the United States' plan and opened its markets unreservedly to technologically advanced goods and services, in addition to others, the trend towards external imbalance would be accentuated. In this case, in accordance with the principle of reciprocity, the United States and the other centres taking part in

these international negotiations would have to liberalize imports from the periphery. In the rounds mentioned above, impressive reductions in tariffs were achieved which gave powerful impetus to trade between the centres, especially in goods deriving from technological innovations. The periphery, lacking such goods owing to the time-lag in its industrialization, was practically excluded from the liberalizing measures.

Would the centres now be disposed to do away with the restrictions which for some time now have been obstructing imports of technologically less advanced goods from the periphery?

It is very doubtful that this would occur. Not only recently but for a long time now the centres have put obstacles in the way of imports from the periphery, even in periods when unemployment was low. In reality, the idea was to safeguard the surplus of the activities affected by lower import prices. Although this practice is at present only moderately applied, it could reach major proportions, especially if respect for multilateral principles extended liberalization to the other developing regions. What is more, as long as the centres cannot achieve a substantial reduction in their current unemployment, such a radical change of attitude is scarcely conceivable.

How could this problem be solved, or at least alleviated, without a radical attack on the dynamic disequilibrium in the centres which produces structural unemployment?

Would the centres really be prepared to accept peripheral competition of this kind? Or will they rather seek intermediate formulas to regulate this competition in accordance, at best, with a régime agreed upon with the periphery to promote the regular growth of imports without increasing unemployment, unless in a measure that could be absorbed?

While acknowledging the impulse that such a process might give to exports of manufactures and of some agricultural products, I am far from believing that it would be sufficient to eliminate the current imbalance and cover the ever-increasing volume of imports which a rise in the rate of peripheral development and the liberalization of its imports would imply.

We must shun the illusion of assuming that to accept the liberalization of imports of advanced goods and services desired by the centres would

induce them to do their best to reciprocate in favour of imports from the periphery. I do not believe this would happen, except in the limited measure referred to, and, consequently, the periphery should continue its policy of import substitution.

Indeed, the intensification of this policy is an imperative requisite of development, especially if its rate is to be increased. And the dimension it must achieve depends basically on the centres' receptivity to the goods exported by the peripheral countries. In other words, stimulation of the latter must be combined with progress in substitution.

At this stage of the industrial evolution of the peripheral countries especially of the more advanced among them, it would be essential to carry out this substitution process in larger markets than the national ones through production agreements between various countries and reciprocal trade. This also calls for new *modus operandi*, since those conceived a quarter of a century ago have had only moderate success in achieving the positive results expected of them.

All this has to be tackled from a dynamic standpoint. Both export expansion and import-substituting industries will continue to bring with them an increase in technical and entrepreneurial capacity which, by virtue of the surplus, will foster the development of industries with more advanced technology. In this way, the countries of the periphery, some sooner and others later, would gradually draw nearer to the trade patterns of the centres.

3. *The doctrine of financial openness*

In addition to this opening-up of peripheral trade, the main dynamic centre preaches financial openness, i.e., the elimination of all restriction on foreign investment and the functioning of the transnational corporations.

It must not be overlooked that the transnationals, in co-operation with the State and private enterprise, could contribute to development in accordance with new rules of the game, that is, in line with a well-defined policy and with the requisites of development.

Each peripheral country will have to decide which fields would benefit from the co-operation of the transnational» and which should be re-

served for local enterprise, either because the necessary technology has already been acquired or because there would be other effective means of gaining it.

To yield to the doctrine of openness, above all in times of crisis like the present, would not only have adverse consequences, both economic and political, but would also block the way to the discovery of new formulas. Suffice it to recall that, if in the past we had given way to insistent pressures, we should not have been able to arrive at such formulas in a field as vital as petroleum. Here also there are signs of susceptibility to the influence of ideas corresponding to the aforesaid concept of appendicular development.

In the periphery there have been great changes which call for an all-out drive towards integral development. This will require a progressive effort to overcome the technical inferiority by which appendicular development was characterized.

If the doors were quite unconditionally opened wide to foreign imports and investment, this objective would be out of reach, since the technologically stronger industries of the centres would ultimately gain predominance, sapping the vigour of peripheral development.

4. *The fundamental coincidence of interests*

This does not concern the economy alone. These great changes are also of a political and cultural nature. The periphery is not isolated, but finds itself more and more under the influence of the political and cultural evolution of the centres and of the mass communication media in the international sphere. Thus the process of democratization, with all it entails, goes on spreading and interest in integrated development gains a firmer footing.

We cannot turn back the clock either in relations with the centres or in internal development. The traces of appendicular development implicit in the insistence on unconditional openness in trade and finance must be eliminated once and for all. There was a reason for openness in trade when in the old pattern of the international division of labour comparative advantages determined the trading of primary products for manufactures. There were no comparative advantages in industrial goods simply because

there were no peripheral industries. Today these exist in a wide range of competitive goods. The fact that these goods have begun to make the centres' surplus externally vulnerable does not mean that no solutions can be found which, without causing serious trouble, will allow these comparative advantages to be enjoyed.

There is, then, a convergence of interests. It existed likewise in appendicular development; but that lacked social depth. Integrated development requires this deeper penetration and the discovery of new and promising formulas for coincidence of interests.

For the first time in capitalism, the periphery might have dynamic influence over the centres through new and expanding patterns of trade.

This also calls for an enlightened foreign investment policy which will help to raise the rate of peripheral development, since it would involve a continuous broadening of the field of comparative advantages.

All this under the aegis of autonomous development. Autonomy and coincidence of interests will give a firm base to the objective of political coexistence. We have to live side by side with the leading centre and the rest; this is an incontrovertible fact. The intensity of its development is of vital importance for the periphery.

5. *Monetary and financial indiscipline*

This coexistence based on certain coincidence of interest will not be an easy matter. The transnational banks afford a clear case in point. When there was copious international liquidity in the Eurodollar market the financial power of the transnational banks was fully dominant. The IMF and the World Bank —State institutions— remained on the sidelines of international credit operations; in the days of euphoria it was insistently proclaimed that the private transnational, acting independently, would be effective agents of resource allocation in the international field. Quite to the contrary, however, there was irresponsibility, which was shared by the debtor countries. The profit incentive led these transnationals to disregard elementary norms of prudence and foresight.

The problem, of course, goes very deep and it will be helpful to give a brief account of its more important aspects. Its origin lies in the fiscal and

monetary policy of the leading dynamic centre. The anti-inflationary policy now pursued by the United States is the current inverse of the inflation that had been occurring for some time past, and was accentuated later by the rise in oil prices; and this inflation in its turn is the clear expression of the dynamic disequilibrium in the United States economy, which is mainly evidenced in the fiscal deficit. The deficit is largely due to the social and military expenditure of the State. And the reluctance to meet these by taxation and reduced spending has caused the government to resort to domestic savings and to attracting external resources by means of colossally high interest rates. Such is the well-known picture.

Within this picture, there is growing concern over the increasing amount of the external imbalance. For the first time since before the First World War the United States has become a debtor, and the burden of interest is tending to swell the fiscal deficit to an alarming extent. There is also anxiety about the external consequences of these phenomena. In fact, the imbalance is severely hampering the recovery of the European economy, since it would seem to be increasing the flight of dollars; in addition to the effects provoked by the United States through high interest rates.

These interest rates cause growing difficulties for the debtor countries of the periphery, all the more so as their exports are increasingly hard hit by the crisis in the centres and the recrudescence of their protectionism.

It is inconceivable that this can continue without driving the other centres, as well as the periphery, to the adoption of very drastic measures of defence and leading to a complete breakdown of multilateralism, as happened in consequence of the policy followed by the United States in face of the great world depression.

The correction of the Fiscal deficit of the United States would make possible an expansionist policy in the countries affected; but at the same time it would create new problems which we cannot ignore.

What would be the international effects of a fall in interest rates? Can we assume that the abundant resources that have flowed into the United States will stay there? Or will liquidation of the investment of these resources supervene, bringing with it a reverse movement of return?

If this last were to happen it would pose other questions : would the value of the debt be guaranteed in order to ward off or moderate the return? If so, would dollars be created again so as to cover this return? Or would the United States have to turn to IMF, which would need to resort to new sources of funds on account of not having enough in hand?

At all events, there could be a recurrence of excessive international monetary liquidity. This would provide an opportunity to learn from the lessons of the past in order to avoid the same mistakes. We ought not to give new impetus to the Eurocurrency market by foregoing any sort of regulation.

This incentive is generally efficacious in productive activity, but it has serious consequences when transferred to the monetary field. The creation of money needs to be regulated on the international plane likewise; but the private banks resisted every attempt at regulation; and to the dollars originating in the United States' inflation was added their inflationary multiplication on the Eurodollar market. Hence the problem of the debt is essentially a political problem: it is essential to correct what was lightly permitted before.

Again, the continuance of high interest rates and the suction of international resources might have very serious repercussions, in particular for the debtor countries. With a view to remedying their lack of foresight the private banks are requiring that the debtors compress their imports in order to pay their heavy interest rates and this involves the compression of the whole economy, owing to a theoretical attitude opposed to a selective import policy. At all events, the increasingly heavy burden of debt servicing is

severely cramping development and hampering economic expansion. All this has its limit and that limit is very near. It will be well to take care that it is not exceeded. Accordingly, there is a pressing need to find a political solution.

The resources of this possible increase in liquidity might be tapped through the issue of securities destined, in the first place, to the long-term postponement at low rates of interest of the periphery's oppressive debt; and secondly, to meet the inescapable need to contribute to the recovery of the peripheral economies, prostrated as they are by the effects of the crisis. In each case the liquid resources would return to the centres in payment of debts or exports.

We are all waiting to see what the United States will do. But we cannot wait indefinitely without taking our own measures of defence and constructive adaptation. In the course of my long life I have witnessed in person and sometimes had to take action against the adverse effects of the vicissitudes of the centres: the great depression, the Second World War and the postwar period, the inflationary euphoria and its international spill-over. And now against the consequences of the anti-inflationary policy of the main dynamic centre.

I have also witnessed the great achievements of this centre; the Marshall Plan, the support for the European Payments Union, for the European Economic Community and also for the Alliance for Progress, which came to grief soon after its birth. Great vision and creative inspiration, such as are needed in these days likewise. They are needed also by the periphery to grapple with its serious problems. Vision and creative inspiration, which is slow in coming everywhere.