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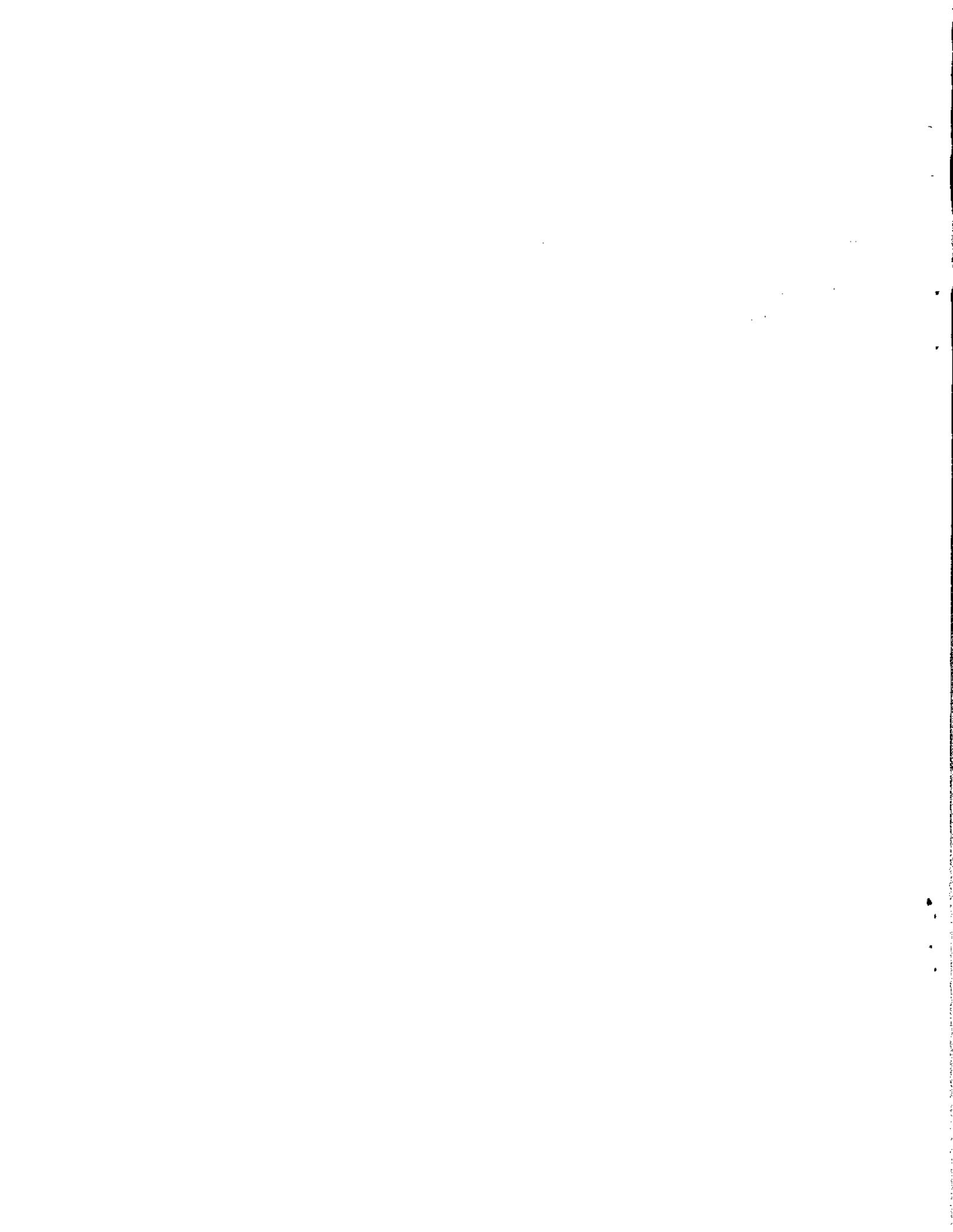
Expert Meeting on Crisis and  
Development in Latin America  
and the Caribbean

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In the paper I have submitted to this meeting I maintain that there is a worldwide crisis of capitalism which, in addition to some factors of a circumstantial nature, is a reflection of fundamental problems. It is not a question of the final decadence of capitalism, since it still has tremendous drive and capacity for effecting great technological innovations, but rather of phenomena which are the result of changes in the structure of society associated with the evolution of technology and the contradictions it involves. These changes are reflected in two major trends towards dynamic disequilibrium which affect both the centres and the periphery: the external imbalance, seen in the relations of the periphery with the centres, and the internal imbalance seen within both these groups.

First of all I am going to say a few words concerning the external imbalance, which has manifested itself again with intensity owing first and foremost to the decline in the unusually high growth rates experienced by the centres for many years, ending in the first half of the boom period. This imbalance is now made worse by the impact of the exceptionally high interest rates.

It is surprising that in this phenomenon we are somehow reminded of concepts which were associated with the dependent development of the periphery vis-à-vis the centres -- concepts which prevailed prior to the Great Depression.

The Depression provided the impetus for the planned industrialization of the periphery. In those dark days for international trade, industrialization had necessarily to be supported by import substitution, although this was in violation of the dogma of the international division of labour which had hitherto prevailed.

If I mention this fact it is because there is again talk, in particular in the leading dynamic centre of capitalism, of commercial openness and its advantages for the periphery. It is insistently recommended that the gates be opened to imports of goods and services in which technological innovation is manifest and that there should be unconditional openness to foreign investment.

It is obvious that if these measures were taken to the full, the tendency of our countries towards external disequilibrium would be accentuated, and the only thing that could correct this tendency would be for the centres to liberalize their stance towards imports of manufactures and agricultural commodities from the periphery. In my report I give two reasons for my skepticism regarding the likely dimensions of a liberalization policy of this nature. Moreover, some of the

comparative advantages which the periphery might have would disappear if the centres introduced technological innovations in the sectors of activity affected by such competition. I do indeed believe that a policy should be agreed upon between the centres and the periphery based on the mutual advantages of promoting increased trade, but even in the best of cases I do not believe that this would make it possible to correct the trend towards external imbalance. In order to achieve that, it would be necessary to insist on the need for import substitution, not in the narrow framework of national markets but rather by seeking concerted arrangements on production and reciprocal trade within the periphery, which in time would put us in a position to compete with the centres. Let us not forget that those industries which are now competitive were originally based on import substitution. The formulas of a quarter-century ago have not proved to be fully effective, however, and innovations are indispensable in this field.

Nevertheless, there is still great resistance to the import-substitution policy in certain circles in the centres. Mr. David Rockefeller, the prominent banker, has spoken out against it, as has Dr. Krueger, the distinguished World Bank economist. I do not believe it has yet been understood that this substitution policy does not reflect a doctrinal preference but is a response to the obstacles to Latin American and Caribbean exports and to the adverse effects of the lower growth rates of the centres. The less willing the centres are to receive our exports, the more intense is the need to substitute.

We are also recommended to adopt financial openness, and its advantages as regards the rational allocation of resources at the international level are proclaimed. But is this really what happened when a number of countries embarked on a course of unconditional openness not so very long ago?

The Eurodollar market offered the international private banks the incentive of being able to increase their earnings by providing an abundant supply of easy money. There was a true convergence of irresponsibility: irresponsibility on the part of the creditor countries, because there was no regulation of any kind, and irresponsibility on the part of the debtor countries because as a general rule they did not display the slightest caution.

Furthermore, the Eurodollar market has been the result of the spill-over of the inflation from the United States, owing to the dollar's dual role as a national and an international currency. And this spill-over has now been followed by the drawing-off of liquid resources in the international field by the extraordinarily high interest rates offered, which causes severe difficulties for the economic expansion of the other capitalist centres and impacts very seriously on the periphery, and in particular on the Latin American periphery. This is clearly a political problem both in its origin and its results, since the international private banks are defending their interests by squeezing the peripheral economies, so that they have to reduce their imports, and obtaining the payment of financial service charges with big spreads, commissions and expenses of all kinds. All this is an extremely serious matter and calls for urgent political decisions to establish a general context of longer repayment periods and sharply reduced interest rates in which it will be possible to continue negotiating. If interest rates do not come down either as a result of planned action or as a consequence of a change in the financial policy of the United States, this would cause me to view the future with growing concern, since although countries may want to pay and be able to pay, they will not have enough dollars to make the transfer. Although caution may not have been exercised in the past, it is now essential if we are to ward off greater evils which would affect everybody.

I should now like to set forth certain ideas concerning the trends towards internal dynamic disequilibrium of the economy and the need for fundamental changes to restore the balance.

These trends did not occur in the capitalism of the past, when the upper groups of society were able, without opposition, to appropriate a great part of the fruits of technical progress evidenced in constant increases in productivity. Those were the times of a passive labour force, when the State did not take part in the redistribution of income. This is no longer the case, and the labour force, having both trade-union power and political power, is now increasingly disputing the right of the upper strata to appropriate the surplus, i.e., a great part of the fruits of technical progress. The State is also disputing this right, and this in turn increases and complicates its functions. Thus, the distributive struggle is becoming more intense and complex and, in one way or another, involves different social groups, all striving to share the surplus and, in so doing, challenging the

advanced strata. In my report, I argue and seek to demonstrate that this distributive struggle inevitably leads to a new type of inflation which I call social inflation. This is a type of inflation that cannot be corrected through restrictive monetary measures, which are at once socially regressive and economically counter-productive, since they can only succeed when they have caused a rate of unemployment that breaks the political and trade-union power of the labour force. Moreover, even if such measures do have temporary results, they do not correct the fundamental factors of disequilibrium.

In the periphery, this phenomenon has become much more significant than in the centres, because of the special features of peripheral capitalism. In the distributive struggle, both in the centres and in the periphery, expenditure tends to increase more than the reproductive accumulation of capital which is essential for the multiplication of employment, productivity and income. Thus, there is also an overlapping of expenditures, since the higher strata tend steadily to increase their consumption of diversified and more sophisticated goods produced as a result of technological innovation, and as the redistribution process goes on, the demand for those goods also tends to rise, along with various forms of social consumption by the labour force, through the State, and the expenditures of the State itself, including those of a military nature. This increase in expenditure, however, does not curtail the privileged consumption of the upper strata, but rather is superimposed on it and weakens the rate of capital accumulation.

Why is this disequilibrium, and consequently the inflationary spiral, more intense in the periphery? For the simple reason that, although average productivity is much lower in the periphery than in the centres, there is a tendency towards an accelerated imitation of the advanced and diversified forms of consumption of the latter, to the detriment of capital accumulation, and this is aggravated by the contradictions of technology, particularly as they affect aspects connected with the population growth rate.

All this is very serious, not only from the economic standpoint but also from the social and political standpoints, because in the distributive struggle an increasing number of social groups are struggling for the surplus of the upper strata and this struggle leads to an erosion of the political power on which the

State is based. The State becomes virtually impotent to keep the distributive struggle and the accumulation of reproductive capital on the right lines, and this unending conflict slows down the growth of the economy and the multiplication of employment, productivity and income.

The laws of the market offer no solution; neither does monetary policy. I have come to the definite conclusion that what is needed is a transformation of the process of appropriation, accumulation and distribution of income: in other words, macroeconomic regulation of the overall surplus at its very source. This calls for a social consensus of the different social groups and, especially, of the enormous strata that have been left out of the fruits of development. Undoubtedly, this is an extremely difficult problem, but I do not see any other way out of the inflationary crisis which is leading some countries to a disastrous hyperinflation. The social consensus requires --naturally-- a democratic agreement, with the participation of all social groups. Only thus will it be possible to restore the political power of the State which is absolutely essential to fulfill and enforce a democratically attained social consensus.

In all of this, what is needed first of all is to respect the technical rationale: i.e., to ensure an increase in the rate of capital accumulation and an adequate use of that capital; secondly, the equitable distribution of accumulation and its fruits is required, and thirdly, the decisions taken about this must be reached through suitable institutional mechanisms within the democratic process.

I am fully aware of the tremendous obstacles that must be overcome in order to achieve such transformations. The problem is far from having been properly clarified. A great effort of persuasion is called for. But we cannot wait much longer, for the crisis is worsening and has serious implications. That is why I believe this macroeconomic regulation must begin with an incomes policy enabling the labour force to participate actively in the accumulation of reproductive capital, without which development will not be able to get out of this mess.

I do not hesitate to depart from conventional forms according to which wages must be held back in order to cover the surplus and allow for accumulation in the hands of the upper strata. Nor do I believe, both for economic and for political reasons, that only the State can carry out this task of regulation. Macroeconomic regulation of the surplus which is at the same time rational, equitable and democratic can only be based on an accumulation process which spreads its costs and disseminates its fruits among all social groups.

I unreservedly maintain that this regulatory function of the State is completely compatible with the development of a market based on competition and incentives to enterprises and to the labour force to raise productivity. The time has come for a great synthesis between the regulatory State and economic freedom. The market is irreplaceable, but it is not the supreme regulator of the economy; regulation by the State has become indispensable, but it cannot be placed above economic liberty without sacrificing the effectiveness of the system. This is the great concern of realistic socialism and its leaders. Realistic socialism is also going through a crisis -- a crisis of productivity -- while capitalism is going through a crisis provoked by the discrepancy between the rate of accumulation and the rate of expenditure.

This is a crisis of capitalism and of the ideas developed during the second half of the nineteenth century, which have been overtaken by events. We must now develop new ideas and new forms of action. Capitalism is not in a state of decadence, I repeat, but it could fall into it if it does not renew itself in order to promote development with the great objectives of social equity and the rationality needed to achieve that equity.