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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

SANTIAGO, CHILE, APRIL 1988

CEPAL

Review

Santiago, Chile

Number 34

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Prebisch: A classic and heterodox thinker

*Benjamin Hopenhayn**

In this tribute to Raúl Prebisch, the author seeks to highlight two of the outstanding features of Prebisch's written legacy: the classical nature of his thinking, and his heterodoxy as a combatant, armed with the lessons taught by concrete historical experience, against conventional myths. Both of these traits are to be found in many of the thinkers who have made landmark contributions to the development of the sciences and the realm of ideas, as did Prebisch in the field of economic development and societal change.

*This article is a revised version of a paper presented in Buenos Aires in September 1987 at the Seminar on Latin America in the World Economy, which was organized as a tribute to Raúl Prebisch by INTAL, the Raúl Prebisch Foundation and ECLAC.

I

Prebisch: a classical thinker

Starting from his experience and his identity as an Argentine, as Prebisch developed his ideas he focused first on Latin America and then on the world economy. He thus followed in the steps of many classical thinkers in the most varied fields of philosophy, literature and the humanities in general whose theories carried them from a reality firmly set in a specific time and place to a much vaster universe. In economics, to turn to the basic discipline with which Prebisch was concerned (although his ideas overflowed its bounds with increasing frequency as time passed), it may be remembered that the physiocrats opened up new analytical and theoretical frontiers on the basis of their observation of conditions in France, that Ricardo did the same on the basis of the situation in England during his lifetime, as did List in Germany, and that the thinking of Keynes himself took as its starting point the new situation facing England during the decline of the British Empire.

This is not the only path for the development of knowledge, in economics or in any other discipline. There are those whose ideas have sprung from theoretical reflection, as in the case of the founders of neoclassicism, Walras and Pareto, and of Samuelson. Other thinkers, such as Karl Marx, have looked to history for their sources. Thus, social thinkers have chosen many different paths. Carl Menger, the founder of the Austrian school and one of the first to be concerned—as are so many today—with method in the social sciences, drew a distinction among three methodologies in economics: the theoretical/abstract, the empirical/realist and the historical approaches.¹ Indeed, all the significant thinkers have drawn on one or another of these three methodologies at different times and for different purposes. In the case of Prebisch, his personality was such as to cause him to have a general preference for empirical realism with an historical cast, i.e., theoretical reflection whose

¹Carl Menger, *Principles of economics*, New York, New York University Press, 1981.

basis was an analysis of real-life situations and whose aim was the formulation of proposals for practical action. In this sense he followed in the steps of the classicists.

Indeed, Raúl Prebisch himself was a "classical" figure in both senses of the word: in the more general sense of being a "model worthy of imitating" and insofar as his thinking as an economist is concerned. Of Raúl Prebisch in the first sense, that is, as a man whose personality and life set an example to be followed, other friends have written and spoken with emotion and accuracy.

What I would like to do in this article is to resume my consideration of Prebisch both as a classic of economics and as a classical economist. I say "resume" because I have already undertaken something along these lines in a commentary I prepared on his book *Capitalismo periférico: crisis y transformación*, which, much to my satisfaction, Prebisch himself found to be relevant.²

In the light of the astute distinction which Hollis and Nell³ draw between the classical and neoclassical schools in the history of economic ideas, it becomes clear that Prebisch belongs to the former. These authors characterize classical economists as those whose attention is focused on production and distribution, on processes of change, whereas neoclassical thinkers tend to concentrate on the action of rational economic agents which generate demand and supply on interrelated markets.

Prebisch's thinking clearly stresses the dynamics of production and distribution, but he did not stop there. As he pursued his consideration of reality, his ideas also took in social and political phenomena and the ethics of development. He did not expand his field of study willingly. A man of rigorous scientific training and disposition, he preferred to address a methodically-defined and more precise field of research, rather than to try to encompass the entire universe. Nevertheless, his deeply felt need to understand the true nature of the situations he considered eventually led him to seek answers in other disciplines. Thus, his next-to-last book, on the crisis and transformation of

peripheral capitalism, sets up an interpretative model in which economic, social and political factors are inextricably linked to one another. He himself gives us the explanation for this: "The time has now come to address [the various elements] in all their intricate complexity and to ascertain the nature of their mutual relationships. This must be done in order to gain a better understanding of the situation that we wish to change."⁴

This is one of the keys to Prebisch's thinking, and one which is also characteristic of the classical economists: the acquisition of knowledge and understanding as a basis for adopting a position and, when necessary, proposing changes. This is neither neutrality nor an attempt at "asepsis", but is instead a type of theoretical reflection marked by a strong ethical dimension in the tradition of Adam Smith, Marx, Pareto, Keynes and Myrdal. All these men used economic analysis as a means of supporting policies or proposing major changes, each in his own place and time, as did the renowned Latin American economist to whom we are paying tribute in this issue.

Prebisch himself was fully aware of his "classical" leanings (in the sense used by Hollis and Nell) or, rather, of his conflict with the neoclassical school. In one of the few of his writings that is in any way autobiographical (he always thought that so long as one could deal with the collective present and future, one should not waste time writing about one's own past), he identified five stages in his thinking about development, beginning with the serious doubts which the Great Depression led him to have about neoclassical theories.

It is worthwhile reviewing the main features of these five stages, faithfully following Prebisch's own summary of them.⁵

Prebisch's experience in Argentina in the practice and teaching of economic policy in the crisis years of the 1930s brought him face to face

²B. Hopenhayn, *Algunas notas sobre el "Capitalismo periférico" de Raúl Prebisch*, *Desarrollo Económico*, No. 86, Buenos Aires, 1982.

³M. Hollis and E. Nell, *Rational Economic Man*, New York, Cambridge University Press, 1975.

⁴Raúl Prebisch, *Capitalismo periférico: crisis y transformación*, Mexico City, Fondo de Cultura Económica, 1981. This book, which is a true compendium of Prebisch's ideas concerning the theory of peripheral development, will be cited repeatedly throughout this article.

⁵Raúl Prebisch, *Cinco etapas de mi pensamiento sobre el desarrollo*, *Trimestre Económico*, vol. 50 (2), No. 198, Mexico City, 1983, reproduced in ECLAC, *Raúl Prebisch: un aporte al estudio de su pensamiento*, Santiago, Chile, 1987.

with "major theoretical issues". His consideration of these issues, he tells us, "paved the way for the next stage". During this stage, the first in which he was associated with ECLAC and one that is embodied in his classic work "The economic development of Latin America and its principal problems",⁶ Prebisch made a major theoretical contribution by describing the main characteristics of the asymmetry marking the economic relations between the centre and the periphery. This asymmetry is clearly manifested in the secular trend towards a deterioration in the terms of trade or, in other words, towards an unequal distribution of the benefits of technical progress, and is what provided the theoretical basis for his characterization of industrialization as a key element in the development strategy of Latin America.⁷

It is worth taking the time here to consider the fate of these ideas. They were taken up enthusiastically by movements striving to transform Latin American thought, while they were ignored or combatted by the prevailing circles in the centres and by their adherents in the periphery. Thirty years later, in the light of the experience of other countries (some of them mere enclaves) and as a partial response to the debt crisis, the policy of industrialization (but this time in an "outward-directed" form) was unveiled as a veritable "gospel" of development. Finally, in recent years there has been a growing recognition of the essential importance of industrialization based on the domestic market as a necessary phase in the effort to establish a position in international trade within the framework of a multi-faceted pattern of commerce that would overcome the disadvantages of the asymmetries which Prebisch had analysed as early as 1949. It was not in vain that Prebisch always sought to formulate his ideas "with an eye to the future". By doing so he managed to ensure that his thoughts, when read again now, would be of an astounding timeliness.

⁶Written in 1949 as the introduction to the *Economic Survey of Latin America*, 1948 and later published in the *Economic Bulletin for Latin America*, vol. VII, No. 1, Santiago, Chile, February, 1962.

⁷Prebisch himself was to define this theory a few years later in another of his main works, *Theoretical and practical problems of economic growth* (E/CN.12/221), Mexico City, 1951, United Nations publication, Sales No.: 52.11.G.1.

In retrospect, the essay written by Prebisch in 1949 seems much like a proposal for the productive research programme carried out by ECLAC in the years thereafter. Seen in this light, Prebisch's work performed two of the basic functions identified by contemporary theories of scientific progress: to refute (as Popper wished)⁸ prevailing theories, and to propose a new programme of research (after the style of Lakatos),⁹ while consistently combining theoretical inquiry with the pursuance of change.

This was followed by a third stage, beginning in about 1955, in which Prebisch once again took a position which he described as "critical of the [prevailing] economic policy and ideas in the light of the changes that were taking place in the development process and my better understanding of the problems involved". At this point the central topics with which he was concerned were the inadequacy of industrialization and of domestic markets as a means of resolving external bottlenecks, optimizing resource allocation, improving the distribution of income (or of the benefits of technical progress within Latin American societies), and overcoming the strong structural tendency towards inflation.

This third stage gave rise to a number of pragmatic proposals which bore fruit in the first agreements on Latin American integration as a basis for expanding domestic markets in connection with industrialization; in the Inter-American Development Bank, as an additional source of external resources concerning which Latin America was to have a decision-making role; in the ill-fated Alliance for Progress, which was conceived of as a means of substantially increasing the amount of external financial support made available to the region (chiefly by the United States) and linking it to a purposeful form of development involving structural reforms; and in the Latin American Institute for Economic and Social Planning (ILPES) as an instrument for augmenting the educational and analytical work being done in relation to development issues in the region.

⁸Karl Popper, *Conjectures and Refutations: The Growth of Scientific Knowledge*, London, Routledge and Kegan, 1969.

⁹Imre Lakatos, Falsification and the methodology of scientific research programmes, in *Criticism and the Growth of Knowledge*, I. Lakatos and A. Musgrave (eds.), London, Cambridge University Press, 1970.

From the standpoint of theory, this third stage in Prebisch's thinking is marked, above all, by the identification of problems of such magnitude as to call the system itself into question in terms of both its efficiency and its equity. This questioning of the system is clearly reflected in *Towards a dynamic development policy for Latin America*,¹⁰ in which Prebisch examines not only problems relating to external bottlenecks and insufficient dynamism, but also the very "functioning of the system and the social structure", as well as the "social background of inflation". This last idea had already made its appearance in another important work, "Economic development or monetary stability: the false dilemma".¹¹

Prebisch's 1949 essay had set out a veritable research programme for the development of economic thought in Latin America. Nearly 15 years later, this programme and the proposals it entailed had been shown to suffer from some shortcomings in relation to its explicative capacity. The creator of this first programme recognized these deficiencies in the realms of both reality and theory. Accordingly, in *Towards a dynamic development policy*, he proposed that more appropriate responses be sought in the form of more complex mechanisms linked to the very functioning of Latin American society and its interrelationships with the centres. This second systematic effort to identify the problems at hand and to propose a programme for addressing them embodied a different concept of effectiveness that went beyond the field of economics to encompass political effectiveness and ethical reasoning, areas which Prebisch was to explore in an increasingly explicit manner.

The fourth stage in his thinking, which may be said to have begun in 1963 and to have concluded around the end of that decade, was one in which he concentrated on problems relating to international co-operation between the North and the South. This was actually a much more action-oriented stage, although his intellectual curiosity was undiminished. Prebisch himself said that the intensity of these negotiations

caused him to interrupt his theoretical studies, but this interlude also gave this great observer of reality a chance "to gain a better perspective on the functioning of the system, both in the centre and in the periphery".

The fifth stage—and the last, as he himself was to foresee—was perhaps the longest, most complex and most productive stage in his long intellectual journey. Freed from political and executive responsibilities, he was able to devote himself fully to a consideration of questions—some old, some new—for which conventional theory provided no answers. He had come to see that the natural evolution of the system, the influence of powerful schools of independent thought and his own intellectual ascendancy and power of persuasion had done little to change the asymmetrical relationship between the periphery and the centres or the insufficient dynamism and structural heterogeneity of underdevelopment. The predominant circles of neoclassical thought of the past few decades continued (and continue) to look to the free operation of markets for solutions. Confronting these schools of thought, Prebisch turned back to the central concerns of the classicists: capital accumulation, the production process and distribution within the framework of a process of change taking place in each society and in its relations with the rest of the world.

In this culminating stage of the evolution of his theories, Prebisch explicitly cast doubt upon the basic postulates of neoclassical analyses, especially the contemporary versions thereof. His questioning of these ideas was developed in a series of articles, beginning with the first issue of the *CEPAL Review* in early 1976, which led up to the summation he presented in *Capitalismo periférico*. His differences with contemporary neoclassicism are set forth in a particularly interesting form in his socratic "Dialogue" with imaginary disciples of Friedman and Hayek.¹² This dialogue is based on his time-tested knowledge of neoclassical thinking, whose persuasive elegance and ethical foundations, based on the Pareto optimum and the theory of general equilibrium, had held an intellectual fascination for

¹⁰*Towards a dynamic development policy for Latin America* (E/CN.12/680/Rev.1), New York, 1963. United Nations publication, Sales No.: 64.II.G.4.

¹¹*Economic Bulletin for Latin America*, vol. 6, No. 1, Santiago, Chile, March 1961.

¹²Raúl Prebisch, Dialogue on Friedman and Hayek. From the standpoint of the periphery, *CEPAL Review*, No. 15 (E/CEPAL/G.1187), Santiago, Chile, December 1981. United Nations publication, Sales No.: E.81.II.G.4.

Prebisch during his years as a young professor of economics. This was the theory that had failed to provide him with any convincing explanations for the Great Depression and that he had abandoned when he came face to face with a real-life situation for which Keynes offered him more effective explanations and tools.

It is well worthwhile to re-read Prebisch's criticism of the neoclassicists. The basic postulates which he calls into question are those concerning the behaviour of economic agents and the way in which markets function. Markets are not effective because they are devoid of any social sense and lack an appropriate time horizon. In addition to these "functional disparities", the market does not provide any adequate solutions for the "problem of accumulation and that of the great structural disparities in income distribution". He also challenges the idea that the interests of rational economic men, guided by Adam Smith's "invisible hand" (the basis of neoclassical thought, much as rational expectations are for the "new classicists"), "leads the way to solutions which benefit the entire community". And he does not stop there. In his "Dialogue" Prebisch contends that "the ethic underlying neoclassical reasoning... is very far from being put into practice in real life". He then embarks upon an openly political discussion, in the best sense of this much-abused term.

Prebisch reaches the conclusion—in his "Dialogue", in his articles and in his book—that the application of neoclassical principles actually deepens the political crises of peripheral capitalism, serving the interests of privileged groups in underdeveloped societies and of the hegemonic centres worldwide. This statement is not based on an arbitrary reading of Prebisch's writing or on a subjective interpretation arrived at by reading between the lines. In the final pages of the "Dialogue", Prebisch states that "neoclassical principles can only be applied under a régime of force" (page 170), and he closes by saying: "I will end this dialogue here, for the time being, because I believe we must continue it and we must counteract the penetration of ideologies which have serious implications for Latin American development. We have an inescapable responsibility to do so. In this case we are not talking about just one of the many episodes of intellectual dissemination from the centres. This

is clearly a phenomenon of deliberate propagation. Visits, interviews and conferences, ardently supported by a free-spending and well-organized campaign in the mass media. There is more, much more, behind this than pure apostolic zeal. This is a systematic effort to turn back the clock, and it represents a tremendous step backwards intellectually, just at a time when we had managed to move forward, with great difficulty, in interpreting Latin American development" (page 174).

I have not dwelt on this criticism of contemporary neoclassicism solely for the purpose of highlighting the theoretical stance with which Prebisch drew to a close a long life rich in thought and action devoted to overcoming the Latin American societies' underdevelopment and dependence. I am convinced of the validity, right here and now, of his analyses and his proposals for dealing with the crisis of accumulation and inflationary social struggle which, within the context of the region's heightened dependence as a result of the external debt, are once again jeopardizing democratic régimes in Argentina and other Latin American countries.

This danger was pointed out again and again by Prebisch, and he associated it with the application of essentially neoclassical interpretations and formulas. This position is best summed up for me in the keen distress with which he concludes his extensive 1978 article (note the year) on the "Socio-economic structure and crisis of peripheral capitalism":¹³ "Be this as it may, however high the degree of intelligent virtuosity with which neoclassical principles are followed, there will be no possibility of simultaneously attaining the great objectives of economic efficiency, social efficiency and respect for fundamental human rights". It is disturbing to note how infrequently the tributes paid to Prebisch touch upon his substantive criticisms of fashionable schools of thought—criticisms whose bases are ethical and political as well as economic—when precisely what needs to be done is to restore the ethical essence of political discourse and to back it up with an economic policy that will reconcile effectiveness with equity.

¹³Raúl Prebisch, Socio-economic structure and crisis of peripheral capitalism, *CEPAL Review*, No. 6, Santiago, Chile, 1978. United Nations publication, Sales No.: E.78.II.G.4.

During his final years Prebisch used economic analysis as a tool for attaining a better understanding of social reality, the power structure and, ultimately, the philosophical foundations of the system in relation to both its ethic and its logic. Those of us who had the privilege of being with him know that for a long time he had been seeking to reconcile economic rationality with social equity and political freedom. This is one of the key elements of his "classical" ideas: a turning back to the moral and political philosophy which is the wellspring of economic theory.

There has been much talk of the crisis of economic theory. The established schools of economic thought have not been able to offer valid explanations or effective proposals for coping with the paradoxical trends towards stagnation and inflation to be observed in the world of today, hand in hand with the most explosive and widespread technological revolution in the history of mankind. If the theories developed in the centres cannot even provide an explanation for the situation as it exists there, then they can hardly be suited to the current situation in the Latin American periphery, plagued as it is by a colossal external debt, stagnation, a steep decline in investment and the ever-present threat of hyperinflation.

In the face of this crisis of established economic theory, as Prebisch's thinking evolved through its various stages he forged beyond the bounds of economic analysis with increasing frequency. He did not do so because he was a dilettante or because of any methodological slovenliness on this part. The exacting analytical discipline for which he is known invariably led him to delimit the boundaries of his ideas. Nonetheless, his observation of real situations—the only fitting laboratory for an economist—prompted him to incorporate social, cultural and power-related factors more and more as time went by. This process, whereby his ideas were enriched and he moved closer and closer to a comprehension of a highly complex reality, culminated in his final works which, for this very reason, clearly constitute a return to the very sources of economics as a social and political science based on the principles of moral philosophy.

His criticism of the system was not merely the result of reading, reflection or observation by a removed bystander. Prebisch devoted decades of intense work to proposing reforms, propounding them with missionary zeal and attempting to sway various groups of governors and of the governed in both the North and the South. He was unflagging in using his powerful oratory as a tool of persuasion—a tool which he wielded in virtually every part of the world. He was convinced that ideas could have a force of their own, that they could alter designs and overcome self-interest. Indeed, this is so, if one considers the history of mankind; but historical time is not easily bent to the will of individuals.

Viewed in retrospect, Prebisch's life as a man of action with a mission was marked by many disappointments. This is yet another paradox: the facet of Prebisch which is best known and most admired the world over is that of the propounder of proposals which, in large part, have not been put into practice: industrialization, integration, international co-operation, structural reforms, planning. Be this as it may, the intelligence, tenacity, fervour and negotiating skill with which he strove to overcome the shortcomings of the system from within are certainly to be admired, even though they may have borne meager fruit.

But Prebisch as a man of action set within his own time always walked hand in hand with the theoretician whose thought evolved so vitally from its neoclassical beginnings in his early youth, passed through the Keynesianism which he embraced during the years of the Great Depression, ripened into the development theories he formulated at ECLAC as he analysed the relations between the centre and periphery, and culminated in his interpretation of the systemic crisis of peripheral capitalism. This side of Prebisch is reflected in a great many of his writings, most of which are clearly relevant to the current situation in Argentina and in Latin America in general.

Strangely enough—or perhaps not, if we re-read his conclusions in the above-mentioned "Dialogue" with Friedman and Hayek—Prebisch as a theoretician, who was very likely one of the most original economists ever produced by Latin America and perhaps by the entire developing world, does not figure as promi-

nently as he should in university programmes intended to teach young people how to interpret the real-life situations existing in the region and how to go about changing them.

The fact that so little attention is paid to Prebisch's writings in academic discussions and university programmes reflects some measure of resistance to the idea of regarding him as a "professional" or "scientific" economist. I do not believe that the absence of more or less elegant mathematical proofs is sufficient justification for this position. It may be recalled that writers who deservedly enjoy great prestige in leading universities of the North, such as Hicks, Myrdal, Mrs. Robinson, Shackle and Kingleberger, did not provide mathematical formalizations of their later theoretical contributions. Nor is this criticism of an alleged lack of "scientific" precision justified in the light of what Schumpeter regarded as being the distinctive feature of scientific economists, i.e., the mastery of techniques of economic history, statistics and theory. It is well-known that Prebisch made an important contribution to the development of statistics in Argentina; the support he provided for the same purpose in ECLAC and UNCTAD is less well-known but just as significant. Insofar as theory is concerned, he taught the classics and neoclassics for almost two decades as a university professor; he wrote a fine book which served as an introduction to Keynes; and he did not fail to study the main theoretical contributions which came thereafter.

No one can deny that (especially from the time of his previously-mentioned 1949 essay) as Prebisch developed his ideas, while he did not abandon his preference for the "empirical-realist" approach, he did devote an increasing amount of attention to what Schumpeter considered to be the most important field for the application of economic techniques: history. And he did so for the three reasons which Schumpeter himself outlined: "First, the subject matter of economics is essentially a unique process in historic time. Nobody can hope to understand the economic phenomena of any, including the present, epoch who has not an adequate command of historical *facts* and an adequate amount of historical *sense* or of what may be

described as *historical experience*. Second, the historical report cannot be purely economic but must inevitably reflect also "institutional" facts that are not purely economic: therefore it affords the best method for understanding how economic and non-economic facts *are* related to one another and how the various social sciences *should* be related to one another. Third, it is, I believe, the fact that most of the fundamental errors currently committed in economic analysis are due to lack of historical experience more often than to any other shortcoming of the economist's equipment" (the underlinings are those of the original author).¹⁴ How is it possible to doubt the importance played by a vivid and exceptional historical experience in the writings of Prebisch?

I knew and admired the man of action, the high-ranking official and the international negotiator. I firmly believe, however, that his most important work and legacy reside in the books and articles he wrote on development issues—from the noteworthy contribution represented by his theory concerning the deterioration of the terms of trade as a key element in gaining an understanding of the relationships between the centre and periphery, to his theory concerning the generation, use and distribution of surpluses as a basis for understanding the interconnected economic, social and political processes which are the fabric of the internal realities of peripheral capitalist societies.

The purpose of this article is not to provide a critical exposition or review of Prebisch's ideas. I have confined myself to pointing out certain characteristics which identify Prebisch not only as a classicist among those economists who have concerned themselves with underdevelopment, but also as an economist of a classical theoretical lineage, and to stressing the way in which his ideas contribute to a better understanding of some of the most serious problems affecting the region in the economic, social and political spheres.

¹⁴Joseph Schumpeter, *History of Economic Analysis*, London, George Allen and Unwin, 1954, pp. 12-13.

II

Heterodoxy and myths

As the classicist he was, Prebisch was a heterodox thinker in that he did not accept conventional theory unquestioningly but instead consistently subjected it to the test of historical experience. If the theoretical models did not conform to this experience, then he sought other explanations for the situations under consideration. In this intellectual quest, too, the methodologies he used were of a recognized scientific lineage.

As suggested by Popper, Prebisch often relied on the method of refuting pre-existing theories. One notable example is his refutation of neoclassical postulates and proposals which was cited earlier.

Let us now see how these postulates and proposals reflect certain myths which Prebisch systematically exposed. Two such myths are dealt with extensively in *Capitalismo periférico*: the myth of imitative development linked to the "spontaneous expansion of capitalism", and the myth of the benevolent operation of market laws.

Along with Prebisch, let us consider the significance of the survival of these mythical beliefs in relation to the actual economic situation in Argentina, Latin America and probably the world. Celso Furtado, in his criticism of prevailing ideas concerning economic development, said that "... myths are like lanterns which illuminate the social scientist's field of view, providing him with a clear picture of certain problems, while the very existence of others goes entirely unnoticed. At the same time, they afford him ease of mind since his own value judgments appear to him to be a reflection of objective reality".¹⁵

In formulating his ideas, Prebisch always brought the preconceived ideas associated with such myth-based beliefs face to face with the lessons to be learned from an objective (but not value-less) observation of reality. In doing so he had to (and, in a certain sense, he continues to)

do battle with a number of myths fostered by the "ideology" of international economic power which are presented as revealed truths by the mass media and defended as an article of faith by most of the "pragmatic and realistic" spokesmen who represent the seats of economic power in the countries of the region.

These same myths are accepted without hesitation by certain schools of economic thought which, while their formulations appear attractive, have led to the adoption of standards and policies that have proved to be dangerous to the societies where they have been applied. In essence, these new schools or circles constitute a resurgence of those existing during the last century in the dominant ruling centre which proclaimed the advantages of laissez-faire policies and free trade. As Marshall himself observed, this was no more than a projection of the national interests of Britain at that time.

1. The myth of free markets

One of the basic theoretical assumptions made by these schools, which has also been taken up by their newer versions, was the *possibility* of there being perfect competition, with a full mobility of factors in free and transparent markets in which relative prices would move swiftly and so provide guidance to economic agents as regards the optimum allocation of resources. Despite the fact that the actual state of affairs consistently demonstrated the fragility of such assumptions, the main body of this theory seems to burst into new life after each crisis that it has undergone down through history.

Markets do not operate in the vacuum of perfect competition, but rather in an environment warped by conflicting interests and pressures governed by both the "laws" of the market and the "laws" of power, as pointed out by Prebisch. Strangely enough, while the great crisis of the 1930s resulted in a stronger regulatory role and increased intervention on the part of the State, the crisis of the 1970s—which has proved to be as serious as the earlier crisis for the Latin American periphery—has led to a vigor-

¹⁵Celso Furtado, *El desarrollo económico: un mito*, Mexico City, Siglo XXI Editores, 1975.

ous resurrection of laissez-faire theories. The new orthodoxy starts out by blaming State intervention and the regulations advocated by Keynesianism for the disturbances which have taken place and then goes on to propose, with dogmatic fervour, a diametrically opposed solution. What is now proposed is that markets be freed from the hindrances placed upon them by the State which prevent them from serving to regulate and optimize the economy. It is said that what must be done is to "privatize and deregulate" the economy, to permit agents' "rational expectations" to function and to trust in their capacity for optimization, both individual and social. This old laissez-faire stance is a many-headed dragon: when the real world or theory cuts off one head, the dragon always has another to offer up. Is its astounding vitality a result of ideological perseverance or is it due to other reasons?

Before attempting to answer this question, however, a brief epistemological digression is in order. Economic theory is built, as are other sciences, upon the foundations provided by axioms or basic assumptions. The first of these is that of rational economic man, which John Stuart Mill recognized early on as an arbitrary and abstract concept.¹⁶ Another axiom is that markets are assumed to exist in which labour, merchandise and —possibly— money circulate freely. In order for a scientific study of such circulation to be possible, it appears necessary to assume that markets are free of non-economic influences which could reduce their competitiveness and transparency and curb their "natural" tendency towards equilibrium and Pareto's optimum.

However, we all know that there is no such thing as a purely economic and rational man. Nor is there such a thing as a pure or "free" market. At another level, less removed from the values governing real behaviour, it may well be asked whether "homo economicus" corresponds to some human optimum and whether or not the actions of such individual beings in free markets would be such as to ensure an optimal social situation. To claim that man should, in the real

world, behave as an economic optimizer is not only futile but also diminishes him to something quite different from what a complex human being actually is. In this case, it is obvious to all that the axiom should not be confused with reality. The same is true of free markets, although this may not be quite so obvious, especially in view of the constant bombardment of the public with propaganda touting the virtues of such freedom. Confusing the laws of a theoretically "free" market with the way in which markets actually function reduces our chances of understanding the real economic situation and of influencing it so as to improve the human condition —the ultimate goal of all positive social sciences. To confuse the axiom required for abstract thought with reality is tantamount to attempting to squeeze the latter into a strait-jacket, and it makes little difference how elegant the "model" of the jacket may be. Since it cannot withstand such treatment, only theories based on myths could entertain such an idea. It must then be asked why, at every turn, such a point is made of maintaining this myth of making free markets a reality. Is this an innocent myth or is there some purpose behind it?

Some case might be made for its innocence, as a result of the confusion of the three spheres of economics identified by, *inter alia*, some of the founders of neoclassicism such as Walras and Wicksell: economic theory, economic policy and social economics. At a purely abstract theoretical level, these assumptions have proved to be both valuable and useful. When one oversteps this boundary and attempts to apply these assumptions to economic policy and social economics, however, then the consequences are such that it may rightfully be suspected that this myth is being used to serve other, less pure, ends. At this point it might be well to recall what Robert Graves has said concerning the functions which myths have fulfilled during the course of man's history, when he observed that they confer an enormous amount of power to the deities believed responsible for the creation and care of souls and, by extension, to priests. He went on to say that the second function of myths is to justify an existing social system.¹⁷

¹⁶John Stuart Mill, *On the Definition of Political Economy and the Method of Investigation Proper to It*, 1936. Reproduced in David M. Haviman (ed.), *The Philosophy of Economics. An Anthology*, New York, Cambridge University Press, 1984.

¹⁷Robert Graves, *Introduction to the New Larousse Encyclopedia of Mythology*, New York, Hamlyn Press, 1978.

Prebisch did not fall into the trap of regarding the free market as the Supreme Maker of economic relations within human societies. He was consistently concerned with the market in his writings, concerned both with combatting its false image and with conserving its potential as a sphere for the essential element of individual initiative and as an allocator of resources, but, as with any major source of energy, he saw it as a force which had to be subjected to a certain measure of discipline. Of course, he by no means proposed that the market should be suppressed. The problem is of another sort, and he stated it as follows: "Individual decisions in the marketplace must be combined with collective decisions outside it".¹⁸ But how is this to be done?

Forever seeking the best possible state of affairs, Prebisch attempted to hit upon some optimal combination of political liberalism and economic socialism. What, if not this, is meant by the social management of the surplus in a smoothly-running market? This combined framework would serve to reconcile, in each instance and at each point in time, the advantages of an orienting and decentralized type of planning with the use of indirect economic policy tools for the purpose of guiding and regulating, with a view to social ends, the actions of economic agents in the market. It is a question, he tells us, of integrating the action of the State with activity in the market and directing them towards the attainment of "a lofty vision, a vision of change ... inspired by far-sighted ethical concerns in which forward-looking economic, social and economic considerations all play a part".

The market alone cannot be the "supreme regulator" of the progress made towards the achievement of these objectives. It quickly becomes clear what Prebisch's main theoretical and practical reasons were for discounting the idea that the market can be made to fulfil this role of supreme regulator merely by freeing market forces.

His argument starts with demand and goes on to the formation of supply or, if the reader prefers, the allocation of productive resources. The demand which is the basis for the operation of the market "emanates from a particular pat-

tern of income distribution which, in turn, is the product of a specific socioeconomic structure and of the power relations stemming from that structure and from the changes it undergoes". The laws of the market, then, represent "a rational solution, but only for the privileged strata [which are the most powerful]... It is by no means rational from the standpoint of the community at large".

Competition is not a sufficiently effective corrective factor for distortions in demand. On the contrary, consumers' desires are manipulated by means of the "art of collective suggestion... [practised] by the mass media". While Galbraith had already exposed the aberrations created by this type of pressure in post-industrial society, Prebisch pointed out the flaws existing in societies which had just barely crossed the threshold into the industrial era. Moreover, in *Capitalismo periférico* he emphasized that transnational corporations, whose role in disseminating technology is well known, also help to propagate consumption patterns in the periphery which may prove useful in maintaining the level of economic activity and even improving living standards in the centres, but which are clearly premature for the periphery. This also exacerbates the shortcomings of the market as the nucleus for a system which accumulates very little, is bad at using what it accumulates and is even worse at distributing it.

Prebisch did not overlook the defects of the market as an allocator of resources either. In *Capitalismo periférico*, he dealt primarily with two of these: its lack of an appropriate time horizon, and its inability to overcome the "ambivalence of technology", a subject with which he had been concerned for a long time. As regards the first of these shortcomings, he maintained that individual enterprises' calculations of what is in their best interests are based on a concept of economic efficiency that "generally does not extend much beyond their immediate interests, which must be distinguished from the long-term interests of the community". Here Prebisch applied the historical experience which Schumpeter emphasized as being one of the important tools of economic analysis, as he also did when he noted the inoperability of the market in terms of the need to cope with the "ambivalence of technology". In this connection, he argued that tech-

¹⁸*Capitalismo periférico, op. cit.*, p. 39.

nology "has made an invaluable contribution to material well-being, but it has also resulted in the irresponsible exploitation of natural resources and a striking deterioration of the biosphere".

In addition to these specific criticisms of the market as an allocator of social resources, Prebisch also made other criticisms of a more general nature: "Nor have the laws of the market corrected the serious flaws in centre-periphery relations, much less the exclusive and conflictive tendencies of peripheral development". With this statement he masterfully summed up the way in which his own thinking had evolved from the time he wrote "El desarrollo de América Latina y algunos de sus principales problemas" in 1949 to his writing of *Capitalismo periférico* in 1982.

Prebisch does not question the role of the market as a basic instrument of economic activity. Instead, he was more concerned with exposing this central myth of primitive liberal neoclassicism which continues to cause confusion in the periphery. At the theoretical level, he contended that "it is a mistake to blame the market for the flaws in the system; rather, the market is an expression of these flaws". He took an equally positive stance in his proposals: "Individual decisions in the marketplace must be combined with collective decisions outside of it which override the interests of the dominant groups".

In all societies, collective decisions taken outside the market are implemented through the agencies of the State. This does not mean that the deformed State which has gradually taken shape in the course of the crisis of peripheral capitalism can serve as an instrument for transforming the peripheral societies. The overwhelming ineffectiveness of this State and the need to make through-going reforms in it also concerned Prebisch. He devoted many pages to this subject in *Capitalismo periférico* because he was fully aware of the imperative need to change the State so that it might effectively fulfil its essential role as a regulator of accumulation and of the social use of the surplus.

This does not, however, satisfy those schools of thought whose theories are based on myth or the interests which thrive under their protection. These circles attempt to identify the watch-

words of "privatization and deregulation" with objectives fundamental to the rationality and ethics of the system. As regards the former, they contend that anything which restricts or influences the free operation of market forces makes production and distribution less efficient. In connection with the latter, they maintain that, without market freedom, there can be no genuinely democratic society.¹⁹ As noted earlier, the theoretical underpinnings for these positions go hand in hand with a harsh criticism of Keynesianism, which, in the view of these circles, represents a historical deviation from the classical postulates. As often occurs, heterodox views are in this case attacked more fervently than are the orthodox positions "on the other side of the fence". This is all the more true in this instance, because Prebisch, as Keynes before him, cast doubt upon the very ethics, rationality and effectiveness of the laissez-faire proposals of orthodox neoclassicism.

2. The myth of the mirror

Prebisch referred to this other type of myth when he impugned "imitative capitalism", i.e., that form of capitalism by which the periphery would, in Prebisch's words, develop "in the image and likeness of the centres". The historical experience of the central countries themselves demonstrates the mistaken nature or, at least, the ambiguity of this aspiration. Countries in the process of joining the ranks of the centres have always followed different paths from those countries already in a position of dominance. In the eighteenth century, England departed from the agriculturally-based model of the countries of the European continent; in the nineteenth century, the United States and Germany, albeit separately, also followed a different course, one which was founded primarily on protectionism rather than on the free trade advocated by the British Empire. The same may be said of Japan, with its quite singular characteristics, in the twentieth century. All these countries carried

¹⁹The former is of more concern to the followers of Friedman, while the latter is of more central interest to the adherents of Hayek. In this regard, see "Dialogue on Friedman and Hayek...", *op.cit.*

forward their development within a capitalistic framework, but in no case was theirs an *imitative* capitalism.

The myths of central capitalism and those of the periphery are not separate but are instead quite closely co-ordinated with one another and, indeed, form a coherent whole. The theory underlying imitative capitalism in the periphery has been imported from the dominant centres and conforms to the interpretation of the situation which best serves the interests of the dominant centre of the day. We have already seen that Marshall himself acknowledged that the free trade doctrines of the last century served the interests of Great Britain. In like manner, the free trade doctrine of the present era, in both theory and practice, is in the interests of the dominant centre of technology, which is also the home country of the majority of the transnational corporations that hold sway over the international capital market and imperiously exercise, as noted in a recent work,²⁰ hegemony over international monetary matters.

The form of free trade espoused by the schools of economic thought then in vogue served as an effective spur to world trade during the long-lived economic boom which followed the Second World War. It has not, however, helped to curb the protectionist leanings exhibited by most of the industrial countries since the onset, in the early 1970s, of a period of stagnation and instability in the world economy. Nor has the growth of this centripetal protectionism prevented the policy of opening up commercial and financial spheres in the periphery from thriving in both theory and practice during this latter period. As is well known, the consequences of this have been ominous indeed for the development and industrialization processes of countries which have either allowed themselves to be seduced by the self-seeking advocates of these theories or have been forced to embrace them during those authoritarian and repressive stages that Prebisch described as typical of the "swing of the pendulum" of peripheral capitalism, of which Argentina has inherited only the vestiges.

The theory of economic openness goes hand in hand with those doctrines which maintain

that all that is needed in order for the periphery to develop as did the centres is to rid market forces of the shackles and deadweights imposed by a State whose economic weight and excessive regulatory zeal have caused its presence to become onerous. This point has already been touched upon earlier in this article. I repeat that this is not a defence of the deformed and ineffective State which has also taken shape in Argentina, as in other Latin American countries, largely as the result of a long history of "social inefficiency on the part of the system", as Prebisch described it.

If the periphery is not to develop in the "image and likeness of the centres", then how is it to do so? This opens up a field of inquiry about which much has been written, at least in Latin America, both in the literature on economic growth and in the more recent and imaginative writings concerning *styles* of development. Allow me to amend that last statement. For some time now this issue — of such great importance for Argentina and for other peripheral countries — has been pushed to the sidelines of public and academic discussions, as well as of political discourse, which, in its best sense, consists precisely of the search for, proposal and shaping of societal models or styles. In the last few years, following the failure of economic liberalism in combination with political authoritarianism, the controversy now raging over the correct way to manage the economy during a time of serious crisis has relegated matters more closely related to the economy's long-term course to the fringes of the economic debate.

It is understandable that a crisis as deep and complex as is the external debt crisis would arouse the greatest concern and give rise to the most determined efforts to resolve it. Nevertheless, the manner in which this crisis is confronted should not be divorced from a more comprehensive, longer-term policy. It is imperative that the countries resume their examination of long-term options, be they regarded as models, styles, or political plans. Prebisch's ideas constitute an original and important contribution in this regard which is based on the historical experience of the region. We must keep his ideas alive, presenting them and debating them, out of love and respect for the memory of Prebisch and for the future of the region's peoples.

²⁰M. Dinenzon and B. Hoppenhayn, *El régimen monetario internacional y la crisis de la deuda*, Buenos Aires, CISEA, 1987.

Prebisch devoted his life to the search for valid explanations and constructive proposals. In one of his last writings, which was probably one of his most comprehensive and ambitious contributions as well, he strove "to put forward, for theoretical discussion, the outlines of a possible transformation" of peripheral capitalism. His chief concern was to find ways "of eliminating the exclusive and conflictive tendencies of the prevailing system" which would be "compat-

ible with our concept of democracy and of human values".

In bringing this tribute to Prebisch to a close, I would like to quote a statement of his which sums up, with great clarity, both the problem and his proposal for overcoming it: "Equitable distribution, vigorous development and new institutional patterns in a genuinely participatory democracy: these are the major objectives which have guided me in formulating my theory of change."