

# CEPAL Review

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## On the conception of the centre-periphery system

*Octavio Rodríguez \**

During the nearly thirty years of its existence CEPAL has been devoting continuous effort to the interpretation of Latin American development. The principal object of the present article is to show that this work has been based on a set of fundamental ideas, which, formulated in the earliest CEPAL documents, later branched out in various theories and policy proposals bearing on such questions as international economic relations, industrialization, structural obstacles, inflation, etc. In addition, after refuting some of the criticisms levelled at CEPAL thinking from the standpoint of orthodoxy, the author ends by making the controversial assertion that despite the effort expended, CEPAL has not yet succeeded in producing a complete interpretation of the problems relating to employment, capital accumulation and social relations.

The Director of the Review and his collaborators hope that further studies will make it possible to remedy these deficiencies and arrive at a general theory of development in the centre-periphery system: a theory which cannot, of course, be purely economic, given the variety and complexity of the factors involved.

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## Introduction<sup>Ⓢ</sup>

It frequently happens that interpretations of underdevelopment originating in the great industrial centres see it in contrast with an ideal standard of reference, which is often left implicit: the long-term economic development pattern embodied *grosso modo* in the various growth models of neoclassical and post-keynesian cut. By basing their analysis of underdevelopment on these conceptual foundations, such interpretations are led to explain it in terms of the factor or group of factors which retard or hinder growth; and therefore to regard it as an anomaly, in face of the image of normality tacitly deduced from the advanced societies, on the grounds of their steady and by now secular expansion of productivity and income.

In contrast, the Latin American interpretations of underdevelopment which form the so-called 'structuralist current of thought' do not envisage this phenomenon as a mere absence of growth, but as a specific process, as the mode of development peculiar to certain economies. To put it more exactly, this approach contemplates the existence of a single economic system, whose bipolar evolution generates at one and the same time development in the centres and underdevelopment in the periphery; and conceives of the latter as deriving from a process of structural change in the peripheral economies, which occurs within the framework of their relations with the central economies, and inherent in which is the inequality between the two types

<sup>Ⓢ</sup>The author wishes to thank Aníbal Pinto, Luiz Claudio Marinho, Adolfo Gurrieri and Gregorio Weinberg, whose observations and comments enabled him to introduce significant improvements in the present study. This, of course, in no way commits them to the views maintained in it.

of economy, as regards the degree of penetration and diffusion of technical progress, and the levels of labour productivity and average real income.

Most of the studies that adopt this approach were published by the Economic Commission for Latin America (CEPAL). Focusing attention on the official CEPAL documents—whether or not they bear the signature of their respective author—it can be seen that their main contributions to economic theory appear in four major areas: the theory of the deterioration of the terms of trade; interpretation of the industrialization process; analysis of the structural obstacles to development; and inflation theory. Along with these, others were gradually made in the field of economic policy, ranging from those of broader scope, such as general criteria for development policy or international co-operation, to the more specific, such as tariff protection criteria. What is referred to here as CEPAL thinking embraces the whole body of these contributions to the interpretation of the development and operation of the Latin American economies, and to the formulation of development policy and economic policy in the region.

CEPAL thinking and the structuralist current of thought—to which latter independent authors with a similar orientation also subscribe—thus differ perceptibly from the interpretations of underdevelopment directly deriving from conventional economics. As at many other turning-points of economic thought, here too it can be noted that the work of theory-building was preceded by the presentation of a set of ideas which are more or less consistent with one another, and which constitute a new and systematic vision of the reality that has to be grasped.

To this set of general ideas on underdevelopment the term 'conception of the centre-periphery system' is applied. To present them in systematic form is the main purpose of these notes (section I), while at the same time it is shown that they are contained in certain key documents, published by CEPAL in its earliest days; and that although they are propounded at the *pre-analytical* level, they have formed from the very outset a relatively coherent whole.<sup>1</sup>

This presentation is followed by a brief description of the other components of CEPAL's thinking (section II), with the limited aim of showing that they are largely developments of various aspects of the original conception, and that accordingly, while they do not form a completely coherent whole, their degree of unity is much greater than is usually recognized.

<sup>1</sup> These documents are: *The economic development of Latin America and its principal problems* (hereinafter referred to as *Principal problems*) and the *Economic Survey of Latin America, 1949* (hereinafter referred to as *Survey*), the first mimeographed texts of which date from the second half of 1949 and the first half of 1950, respectively. To facilitate consultation of these documents, the quotations refer to the following editions: Raúl Prebisch, "The economic development of Latin America and its principal problems", *Economic Bulletin for Latin America*, Vol. VII, No 1, United Nations publication, Sales No: 62.II.G.1 and 62.II.G.4, February 1962; CEPAL, *Economic Survey of Latin America, 1949* (E/CN.12/164/Rev.1), New York, United Nations publication, Sales No: 51.II.G.1, January 1951. (For a re-issue of the relevant part of the *Survey* in Spanish only, see Raúl Prebisch, *Interpretación del proceso de desarrollo latinoamericano en 1949*, Series commemorating the XXV anniversary of CEPAL, Santiago, Chile, 1973.) Although the conception of the centre-periphery system is fundamentally contained in these studies, the first 10 documents listed in section B of the bibliography are particularly illustrative of the emphasis placed on several of their essential ideas.

A review of the most important critiques appearing in the British and American literature of economics (section III) helps to clarify and define the basic features of the initial conception and of CEPAL's thinking itself; and in particular, it reveals that this latter is not the rough and simple ideological construct which, even today, some economists brought up in the orthodox tradition allege it to be.

Lastly, an attempt is made to show, by way of a first approximation, that the concept of the centre-periphery system and the analytical instruments most

directly based on it constitute the outline of a theory of the long-term economic development of the so-called peripheral economies – or a theory of underdevelopment, whichever is preferred –, whose chief limitation, setting aside a few inconsistencies, is the very nature of the approach adopted: its structuralist character (section IV).

Bibliographical references are included, relating to the background of the centre-periphery conception, to CEPAL thinking, to the critiques published in the centres and to the controversy regarding the structural roots of inflation.

## I.

### The conception of the centre-periphery system

#### 1. *Formation and structural characteristics*

From the standpoint of this conception, economic development finds expression in an increase in material well-being, normally reflected in a rise in real per capita income, and conditioned by the improvement of average labour productivity. This last is regarded as dependent upon the adoption of indirect – or, as they are sometimes called, 'capitalistic' – methods of production, which entail the availability of more capital per worker employed. In turn, the higher level of capital density is gradually attained as accumulation proceeds and as technical progress gives it impetus and ensures its continuity.<sup>2</sup>

Thus, considered at the highest level of abstraction, the ideas expressed on

economic development coincide with those contained in broad outline in the neo-classical and Keynesian growth theories, which regard it as a process of capital accumulation – closely linked to technological progress –, whereby capital density is gradually raised, labour productivity increased and the average level of living improved.

Setting aside this common feature, however, the conception under discussion differs markedly from the current theories of long-term growth, inasmuch as it does not seek to interpret the process of accumulation and technical progress in a typical capitalist economy, considered in isolation, but to shed light on the characteristics assumed by that process when capitalist production techniques are propagated in the scenario of a world economic system composed of *centres* and *periphery*.

Implicit in this pair of concepts is the idea that development has been unequal

<sup>2</sup> *Survey*, pp. 3 and 6-7.

from the start: the economies that were the first to be penetrated by capitalist production techniques are considered *centres*; the *periphery*, on the other hand, is constituted by those economies whose production has lagged behind, technologically and organizationally, from the outset. But the concepts of centre and periphery involve more than this simple idea of initial differentiation; it is maintained that they gradually took shape as and to the extent that in the backward areas "technical progress... usually only penetrated where it was needed to produce foodstuffs and raw materials at low cost for delivery to the great industrial centres".<sup>3</sup>

In other words, centres and periphery are regarded as the historical outcome of the way in which technical progress was propagated in the world economy. In the centres, the indirect methods of production generated by technical progress spread, in a relatively short space of time, throughout the whole of the production system. The periphery got off to a late start, and during the period known as that of 'outward-directed development', the new techniques were introduced only in the primary-exporter sectors, and in some economic activities directly connected with exports which came into existence alongside sectors that were backward in respect of the penetration of the new techniques and the level of labour productivity.<sup>4</sup>

<sup>3</sup> *Survey*, p. 3.

<sup>4</sup> The so-called 'outward-directed development' has not been an object of exact analysis in the CEPAL documents, but detailed analyses have been made in studies by several of the writers forming the structuralist school of thought. The CEPAL publications contain only brief references to this model embodying the general ideas indicated in these remarks. For one

As the impulse to its formation was given by the striking expansion of the centres during the phase of outward-directed development, the structure of production in the periphery acquired two essential features. One of these is its specialized or unilaterally developed character, since a substantial proportion of productive resources was applied to successive enlargements of the primary-exporter sector, while demand for goods and services, as it increased and became more diversified, was largely met with imports. This structure is, furthermore, heterogeneous or partly backward, in the sense that sectors where productivity reaches as high levels as anywhere in the world—in particular the export sector—exist within it alongside activities using outdated technologies, where the level of labour productivity is far below that attained in similar activities in the centres.<sup>5</sup> In contrast with the periphery's specialized and heterogeneous structure of production, that of the centres is *diversified and homogeneous*.

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of these allusions, see Raúl Prebisch, *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951, pp. 6-7. (Published in Spanish only: *Problemas teóricos y prácticos del crecimiento económico*, United Nations publication, Sales No: 52.II.G.1, and also in Series commemorating the XXV Anniversary of CEPAL, Santiago, Chile, 1973.)

<sup>5</sup> The structure of production should be understood to comprise the sectors producing goods, while the economic structure also includes the physical infrastructure and the services sectors (including services provided by the central government). In the context of the ideas discussed here, the characteristics of the structure of production condition those of the economic structure, for which reason reference will be made only to the former, except where allusion to the latter is indispensable. The expression 'structural dualism' and other similar terms have been avoided in describing the

Similarly, on this structural differentiation is based the distinction between functions proper to the traditional patterns of the international division of labour: in the world economic system, the function of the periphery is to produce and export raw materials and foodstuffs, while that of the centres is to produce and export industrial goods for the system as a whole.<sup>6</sup>

## 2. *Terms of trade and fruits of technical progress*

As will later be seen, in addition to the static connotation implicit in the foregoing description of the characteristics of their structures, the concepts of centre and periphery have also a dynamic connotation: they are intended to provide an explanation of the development process

technological lag, in view of the connotation of social backwardness which generally accompanies the concept of dualism in the literature of under-development. It was thought preferable to resort to the term 'heterogeneity of the structure of production', which tacitly incorporates the concept of 'structural heterogeneity'. This concept, although developed at a much later date (on the basis of an article by Aníbal Pinto, "Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano", *Trimestre Económico*, No 125, January-March 1965), has the advantage of clearly referring to the relatively low levels of labour productivity, observable in the most widely varying sectors of the peripheral economies. Hence in the backward sectors, defined in terms of this criterion, the patterns of organization of production may be either capitalist or pre-capitalist. On the concept of dualism, see Yoichi Itagaki, "A review of the concept of the 'dual economy'", *The Developing Economies*, Vol. VI, No 2, June 1968. An article by Aníbal Pinto, "Naturaleza e implicaciones de la 'heterogeneidad estructural' de la América Latina", *Trimestre Económico*, No 145, January-March 1970, briefly contrasts the two concepts.

<sup>6</sup> See *Survey*, p. 4; *Principal problems*, p. 1.

that starts from the basic hypothesis of its inherent inequality, which implies that during the long-term evolution of the world economic system the gap is widened between these two poles, between the developed character of the centres and the underdevelopment of the periphery.

The assumptions relating to the disparate evolution of average levels of productivity and income constitute the most direct expression of this dynamic content. Technical progress is held to be more rapid in the centres than in the periphery; it is likewise postulated that the increases in labour productivity—consequent upon the incorporation of technical progress into the production process—are also more intensive in industry in the centre than in the primary-exporter sectors of the periphery, and that this in its turn is reflected in the unequal rates of increase of average productivity in the two types of economy; and it is further posited that the growth rates of average real income are unequal too—faster in the central countries than in the less developed economies.<sup>7</sup> From a conceptual standpoint, these two kinds of inequality—i.e., the dynamic disparity between levels of labour productivity and the increasing difference between average income levels—are interlinked by the postulates relating to the deterioration of the terms of trade. This deterioration is considered to be a demonstrable fact, despite the existence of statistical problems which make its exact measurement a difficult matter.<sup>8</sup> It is likewise maintained that the phenomenon is the manifestation of a long-term trend inherent in the trading

<sup>7</sup> *Survey*, p. 74; *Principal problems*, pp. 1 and 4.

<sup>8</sup> *Principal problems*, pp. 4 and 5.

of primary exports from the periphery for exports of manufactures from the centres.

It is worth while to begin by examining the significance ascribed to this trend, before separately describing its causes. By definition, the deterioration of the terms of trade implies that the purchasing power of one unit of primary exports in respect of manufactures diminishes in the course of time. But more important and more outstanding than this variation in the terms of commodity trade are its implications as regards the real income generated in the production of the goods traded.

A clearer idea of this aspect of the deterioration phenomenon can be given by means of the following equation:

$$y = \frac{L_p \cdot P_p}{L_i \cdot P_i}$$

where  $L_p$  stands for the average physical productivity of labour in the production of a primary good;  $P_p$  for the price of the said good;  $L_i$  for productivity in the production of an industrial good; and  $P_i$  for the corresponding price. Obviously, 'y' represents the relation between real incomes (per person employed) in the two activities, measured in terms of industrial goods.

Given the assumption that productivity increases more in the industrial than in the primary sector, the fall in the terms of trade necessarily implies that the relation between income levels will follow a downward trend; and even that average real incomes will become more sharply differentiated through time than levels of productivity. If the same reasoning is applied to centre-periphery relations, it becomes obvious that in view of the hypothesis on the disparate evolution of productivities, the trend

towards deterioration implies that there will be a growing difference between average real incomes, and, in particular, that in the peripheral countries average income will be increasing more slowly than labour productivity.

Such is the general idea contained in the documents in which the conception of the centre-periphery system first takes shape.<sup>9</sup> It is argued in them that the increases in productivity deriving from the incorporation of technical progress were not reflected in proportional reductions in monetary prices, but that the latter rose instead of falling, and that the increases were greater for the industrial production of the centre than for the primary production of the periphery. Since productivity also rises more in the centre, the deterioration of the terms of trade implies a disparity in the evolution of income per unit of labour by which the centre is favoured.

This, it must be repeated, is the significance of deterioration which is really of interest from the conceptual standpoint. Even if the terms of trade do not deteriorate, the mere inequality of the rates of increase of labour productivity implies a difference in average income levels; if in addition deterioration occurs, the gap between average incomes will grow wider still. To use the CEPAL terminology, deterioration of the terms of trade implies that the fruits of technical progress are concentrated in the industrial centres.

A second significance is attached to deterioration, which is of interest more from the angle of its possible quantitative importance for development. As can be inferred from the foregoing remarks, a decline in the terms of trade implies

<sup>9</sup> *Survey*, pp. 47-48; *Principal problems*, p. 5.



that in the peripheral economies average income increases less than labour productivity, or, in other words, that these economies 'lose' part of the fruits of their own technical progress, 'transferring' them in part to the great centres. It is alleged that this 'transfer' may be of little importance for the central economies, but will normally have a perceptible negative effect on the development of those forming the periphery of the world economic system.

### 3. *Causes of the deterioration of the terms of trade*

According to the more general ideas set forth above, economic development is, in the last analysis, a process of capital accumulation and technical progress, the result of which is a steady rise in output per worker. But in relation to the attainment of higher levels of productivity and income, the transformation of the sectoral structure of production and employment is not a haphazard process. As these levels rise, demand expands and becomes diversified, while simultaneously its composition alters: demand for industrial goods and services grows more rapidly than demand for primary commodities. At the same time, higher productivity enables these increasing volumes of demand to be met, by means of a change in the sectoral composition of production, which in turn involves a change in the sectoral composition of employment. The growth rate of both production and employment is faster in the secondary and tertiary sectors than in primary activities. Technical progress in this last sector at once permits and encourages a greater increase in employment in the other more dynamic sectors.<sup>10</sup>

<sup>10</sup> *Survey*, pp. 3 and 4.

Nor is the sectoral composition of production and employment a haphazard affair in the development of the world economy. It is understandable that, as the growth of industry in the centre is relatively slow, and furthermore the international mobility of the labour force is very slight, a manpower surplus tends to be generated in primary production in the peripheral countries; apart from the fact that this surplus is produced continuously, since it has its origin in the dynamic forces of development. As employment distortions are gradually corrected within the peripheral economy, by a switch-over of manpower either from backward sectors to the export sector, or from this latter to other incipient modern sectors, including industries, technical innovations appear which once again affect employment requirements. Broadly speaking, these requirements tend to increase more slowly than the huge supply of labour brought into being by technical progress itself, inasmuch as it displaces manpower from the more backward sectors, and has, moreover, repercussions on the growth rate of the population.

The continuous generation of this manpower surplus is the basic cause of the deterioration of the terms of trade. For, as the theory under discussion maintains, this surplus exerts constant pressure on the wages paid in primary production for export, and through them on the prices of the commodities produced.<sup>11</sup>

Still in accordance with the same argument, the tendency to deterioration manifests itself through the cyclical fluctuations characteristic of capitalism. During the boom periods primary prices rise more than those of industrial pro-

<sup>11</sup> *Survey*, pp. 46-47.

ducts, but they fall more during the phases of recession: so much more, indeed, that the prices of the periphery's export products generally lose more during the downswings than they gain during the upswings, whence the long-term trend towards deterioration of the terms of trade.<sup>12</sup>

These price fluctuations and the trend deriving from them are influenced by the fact that in the centres—owing to the relatively greater shortage of manpower and to better trade union organization—the labour force is in a stronger position to obtain wage increases or prevent reductions. They are similarly affected by the advantages that entrepreneurs in the industrial countries enjoy with regard to safeguarding the level of their profits, as compared with entrepreneurs in the periphery, not only because these latter, generally speaking, operate on more atomistic lines, but mainly because the commodities they produce represent the lowest links in the production chain. Demand for the periphery's primary commodities derives from and is dependent upon demand for final goods in the central economies, so that entrepreneurs in economies of this type are in a position to exert pressure, during the downswings, on those who precede them in the production chain, until the decline in monetary prices of the primary commodities they purchase—and at the back of that, the fall in profits and/or wages in the periphery—enables them to restore satisfactory profit conditions.<sup>13</sup>

<sup>12</sup> *Survey*, p. 58; and *Principal problems*, p. 6.

<sup>13</sup> *Survey*, pp. 59-70; *Principal problems*, p. 6. It should be noted that this way of looking at primary production problems from the standpoint of demand is the approach adopted in the two documents referred to. Only in later works is detailed allusion made to the lack of

#### 4. *The dynamics of the system: unequal development*

In current literature on the development of Latin America it is often maintained that the concepts of centre and periphery differ from another pair of parallel concepts: development and underdevelopment. It is asserted that the former refer to the structure of world trade, characterized by the exchange of manufactures for raw materials, whereas the latter relate to the differences between the economic structures of advanced and backward countries. This appraisal of the concepts of centre and periphery is unilateral, since, as has been shown, there is a differentiation between the functions of the two groups of countries in the context of the world economy, which is primarily manifested in the structure of international trade; but underlying this differentiation of functions there is a basic diversity of structures. In the centres the economic structure is diversified and homogeneous, whereas in the periphery it is specialized and heterogeneous. The concepts of centre and periphery therefore have a static content closely resembling that of the current concepts of development and underdevelopment, since they indicate the inequality between ad-

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dynamism of demand for food, under Engel's Law; and to the slow growth of demand for raw materials, attributed to the partial or total replacement of these by synthetic products, and/or to their more efficient utilization, both being the result of technical progress itself. (See, for example, Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, pp. 28-32.) Not until a still later date are these arguments coherently incorporated in an interpretation of the trend towards deterioration of the terms of trade, to which reference is made in section II.

vanced and backward countries in respect of their structure of production.

But the concepts in question also have a clearly dynamic connotation. Reference has already been made to one of its aspects: the difference between the rates of increase of average labour productivity found at the two poles of the world economic system. Plainly, it is this differentiation that underlies the inequality between the structures of production, since the periphery is prevented by the relative backwardness of its own structure from generating technical progress and incorporating it into the production process to the same extent as is possible in the centres. Moreover, as has just been pointed out, this structural inequality is what accounts, in the last analysis, for the deterioration of the terms of trade, and this deterioration, coupled with the difference in productivities, implies that there is also a difference between average incomes. Obviously, this disparity does not allow the periphery to attain such high levels of saving and rates of accumulation as are reached in the centres, and this in its turn limits the possibilities of eliminating or reducing the structural lag which underlies the differentiation between incomes and productivities.

This is the kind of reasoning whereby it is sought to show that there is a tendency to inequality between the two poles of the centre-periphery system which is inherent in its own dynamics: it is argued, in short, that on the one hand structural inequality and on the other hand the differentiation between average productivities and incomes interact and reinforce one another.<sup>14</sup>

It is of interest to point out that this twofold inequality is regarded as charac-

teristic of the phase of outward-directed development, although it is fully acknowledged that this type of development was for many years a powerful engine of progress and economic growth. Similarly, it should be made clear that such trends are considered to be still inherent in the dynamics of the system, even during the phase in which industrialization becomes the pivot of the development process, and despite the significant structural changes which it brings in its train.

### 5. *Inward-directed development*

In the conception of the centre-periphery system, industrialization is regarded as a real fact and a spontaneous phenomenon,<sup>15</sup> and as indicating the existence of a change in the model or pattern of peripheral growth: from the outward-directed development, based on the expansion of exports, to inward-directed development, based on the expansion of industrial production.<sup>16</sup> Within the conception under review, this phenomenon is seen as closely linked to changes that have taken place in the world economy, and that are particularly meaningful and important for the periphery.

Outstanding, in the first place, are events of a circumstantial type, those usually cited being the two world wars and the great economic depression which occurred between them.<sup>17</sup> The impact

<sup>15</sup> As will be seen later, the concept of spontaneous or non-deliberate industrialization by no means precludes the possibility that the application of policy measures which restrict imports —although originally adopted for other purposes— may have helped to promote import-substituting domestic production.

<sup>16</sup> *Principal problems*, p. 8.

<sup>17</sup> *Survey*, pp. 3 and 4.

<sup>14</sup> *Survey*, p. 57.

attributed to these events is a matter of common knowledge. The wars that began in 1914 and 1939 obviously set up a barrier to imports, while at the same time they led to a marked dynamization of demand for exports and, consequently, of domestic demand in the periphery, all of which circumstances became driving forces behind Latin American industrial activity, whereby the difficulties of importing manufactures from the warring centres were gradually palliated. The depression of the 1930s caused a drastic reduction in the price and volume of primary exports, which, combined with earlier indebtedness, resulted in an acute shortage of foreign exchange. It therefore became indispensable to restrict imports by means of exchange and tariff policy or simply by direct prohibition. Furthermore, measures aimed at maintaining income and employment levels had a favourable effect on demand for goods of which the external supply was limited. Thus propitious conditions were created for domestic production of manufactures to take the place of similar imported goods.

Besides constituting a response to these motive forces of a conjunctural type, the industrialization of Latin America was prompted by structural changes which took place in the world economy during the same years.<sup>18</sup> Specifically, reference is intended to the United States' superseding of the United Kingdom as the main cyclical centre, a process which had reached its culminating point by the 1920s. The importance of this change for the development of the periphery is linked to the relatively closed character of the United States

economy, and to the downward trend of its import coefficient.<sup>19</sup>

The British cyclical centre, with an economy essentially complementary to that of the vast periphery, transmitted cyclical fluctuations through the movements of the balance of payments. During the downswings, the centre's imports underwent a severer and more rapid contraction than its exports, with the consequent trade deficit and loss of reserves on the part of the periphery. But during the upswings, the centre tended to transfer its expansion quickly through the powerful dynamism of its imports, so that in a short time the periphery's former trade deficit was covered. Thus, from the latter's point of view, the external deficits originating in the phases of contraction were offset by the surpluses created in the periods of expansion, so that the long-term trend was one of equilibrium in the trade balance.

As from the 1920s the world economy has worked in a different way, especially since the great depression of the 1930s, when the influence of the United States economy became decisive. During the cyclical contractions the same tendency to a trade balance surplus and to absorption of bullion recurs. But in the boom periods, owing to the low import coefficient, the transfer of economic expansion to the periphery through imports of primary commodities is relatively slow, and the trade deficit tends to persist for a longer spell of time.

Moreover, during this interval new reductions of the centre's import coef-

<sup>18</sup> *Survey*, p. 35; *Principal problems*, pp. 7-8.

<sup>19</sup> The brief account which follows tacitly assumes a two-country model, using the centre (represented alternatively by the United Kingdom or the United States), and the periphery (formed by the remaining economies).

ficient occur, generating a tendency to a chronic trade balance deficit in the periphery, and to continuing absorption of gold by the new cyclical centre.<sup>20</sup>

This tendency has acted as a spur to the spontaneous industrialization of the periphery, since the external deficit, continually recurring, has repeatedly led to the adoption of measures to restrict imports, a policy which in turn has given rise at every step to incentives to replace them by domestic production of manufactures.

Thus, through the motive power of the external deficit, the more closed character of the economy of the most important new cyclical centre has been reflected in a peripheral development which is also more closed, and follows the patterns indiscriminately described as industrialization, import substitution or inward-directed development.<sup>21</sup>

This spontaneous industrialization impulse in the periphery can also be explained in the light of arguments at a higher level of abstraction. As was pointed out above, it is assumed that in any development process the intersectoral distribution of the active population is not a haphazard process, since the proportion working in primary production tends to shrink, with the corresponding increase in the percentage employed in industry.

General application of these ideas to the world economy as a whole raises the question of whether in a system composed of a centre and a periphery, with the structural characteristics previously outlined, the growth of industry and of industrial employment in the centre can be compatible with development of the

periphery on the basis of its traditional specialization as a primary exporter.<sup>22</sup> The reply is in the negative. If these activities were supposed to absorb the manpower supply generated in the periphery by population growth and technical progress, their volumes of production would have to be such as could not be sold on the market without serious detriment to the terms of trade. Accordingly, once the world economy has reached a certain level of development, in conditions of relative international immobility of the labour force, industrialization is the only way open to peripheral development.<sup>23</sup>

It should be noted that this is not an argument of economic policy, but a theoretical line of reasoning which is put forward *contrario sensu*, as a way of expressing the idea that when the world economic system attains a certain degree of development, or, in other words, when its two poles reach given average levels of productivity and income, the free play of economic forces spontaneously promotes the expansion of peripheral industry. Industrialization then becomes the principal and obligatory growth pattern of the economies that make up the peripheral pole of the system.

#### 6. *Contradictions in peripheral industrialization*

In relation to the conception studied here, economic problems present similar features in the various peripheral countries, and particularly in those of Latin America, during this new phase, which is regarded as "one more stage in the

<sup>20</sup> *Principal problems*, pp. 8-10.

<sup>21</sup> *Principal problems*, pp. 10-12.

<sup>22</sup> *Survey*, p. 12.

<sup>23</sup> *Survey*, pp. 48-49.

world-wide spread of . . . productive technique, or, if preferred, in the organic development of the world economy".<sup>24</sup>

Two of these common problems appear in the sphere of international economic relationships: the trends towards external disequilibrium and towards the deterioration of the terms of trade. As already pointed out, the former is related to the switch-over of the main cyclical centre, and to the resultant changes in the operation of the world economic system. From another point of view, this trend is taken to be inherent in the periphery's industrialization process, owing to the maladjustment between the high rate of increase of demand for imports that it induces and the relatively low growth rate of the centre's demand for primary export commodities.<sup>25</sup> Similarly, it is maintained that the deterioration trend is continuing during the new phase of peripheral development, because of the persistence of the employment problems underlying this phenomenon.

These problems, it is considered, are still characteristic of the periphery for reasons similar to those of a more general nature indicated above. The peripheral economies began their industrialization process with a superabundance of manpower—characteristic of their specialization and structural heterogeneity—while at the same time they were compelled to use capital-intensive techniques, worked out during the slow and gradual economic development of the centres, and ill-adapted to the relative availability of resources in the periphery. It is not surprising, therefore, that

demand for labour lags behind the supply generated by industrialization itself, inasmuch as the process displaces manpower in the technically backward sectors of production—i.e., artisan industry and agriculture—and affects the demographic variables, speeding up population growth. To this technological maladjustment is added the fact that the indirect effects of investment on employment, due to additional demand for labour in the capital goods sector, are not produced in the periphery, but in the great industrial centres. Thus it is understandable that during the peripheral industrialization process there is a tendency for unemployment to persist "unless it can be countered by a deliberate policy of economic development".<sup>26</sup>

A third group of common problems is also linked to the unsuitability of the techniques which were gradually developed in the centre, alongside the steady increase in its average income. When the periphery is passing through the phase of development via industrialization, it becomes essential to adopt those same large-scale and highly capital-intensive techniques, despite a lag in income levels and capacity to save which is reflected in capital utilization and accumulation problems. In the first place, the techniques are applied in large-scale production units, while owing to the low income levels the market is of insufficient size, with the consequent under-utilization of capital. At the same time, the inadequacy of the capacity to save makes it impossible to leap the barrier of backwardness, that is, to raise productivity levels substantially and rapidly in a large number of sectors and activities; and

<sup>24</sup> *Survey, op. cit.*, p. 3.

<sup>25</sup> *Survey, op. cit.*, p. 9.

<sup>26</sup> *Survey, op. cit.*, pp. 65-66.

thus the efficiency of the system, and the capacity to save itself, continue to be handicapped.<sup>27</sup> Outstanding among the sectoral 'bottlenecks' is the unsuitability of the infrastructure, inherited from the period of outward-directed development and designed to meet the needs of primary-exporter specialization.

Accordingly, the main difficulties confronting the industrialization process are related to the inappropriateness of the technology in use; but they are also felt to be associated with the structure of land ownership and tenure in peripheral agriculture, where latifundia and minifundia exist side by side, and unsatisfactory modes of land tenure proliferate. These are conditions which tend to generate unemployment and to limit agricultural supply.

Over-concentration of land ownership is an obstacle to the full utilization of this resource, because of the large amounts of capital required to exploit it; but at the same time, the maintenance of unproductive land proves viable for owners with large incomes, and even desirable, as an effective defence against inflation and also for reasons of social prestige. Since from the private point of view the cost of labour is an incentive to replace it by capital, mechanization is becoming usual on the latifundia. In turn, the incapacity of the minifundia to accumulate capital and raise standards of productivity also makes it difficult to expand supply and retain labour. Lastly, the system of tenant farming and other unsatisfactory land tenure relations make for decisions in favour of investments whose value does not augment that of the property, such as the purchase of machinery and equipment, which in addition are labour-saving.

<sup>27</sup> *Survey*, pp. 62-64.

Thus, it is these structural conditions peculiar to agriculture that are held to conduce to the adoption of labour-saving techniques at the expense of others that make proportionally greater use of manpower and do more to increase the productivity of the land: a choice which, therefore, generates problems of employment and rigidity of production.<sup>28</sup>

To sum up, during the industrialization process the deterioration of the terms of trade persists; balance of payments and labour-absorption problems make their appearance; intersectoral maladjustments in production occur (infrastructural deficiencies, agricultural supply shortages, etc.); and difficulties continue to arise in respect of capital utilization and accumulation. But these common features appear in varying degrees of intensity in the different countries, so that in each of them the process acquires different connotations. For instance, the tendency to an external deficit may be perceptibly less than the average, and may even be completely offset in special cases, where demand for a country's staple export product is exceptionally dynamic.<sup>29</sup> Or again, the unemployment situation may be more or less serious, depending upon the specific historical conditions of previous development, as is shown by a comparison between the characteristics of Mexican and Argentinian agriculture;<sup>30</sup> moreover, the problems posed by capital utilization and accumulation will differ according to the levels of income attained during the phase of outward-directed development,<sup>31</sup> and so on.

<sup>28</sup> Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, pp. 60-65.

<sup>29</sup> *Survey*, *op. cit.*, pp. 8-9.

<sup>30</sup> *Survey*, *op. cit.*, pp. 5-6.

<sup>31</sup> *Survey*, *op. cit.*, pp. 7-8.

It is easy to see that the general trends and contradictions indicated in the foregoing paragraph are really reflections of the persistence of the structural lag characteristic of the periphery; or rather, they result from the way in which the structure of production is changing during the phases of inward-directed development, and yet the differences between it and the corresponding structure in the centre are not being smoothed out, but are merely reproduced at new levels.

Industrialization starts from the conditions of specialization and heterogeneity established during the period of outward-directed development. Obviously, its evolution involves some diversification of production and a fairly considerable increase in average labour productivity. But diversification does not go far enough to remedy the lack of complementarity between the sectors of production, or alter the primary-exporter status of the periphery; and productivity too is unable to make up its leeway, not only because of the difficulty of reabsorbing the labour employed in sectors where productivity is very low, but also because the absorption itself is effected in productivity conditions different from those prevailing in the centre, even in several branches of manufacturing industry.

#### 7. *Development policy and planning*

The inference to be drawn from the preceding remarks is that in all the special cases and circumstances mentioned above, notwithstanding their diversity, common problems present themselves — though with varying degrees of

seriousness— which hamper the industrialization process, tending to hold it back or to give it a slower tempo than would be potentially attainable. In other words, it is recognized that the free play of market forces leads to the stubborn recurrence of balance-of-payments problems and of those relating to capital accumulation and to under-utilization of capital and labour, since they are inherent in spontaneous industrialization and ultimately derive from the conditions in which the periphery's structure of production changes in the course of that process.

Thus according to the conception of the centre-periphery system, if industrialization is to serve as a means of substantially raising levels of productivity and optimizing the allocation of resources, it must be oriented in the light of a carefully-considered development policy. Moreover, in view of the structural nature of the above-mentioned problems, this policy will have to be ordered and rationalized by recourse to programming.

If this recommendation is viewed as a whole and as a conclusion drawn from the ideas previously described, it will be seen to possess a clearly-defined hue of its own. It is prompted neither by considerations relating to the anarchical character of capitalism and of its *modus operandi*, nor by reflections on the tendency of the capitalist system to generate *circumstantial fluctuations* in the level of economic activity; it stems from evaluation of the specific structural conditions of the periphery, which limit its capacity for growth, when this type of economy is left to the mercy of the spontaneous action of market forces.



## II.

### The components of CEPAL thinking

Several of the postulates just described were put forward –and some of them analytically formulated– in earlier documents than the studies already mentioned; but only in these latter did they take shape as a body of fairly coherent ideas which are called here the ‘conception of the centre-periphery system’.<sup>33</sup> This conception is not at first presented separately, as a conscious point of take-off for its analytical elaboration, but is implicit in the arguments relating to theory and economic policy that exist in the same documents in which it is contained. And although the various ideas constituting it are more precisely defined and better interlinked in later documents, it is no less true that the early formulation of this group of basic hypotheses is the key to the unity of CEPAL thinking.

<sup>33</sup> Although the early background of this conception is not examined, some bibliographical references to it are included. Consultation of these sources reveals that the ideas which Raúl Prebisch later succeeded in welding into the conception of the centre-periphery system were being gestated in some of his previous writings, closely related to his participation in the management of the Argentinian economy, during the great depression and the Second World War. A complete bibliography of his works can be found in L.E. Di Marco (ed.), *International Economics and Development*, New York, Academic Press, 1972. The extracts from the records of the Central Bank of the Republic of Argentina, published by that institution under the title *La creación del Banco Central y la experiencia monetaria argentina entre los años 1935-1943*, Buenos Aires, 1972, 2 vols., are particularly illustrative of the link

This unity is not perceptible at a first glance, nor, indeed, is it easy to grasp, largely owing to the pragmatic fashion in which the thinking in question was gradually built up on the basis of economic policy recommendations formulated in response to specific problems, and subsequently justified at the level of theory. In other words, the concern with practical action characteristic of the type of activity undertaken by CEPAL means that its studies betray a tendency to summarize *ad hoc* the most pertinent theoretical arguments on which given policy measures can be based, to the detriment of the strict exactitude of such arguments and measures. Nevertheless, when an attempt is made to distinguish between the contributions in the sphere of theory and those in the field of policy and to examine them in detail, it can be seen that these contributions attain a degree of unity much greater than is commonly recognized.

It is not the purpose of these remarks to make a meticulous examination of the components of CEPAL thinking.<sup>34</sup> The sole aim of the brief descrip-

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existing between the ideas in question and the economic circumstances of those years. A useful summary of the evolution of the economy in question will be found in J.G. Fodor and A.A. O'Connell, “La Argentina y la economía atlántica en la primera mitad del siglo XX”, *Desarrollo Económico*, No 49, April-June 1973.

<sup>34</sup> For a detailed discussion of its various long-term components, see Octavio Rodríguez, “Sobre el pensamiento de la CEPAL”, ILPES, mimeographed text, 1974.

tion which follows is to give an all-round idea of the thinking in question and an approximate impression of its unity, in order to facilitate the presentation, in sections III and IV, of the criticisms levelled at it. The table appended summarizes this description and may even take its place, thus enabling the reader to pass on directly to section III, particularly if he is acquainted with the basic studies prepared by CEPAL.<sup>35</sup>

### 1. *The sphere of economic theory*

The conception of the centre-periphery system is accompanied by the emergence of two preliminary formal versions of the theory of the deterioration of the terms of trade.<sup>36</sup> One of them makes use only of accounting instruments and/or definitional equations, and covers no more than a small fraction

<sup>35</sup>In the description referred to, bibliographical references are made to some of the documents in which the various sets of analytical instruments are developed. Section B of the bibliography represents a selection of the studies published by CEPAL during the 1950s and 1960s, with particular emphasis on those appearing up to 1964. In section D attention is drawn to those tackling the problem of inflation, including some by independent writers, and the critiques of the views maintained in this connexion. The writings of independent authors belonging to the structuralist 'current' or 'school' of thought on subjects other than inflation are outside the scope of these remarks. It is worth noting that many of them are marked by a much higher degree of academic rigour than the official CEPAL documents, and that in view of this characteristic they have made a very significant contribution to the development of the common approach.

<sup>36</sup>It can be seen in section I that this conception is formed by a body of general ideas and basic hypotheses, presented at the pre-analytical level. What is meant by the 'formal version' or 'formalization' is the analytical

of the conception under review, since its sole aim is to pinpoint the significance of deterioration (strictly speaking, the ideas described in section I, sub-section 2). The second version uses elements of macro-economic income theory and of the theory of cycles, and by their means attempts to show how the causes of deterioration operate through the fluctuations in the level of activity characteristic of the operation of the world economic system. This, which for brevity's sake might be called the 'cycles version' of deterioration theory, is of much broader scope in relation to the initial conception, since it incorporates the ideas bearing on the configuration of centres and periphery, and on the more general characteristics of the two types of economy (i.e., the ideas commented on in section I, sub-sections 1 to 3).<sup>37</sup>

Still following up CEPAL's publications, it can be seen that by the mid-1950s several partial analyses had been prepared, which together form what might be called an "interpretation of the industrialization process". These analyses relate to several of the characteristics and trends which, as is recognized, are inherent in the process in question. (i) The necessity and spontaneity of industrialization is discussed, use being made in this case too of elements from income and 'cycles'

expression of these same general ideas in theoretical terms proper. When, on the other hand, allusion is made to 'analytical instruments' or to 'sets of analytical instruments', reference is intended to formalizations both in the sphere of economic theory and in the field of economic policy.

<sup>37</sup>*Principal problems*, pp. 4-6; *Survey*, chapter III.

<sup>38</sup>*Principal problems*, pp. 6-13; *Survey*, chapter II.

## COMPONENTS OF CEPAL THINKING

		2. Sphere of economic policy				
1. Sphere of economic theory		Development policy	Policies respecting international economic relations	Agrarian policy	Social, labour and income policies	Short-term policy
Basic theoretical contributions	(a) Conception of the centre-periphery system (1949-1950)	(a) Deliberate guidance of industrialization process	(a) Protection of the domestic market	(a) Research and extension programmes		
	(b) Theory of the deterioration of the terms of trade ('accounting version') (1949-1950)	(b) Criteria for allocation of resources	(b) Latin American integration	(b) Taxation and/or land reform		
	(c) Theory of the deterioration of the terms of trade ('cycles version') (1949-1950)	(c) Development planning	(c) External financing			
	(d) Interpretation of the industrialization process (1949-1955)		(d) Technical assistance			
	(e) Theory of the deterioration of the terms of trade ('industrialization version') (1959)		(e) Countercyclical policy (compensatory for terms-of-trade fluctuations)			
Other theoretical contributions	(f) Analysis of structural obstacles to development (1956-1963)	(d) Reforms and incentives	(f) Countercyclical policy and/or policy compensatory for deterioration of the terms of trade	(c) Land reform	(a) Social policies	(a) Anti-inflation policies
	(g) Inflation theory (1953-1964)	(e) Revision of planning principles and methods	(g) Exports of manufactures		(b) Active employment policy	
					(c) Income redistribution	

theories;<sup>38</sup> (ii) import substitution and the change in its composition is analysed, together with (iii) the tendency to external disequilibrium, and a structural theory of balance-of-payments stabilization is outlined;<sup>39</sup> (iv) an explanation is sought for the trend towards unemployment and intersectoral production disequilibria, recourse being had to instruments of production theory; (v) with similar analytical tools, agricultural supply and employment problems are dealt with.<sup>40</sup> These partial analyses are developments of the initial ideas, relating to economic events in the periphery during the phase of inward-directed development (section I, sub-sections 5 to 7).

In 1959 a third formal version of the theory of the deterioration of the terms of trade was published in English only; it is also little known because the analysis of deterioration is built up around economic policy arguments relating to the protection of the domestic market. This new version attempts to show that in conditions of balanced growth, or rather, in the absence of cycles, the spontaneous industrialization of the periphery brings with it a decline in the terms of trade and unequal increases in income. Instruments of neo-classical price theory are used in providing an explanation of the deterioration in which a joint role is played by the lower levels of productivity in peripheral industry, the relative abundance of manpower characteristic of this type of economy, the differences between wages in the periphery and in the centre, and the disparity between

income-elasticities of demand for imports in the two poles of the system. Inasmuch as the deterioration of the terms of trade is explained in connexion with spontaneous industrialization, the new theory constitutes a synthesis of those mentioned above, which takes into account not only deterioration but several of the characteristics of the industrialization process. This 'industrialization version' of deterioration theory therefore incorporates a wide range of the basic hypotheses to which reference has previously been made (in broad outline, those comprised in section I, sub-sections 1-3 and 5-7).<sup>41</sup>

By the beginning of the 1960s a new essay in interpretation was taking shape, whose most fully integrated version dates from 1963: an analysis of the structural obstacles to development.<sup>42</sup> The object of this analysis was to give some account of a series of phenomena which made their appearance during those years, and were regarded as characteristic of a new phase of peripheral development. Among these, attention was drawn to the aggravation of the tendency to balance-of-payments disequilibrium, which was reaching a point at which the external bottleneck threatened to stifle development; the increasing under-employment and unemployment of the active population; the highly regressive distribution of income and wealth; and the proliferation of vast groups excluded from participation in the economic and social process: all of

<sup>39</sup> Raúl Prebisch, *Theoretical and practical problems of economic growth*, op. cit., chapter II.

<sup>40</sup> *Survey*, chapter IV; Raúl Prebisch, *Theoretical and practical problems of economic growth*, op. cit., chapter III.

<sup>41</sup> Raúl Prebisch, "Commercial policy in the underdeveloped countries", *American Economic Review*, Vol. 49, No 2, May 1959.

<sup>42</sup> Raúl Prebisch, *Towards a dynamic development policy for Latin America* (E/CN.12/680/Rev.1), New York, United Nations publication, Sales No: 64.II.G.4, 1973.

which could be summed up as a trend towards stagnation. In some cases, these phenomena were accompanied by overt inflation, and by serious social tension and political unrest.

In addition to this enlargement of the initial frame of reference, the analysis is influenced by sociological studies,<sup>43</sup> and by the inflation controversy, in which emphasis was being placed on the incidence of certain structural characteristics peculiar to the periphery. The avowed objective of the new attempt at interpretation, moreover, was to find some explanation of the above-mentioned long-term trends which would take into account the interaction of economic, social and political factors. In reality, however, two different types of analysis were made, one dealing with the external bottleneck and the other with internal obstacles to development. Although it gains considerably in depth and precision, the first is, when all is said

and done, a new version of the economic analysis of external disequilibrium, already embodied in the interpretation of the industrialization process.<sup>44</sup> The second is a general and mainly descriptive evaluation of the way in which the agrarian and industrial structures are shaped through interaction with a socio-political structure marked by the concentration of property and income. This lowers standards of efficiency and hampers capital accumulation and entrepreneurial action, to the detriment of the dynamism of economic and social development.<sup>45</sup>

The links between CEPAL thinking and that of independent writers with a similar orientation are particularly intricate in the case of inflation theory, since many of the studies in that field were published in a personal capacity, reflecting views which did not always coincide with those of CEPAL. The earliest contributions to the structuralist approach to inflation must be sought in the discussion aroused by the sharp acceleration of the inflationary process in several Latin American countries, shortly after the

<sup>43</sup> See the following studies by José Medina Echavarría: "Las condiciones sociales del desarrollo económico" and "Tres aspectos sociológicos del desarrollo económico", both in *Aspectos sociales del desarrollo económico*, Series commemorating the XXV anniversary of CEPAL, Santiago, Chile, 1973 (an English translation of the second of these appeared under the title of "Three sociological aspects of economic development", in *Economic Review of Latin America*, Special Issue, Bogotá, Colombia, August 1955); "Relationships between social and economic institutions. A theoretical model applicable to Latin America", *Economic Bulletin for Latin America*, Vol. VI, No 1, Santiago, Chile, March 1961; "Economic development in Latin America: sociological considerations" (E/CN.12/646), Santiago, Chile, mimeographed text, 1963. See also CEPAL, "The social development of Latin America in the postwar period", Santiago, Chile, mimeographed text, 1963. (Published in Spanish only: *El desarrollo social de América Latina en la postguerra*, (E/CN.12/660), Buenos Aires, Solar-Hachette, 1963.)

<sup>44</sup> See CEPAL, *Economic Development, Planning and International Co-operation* (E/CN.12/582/Rev.1), Santiago, Chile, United Nations publication, Sales No: 61.II.G.6, 1961; Raúl Prebisch, *Towards a Dynamic Development Policy for Latin America*, op. cit., pp. 67-88, and "Economic development or monetary stability: the false dilemma", *Economic Bulletin for Latin America*, Vol. VI, No 1, Santiago, Chile, March 1961; M.C. Tavares, et al., "The growth and decline of import substitution in Brazil", *Economic Bulletin for Latin America*, Vol. IX, No 1, March 1964, especially pp. 1-11.

<sup>45</sup> See CEPAL, *Economic Development, Planning and International Co-operation*, op. cit., chapters I and III; Raúl Prebisch, *Towards a Dynamic Development Policy for Latin America*, op. cit., pp. 3-49.

end of the hostilities in Korea. The initial markedly polemical tone, which was maintained in the documents published up to the beginning of the 1960s, seems to have helped to make this approach the most widely disseminated and the best known; and also to some extent accounts for the extension of its designation to the whole set of analytical instruments based on the conception of the centre-periphery system.<sup>46</sup>

## 2. *The sphere of economic policy*

As already noted, the recommendations in favour of industrialization, and of its deliberate guidance by means of development policy and planning, constitute basic *idées-force*, closely linked to the ideas relating to the *modus operandi* of the centre-periphery system which form part of the original conception. These recommendations, however, are not put forward only at a general level, but gradually gain in clarity and precision as the above-mentioned sets of analytical instruments develop. Even without having examined them in detail, it is plain to be seen that from the several formal versions of deterioration theory a policy conclusion of supreme importance can be drawn: industrialization is the one and only way of pushing up levels of labour productivity and of wages in the periphery, and gradually reducing the differences between them and the levels prevailing in the centres, while attempting in addition to retain, by this means, the fruits of technical progress. Similarly, it is understandable that an interpretation of the industrialization process which records the other anomalies inherent in it – the intersec-

tional distortions of production and the trends towards under-employment and external disequilibrium – should serve as the basis for a recommendation to carry it out on deliberately-planned lines.

What is more, an endeavour is made to establish appropriate criteria for the allocation of resources to peripheral industrialization, which will offer guidance as to how to distribute investment between the export sector and each of the several internal activities and what technologies to use, so as to palliate the external disequilibrium trend, while at the same time maximizing employment, labour productivity and social income. These criteria constitute a preamble to the planning techniques which began to be devised about 1952 with the explicit aim of imparting greater precision and consistency to development policy, i.e., of expressing the objectives just mentioned as a set of mutually compatible ends and means, within each period and between different income periods.<sup>47</sup>

The analysis of the structural obstacles to development reflects a change of attitude as regards the region's industrialization prospects. In the early 1950s a relatively optimistic view of these prospects was taken, and it was thought that the dynamism of the process itself, linked to the economic policy measures formulated to attenuate its notable disequilibria, would suffice to ensure continuity in the modification of the structure of production and the gradual

<sup>46</sup> See the publications on inflation listed in part D of the bibliography.

<sup>47</sup> Raúl Prebisch, *Theoretical and practical problems of economic growth*, op. cit., chapter II to IV; CEPAL, *Estudio preliminar sobre la técnica de programación del desarrollo económico* (E/CN.12/292), March 1953; and Jorge Ahumada, *An Introduction to the Technique of Programming* (E/CN.12/363), New York, United Nations publication, Sales No: 55.II.G.2, June 1955.

improvement of average levels of productivity. It was also confidently believed that these economic changes would be accompanied by changes in the social and political structure favourable to the continuity of the industrialization process and to the widespread distribution of its benefits. Towards the end of the 1950s the idea began to gain ground that the structural obstacles to development underlying the disequilibria were of such a nature that they might distort its results as regards the extent and equity of the distribution of its benefits, if not slow it down or bring it to a halt.<sup>48</sup>

In accordance with this change of viewpoint, a different orientation was also proposed for long-term policy. For although industrialization was still regarded as a basic element in such policy, it was felt that to clear the way for economic development the obstacles hindering it would have to be removed by the introduction of structural reforms—especially land reform—, concurrently with the application of incentives to production and of active social, employment and income-distribution policies. A critical attitude to planning and its techniques was likewise adopted, and an attempt was made to renovate them through the introduction of methods whereby these new objectives could be taken into account and made viable.<sup>49</sup>

<sup>48</sup> CEPAL, *Development Problems in Latin America: An Analysis by the United Nations Economic Commission for Latin America*, Austin, University of Texas Press for the Institute of Latin American Studies, 1970, pp. xli-xliii.

<sup>49</sup> CEPAL, *Economic development, planning and international co-operation*, op. cit., chapter VI; Raúl Prebisch, *Towards a dynamic development policy for Latin America*, op. cit., pp. 3 to 49 and 56 to 64; ILPES, *Discusiones sobre planificación*, Textos del ILPES series, Mexico City, Editorial Siglo XXI, 1966.

*Pari passu* with the development of theory, and in close connexion with the recommendations just mentioned, a vast body of arguments is deployed on policy in the sphere of international economic relationships, in which the need for protection of the domestic market is analysed, and a study is made of the limits within which this contributes to the attainment of standards of efficiency in peripheral industry.<sup>50</sup> Attention is devoted to the benefits of Latin American integration, whereby the scope of import substitution can be enlarged and better advantage can be taken of economies of scale, with positive effects on the level of resource productivity and on the margin by which it differs from that prevailing in the industrial centres.<sup>51</sup> The reasons for the desirability of resorting to external financing are stated: the domestic savings effort can be supplemented in economies whose low levels of productivity and average income preclude the restriction of current consumption, and the limitations imposed on import-substituting industrialization by the slow growth of traditional exports can be lessened. It is likewise explained that such financing must necessarily be a temporary expedient, in order to obviate the risk that an increasing burden of remittances might in the long run reduce the peripheral economies' capacity to import.<sup>52</sup> Attention is drawn to the importance of obtaining international

<sup>50</sup> Raúl Prebisch, *International Co-operation in a Latin American Development Policy* (E/CN.12/359), New York, United Nations publication, Sales No: 54.II.G.2, September 1954, chapter IV; Raúl Prebisch, "Commercial policy in the under-developed countries", op. cit.

<sup>51</sup> CEPAL, *The Latin American Common Market* (E/CN.12/531), New York, United Nations publication, Sales No: 59.II.G.4, 1959.

technical assistance, above all in the exploration and inventorying of natural resources, the training of personnel, and scientific and technological research.<sup>52</sup> Emphasis is placed on the necessity of concerting such international co-operation measures as may help to prevent or offset a fall in the relative prices of primary commodities, and to palliate the

effects of their fluctuations. Lastly, stress is laid on the trade preferences extended by the centres to the industrial products of the periphery, as a key element in a policy designed to eliminate the external bottleneck by a combination of import substitution, regional integration and exports of manufactures to the rest of the world.<sup>54</sup>

### III.

## Criticisms from the standpoint of orthodoxy

Although without examining its many components in detail, an attempt has been made in the foregoing observations to give some impression of the unity of CEPAL thinking. Reference to this unity implies no claim that each of its component sets of analytical instruments is completely coherent, or that a logical connexion between them has been fully established. It is merely an acknowledgement that the various theoretical components bear a stamp of their own and are, *grosso modo*, compatible with one another, since they were gradually developed in the course of time as formalizations of parts of that initial well-knit body of common hypotheses; and that the economic policy components are also compatible, since they were built up in close connexion with those of a theoretical character.

A review follows of some of the criticisms appearing in the economic literature of the centres, and relating to long-term theoretical interpretation, since they help to clarify the aspects of

CEPAL thinking which they seek to refute, as well as the characteristics of the basic conception. As will be seen, the inappropriateness of these criticisms is not due to the difficulty of grasping the unity of the thinking discussed, but purely and simply to unfamiliarity with the propositions already contained in CEPAL's early works, and, in particular, to failure to apprehend the way in which underdevelopment is viewed from the standpoint of the conception of the centre-periphery system.

#### 1. *Deterioration and well-being*

By far the majority of the critiques published in the centres deal with the trend towards deterioration of the terms of trade. The present comments refer to those actually concerned with the conceptual analysis of this phenomenon, and only tangentially to those relating to measurement problems and/or the weakness of the empirical substantiation for the existence of such a trend.<sup>55</sup>

<sup>52</sup> Raúl Prebisch, *International Co-operation in a Latin American Development Policy*, *op. cit.*, chapter II.

<sup>53</sup> *Ibidem*, chapter III.

<sup>54</sup> *Ibidem*, chapter V; Raúl Prebisch, *Una nueva política comercial para el desarrollo*, Mexico City, Fondo de Cultura Económica, 1964.

<sup>55</sup> The most general of these criticisms argues that the indexes of the commodity terms



Stress is laid in this sub-section on the criticisms relating to the significance of the terms-of-trade deterioration. They make much of the fact that it does not necessarily have an unfavourable effect on economic well-being, measured in terms of real per capita income. The argument adduced is simple; if, for example, the terms of trade fall by 5 per cent, but at the same time the productivity of factors (for simplicity's sake, average labour productivity) in the production of export commodities increases by 10 per cent, the economy under consideration will find itself in a better position than before, since it will obtain more imported goods with the same amount of resources. This implies that even if the terms of trade deteriorate, there is an improvement in the single-factoral terms of trade, which is

of trade "do not allow for quality changes and very insufficiently for new products". Since over the long term these changes have been of great importance in the case of industrial products, and of little significance in primary commodities, the evaluation of the secular trend to deterioration of the terms of trade for the two types of goods turns out to be biased, since in the indexes the changes in question are left out of account (see G. Haberler, "Terms of trade and economic development", in H.S. Ellis (ed.), *Economic Development for Latin America: Proceedings of a Conference held by the International Economic Association*, London, Macmillan and Co., Ltd., and New York, St. Martin's Press, 1963). Doubts have also been expressed as to the adequacy of the empirical support initially adopted as backing for the deterioration thesis, namely, the United Kingdom's commodity terms of trade between the 1870s and the 1940s, calculated on the basis of CIF prices for Britain's imports and FOB prices for its exports. The considerable reduction of transport costs between the years mentioned means that the terms of trade may have improved simultaneously for the United Kingdom and for overseas economies (*ibidem*, p. 333). In particular it is pointed out that between 1876 and 1905 "a large proportion, perhaps all, of the

the appropriate index for detecting variations in the level of well-being.<sup>56</sup>

It is easy to show that the argument contained in this criticism is in no way contradictory to that relating to the significance of deterioration; each is perfectly compatible with the other. Let us reconsider the equation

$$y = \frac{L_p \cdot L_p}{L_i \cdot P_i}$$

To admit that productivity increases more in the industry of the central eco-

decline in the British prices of primary products be attributed to the great decline in inward freight rates. Since the price of British manufactured exports fell in this period by 15 per cent, the terms of trade of primary countries, were FOB prices used for their exports as well as for their imports, may well have moved in their favour" (P.T. Ellsworth, "The terms of trade between primary producing and industrial countries", in *Inter-American Economic Affairs*, Vol. X, Summer 1956, pp. 55-56). A third criticism maintains that even if the improvement in the United Kingdom's terms of trade is admitted to be valid, they cannot be accepted out of hand as representative of those of the whole group of industrial countries, or of those of the said group in its trade with the less developed economies (G. Haberler, *op. cit.*; and G.M. Meier, *The International Economics of Development*, New York, Harper & Row, 1968, pp. 59-60). Lastly, attention is drawn to the fact that the same series for the United Kingdom's terms of trade shows an improvement for primary producers between 1801 and 1870 (T. Morgan "The Long-run Terms of Trade between Agriculture and Manufacturing", in *Economic Development and Cultural Change*, Vol. VIII, No 1, October 1959, p. 4).

<sup>56</sup> G. Haberler, *op. cit.*, and G.M. Meier, *op. cit.*, p. 64. The concept used up to now is the ordinary one of commodity terms of trade, and is equivalent to that denoted by CEPAL's current nomenclature. The 'single-factoral terms of trade' means the terms of trade multiplied by an index of export productivity. The 'double-factoral terms of trade' are equivalent

nomies than in peripheral primary production is tantamount to assuming that the relation between productivities ( $L_p/L_i$ ) deteriorates for the latter. This implies that, *ceteris paribus*, the relation between income levels 'y' also follows a downward trend (average incomes tend to be differentiated). Clearly, then, this trend is consolidated and aggravated by the deterioration of the terms of trade ( $P_p/P_i$ ), and, at the same time, is not incompatible with a rise in average income in primary activities.

Thus the mistake made by the critics stems from disregard of the assumption respecting the disparity between rates of increase of productivity. Once this assumption is recognized, the deterioration of the terms of trade necessarily implies that the double-factoral terms of trade deteriorate too, which is perfectly compatible with a rise in the single-factoral terms of trade and an improvement in 'well-being', in the two sectors and/or economies trading with each other. To put it another way, in the periphery average income may conceivably grow despite the deterioration because of the increase in productivity; and, at the same time, it will grow less than in the centres, because there the increase in productivity is greater, and the improvement in the terms of trade also helps matters, as would seem to be suggested by the fact that the gap

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to the foregoing, divided by an index of import productivity. For a precise definition of these and other concepts used by CEPAL, see the document *Relación de Precios del Intercambio de América Latina* (E/CN.12/L.99), Cuadernos Estadísticos de la CEPAL, N° 1, Santiago, Chile, 1976. The various definitions of the terms of trade given in this document coincide with those current in international trade theory, as noted in J. Viner, *Studies in the Theory of International Trade*, New York, Harper & Row, 1937, pp. 558-564.

between rich and poor countries in respect of levels of living has been steadily widening since the end of the last century.<sup>57</sup>

## 2. Critiques of the causes of deterioration

Attention will next be turned to the critiques bearing on the causes of the deterioration of the terms of trade. It is often acknowledged that in the past there have been sharp cyclical fluctuations in the commodity terms of trade, and the importance of their repercussions on the less developed economies is

<sup>57</sup> Strictly speaking, for the differentiation between average income levels to be produced the terms of trade need not necessarily deteriorate; for them to remain unchanged is enough, or for the proportion by which they improve to be lower than that by which the relation between productivity levels deteriorates. The CEPAL thesis on the concentration of the fruits of technical progress in the centres is still inadequately substantiated, owing to the lack of empirical studies on the long-term evolution of the double-factoral terms of trade. Nevertheless, the well-known study by C.P. Kindleberger on the European terms of trade seems to lead to conclusions favourable to the thesis in question. Despite the remark that no evidence of the deterioration of the terms of trade between primary commodities and manufactures has been found, it is pointed out that "in European experience, terms of trade have turned against the under-developed countries and in favour of the developed"; and, further, that "the double-factoral terms of trade . . . must have done so still more" (C.P. Kindleberger, *The Terms of Trade: A European Case Study*, New York, J. Wiley & Sons, and The Technology Press of MIT, 1956, pp. 233 and 240). For other sources of information on the behaviour of the commodity terms of trade over very long periods, see T. Morgan, "The long-run terms of trade between agriculture and manufacturing", *op. cit.*, pp. 21-23.

also recognized; but care is taken to point out that they cannot be extrapolated into the future, and, above all, it is denied that they involve a long-term trend towards deterioration.<sup>58</sup> The criticisms of the theoretical arguments adduced to explain this trend appear in a twofold guise. Firstly, it is alleged that even if the monopolistic elements in the labour market of the centres influence the rise in the overall level of prices, it is hard to see how they can affect the assumed movement of relative prices to the disadvantage of primary commodities. Secondly, there is a tendency to reject the premise that demand for the periphery's primary commodities grows slowly in comparison with demand for industrial products from the centres. In this connexion it is argued that Engel's law applies only to demand for food, and reflects the behaviour patterns of homogeneous populations, so that it cannot be generally extended to world demand for primary commodities, since this includes raw materials, and, moreover, there may be a boom in demand in the periphery itself.<sup>59</sup>

The weak point in these criticisms is fairly clear: it consists in that the arguments on which the explanation of the deterioration trend is based are considered in isolation and refuted separately, regardless of the theoretical context in which they are inserted. For example, no notice whatever is taken of the 'cycles version' of deterioration theory, the function of which is precisely to explain how the different labour market conditions prevailing in the centres and in the

periphery are capable of producing the differentiation between wage levels in the two types of economy, and how this differentiation, in turn, is linked to the decline in the terms of trade. Neither is any heed paid to the arguments which indicate why the growth rate of the central countries' demand for raw materials – and not only for food – tends to be slow; nor is it observed that the train of reasoning relating to the disparity between the growth of demand for imports of primary commodities and that of demand for industrial imports is expounded with reference to the centre-periphery system, i.e., to the two 'homogeneous populations' which by definition constitute it.

But what is really important to stress is that when each argument is taken separately, the deterioration phenomenon itself is brought into the foreground, and criticism is confined to calling its existence in question. From another angle this implies disregard and concealment of the fact that in the theories to which such critiques refer the terms-of-trade deterioration is only one of the results of the workings of the centre-periphery system, and that analysis of this system is, strictly speaking, the principal objective and characteristic of the theories concerned.<sup>60</sup>

<sup>60</sup> A comparable analysis of the significance of the deterioration of the terms of trade has been made in various studies, attributing it to similar causes. H.W. Singer's article on "The distribution of gains between investing and borrowing countries", published at almost exactly the same time as the early CEPAL documents, is one of the best known. The special feature of the CEPAL approach consists precisely in that from the outset it incorporates the explanation of the deterioration phenomenon in a broader conception of the *modus operandi* of the centre-periphery system.

<sup>58</sup> G. Haberler, *op. cit.*, pp. 289-295.

<sup>59</sup> *Ibidem*, pp. 35-336; G.K. Meier, *op. cit.*, pp. 63-64.

### 3. *Repudiation of the CEPAL view of underdevelopment*

There are other critiques in which the whole body of ideas contained in the conception of the centre-periphery system is explicitly repudiated. For example, it is alleged that these ideas identify agriculture and poverty, by virtue of a supposed natural law under which technical progress occurs pre-eminently in industry, and its fruits are concentrated in that sector through the favourable movements of relative prices. It is likewise pointed out that this simplification of the actual facts is given the lie by the existence of rich agricultural countries, such as Australia, New Zealand and Denmark, and, on the other hand, of countries where industrialization has not been altogether synonymous with widespread prosperity, such as Spain and Italy.<sup>61</sup> In contrast, it is affirmed that in the so-called peripheral economies the problem is not "to be found in agriculture as such, or in the lack of manufactures as such, but in underdevelopment owing to poverty and backwardness, to *poor* agriculture and poor industry".<sup>62</sup>

It seems obvious that these criticisms are based on an alternative point of view, which envisages underdevelopment as a state or situation of backwardness in relation to the standards of modernity proper to industrialized societies. When this view is implicitly or explicitly adopted, there is also a tendency to assume that the conception of the centre-

periphery system constitutes an ideological position, according to which "... the periphery's difficulties are to be blamed on the centre"; and that this conception is, in essence, "... a modern sophisticated version of the old idea that trade can be a vehicle for exploitation rather than a means of increasing welfare all round".<sup>63</sup>

If the conception of the centre-periphery system is briefly reconsidered there will be little difficulty in perceiving the inappropriateness of these criticisms and appraisals. The conception in question postulates rather than discounts the existence of conditions of backwardness in the periphery, but gives priority to those of a strictly economic nature which it regards as general: low levels of relative productivity (heterogeneity) and lack of intersectoral complementarity in production (specialization). Another of its assumptions is that this lag is likely to persist, since it is based on the difference between the two poles of the system in respect of average real income, which in turn affects the possibilities of saving, capital accumulation and readaptation of the backward production structure (cf. section I, sub-section 4). Furthermore, this model of the operation of the world economic system is understood to be presented at a very high level of abstraction, which does not preclude considering other aspects of the peripheral 'lag'. Some of them are taken into account in the conception itself, in particular certain characteristics of spontaneous industrialization, such as external disequilibrium, intersectoral maladjustments in production, superfluity of manpower,

<sup>61</sup> J. Viner, *International Trade and Economic Development*, Glencoe, Illinois, The Free Press, 1952, pp. 62-63.

<sup>62</sup> L.E. Di Marco, "The evolution of Prebisch's economic thought", in L.E. Di Marco (ed.), *International Economics and Development*, New York, Academic Press, 1972, p. 10.

<sup>63</sup> A.O. Hirschman, "Ideologies of economic development in Latin America", in A.O. Hirschman (ed.), *Latin American Issues*, New York, The Twentieth Century Fund, 1961, pp. 23 and 15.

etc. These and other special features are analysed in the various sets of analytical instruments in which the initial conception takes shape.

Clearly too, for none of these characteristics of the peripheral economies is the responsibility imputed to the great industrial centres. In particular, no assertion is made that the deterioration of the terms of trade is the cause of peripheral backwardness, or that it is due to any exploitation of the periphery by the centres; rather, it is viewed as a phenomenon inherent in the operation and deriving from the peculiar structural features of the system as a whole.<sup>64</sup>

Thus it seems hardly legitimate to impugn the conception of the centre-periphery system and the theories deriving from it on account of their ideological character, unless it be for reasons similar to those which support the opinion that economic theory of neo-classical and Keynesian origin is ideologically biased. Nevertheless, although it is not justifiable to maintain that in the

last analysis differences can be detected between standards of objectivity in conventional economic theory and in Latin America's so-called structuralist approach, it must be borne in mind that the former has been *de facto* used to buttress positions which are of interest to the developed capitalist economies, and that the structuralist points of view have enlisted the support of the Third World countries in various gatherings, where they have been invoked to defend these countries' interests, at the level of international economic relations. The most significant cases in point are afforded by the first and second sessions of the United Nations Conference on Trade and Development (UNCTAD).<sup>65</sup>

<sup>64</sup> In the works of A.G. Frank a foremost place is given to the idea of the bipolarity of capitalism—which is conceived as generating the development of 'metropolitan countries', and at the same time the underdevelopment of the 'satellites'—, and this bipolarity is linked to the expropriation of a substantial proportion of the economic surplus and its appropriation by another sector of the world capitalist system (A.G. Frank, 'El desarrollo y el subdesarrollo', *Desarrollo*, Year I, No 2, Colombia, March 1966, pp. 11-12. See also the same author's *Capitalism and Under-development in Latin America*, New York, Monthly Review Press, 1965). This exploitation connotation proper to the metropolitan country-satellite pair of concepts was subsequently incorporated in some of the studies by Latin American writers who share what is known as the 'dependency approach'. The works by European authors on "l'échange inégal" give a similar connotation to the deterioration of the terms of trade.

<sup>65</sup> At these meetings the underdeveloped countries presented common positions in four basic fields: the trade preferences of the centres in relation to industrial exports from the periphery; agreements on raw materials and foodstuffs, as a precaution against fluctuations in the value of peripheral exports; compensatory financing for the losses caused to the periphery by the behaviour of the terms of trade; and the high costs of maritime transport and other services. In those years the document most directly related to the positions in question was 'Towards a new trade policy for development', a report by Raúl Prebisch (Secretary-General of the Conference) to the first session of UNCTAD, *Proceedings of the United Nations Conference on Trade and Development, Geneva, 23 March-16 June 1964*, Vol. II, *Policy Statements* (E/Conf.46/141, Vol. II), New York, United Nations publication, Sales No: 64.II.B.12. 1964.

For accounts of the influence of the CEPAL conceptions on the first two sessions of UNCTAD, see A.A. Dadone and L.E. Di Marco, 'The impact of Prebisch's ideas on modern economic analysis', in *International Economics and Development*, *op. cit.*, pp. 23-27; and L. Turner, *Multinational Companies and the Third World*, London, Allen Lane/Penguin Books Ltd., 1974, pp. 87-90.

## IV.

### Scope and limitations of the CEPAL approach

The most important of the criticisms levelled from the standpoint of conventional economics at the components of CEPAL's long-term thinking in the sphere of theoretical interpretation have just been passed in review. A systematic survey of the comments and critiques appearing in the economic literature of the centres, carried out in 1971, confirms the overall impression recorded in the foregoing summary: save in exceptional cases, CEPAL's contributions are not judged as a whole, nor is their scope in the field of under-development theory properly evaluated.<sup>66</sup>

The following remarks refer to the group of writings which are classified as 'basic theoretical contributions' in the table included in the present article: that is, the conception of the centre-periphery system, the three formal versions of the theory of the deterioration of the terms of trade and the several instruments of partial analysis which make up the interpretation of the industrialization process. In the first place,

brief allusion is made to the main problems of cohesion which exist in these contributions; the nature of their approach is then defined, and in default of a meticulous study of them, they are contrasted with conventional economics to show that the degree of unity they attain is so considerable that they sketch the outline of a theory of under-development. Again in default of a detailed review, recourse is had to one example—that of the interpretation of external disequilibrium—with the aim of inferring from it the limitations of the approach adopted in this group of basic contributions. It is pointed out that while this approach may explain certain disproportions between production sectors inherent in peripheral industrialization, it cannot do the same for the social relations which pivot upon production and give impetus to industrial development.

#### 1. Problems of cohesion

<sup>66</sup> See K.G. Ruffing, *Two Decades of Controversy: Reactions to the Theories of Prebisch and ECLA*, CEPAL, mimeographed text, 1971, especially pp. 26-30. The most all-embracing and incisive of the criticisms, formulated by M.J. Flanders in "Prebisch on protectionism: an evaluation", *Economic Journal*, 1964, cannot be examined without going into details of CEPAL's analytical processes; in any event, it makes no difference to this basic conclusion. The principal critiques on inflation theory are listed in the bibliography on the subject appended to the present article.

A detailed examination of these contributions warrants the assertion that the comprehensive and complex train of reasoning they embody is, in essence, ordered and linked up around the explanation of three trends which are considered to be inherent in import-substituting industrialization: the deterioration of the terms of trade, external disequilibrium and structural unemployment.<sup>67</sup>

Setting aside minor flaws in reasoning and inconsistencies of secondary importance, such an examination also reveals a significant lack of cohesion in the interpretation of employment problems. In this field, the ideas proper to the conception of the centre-periphery system are set forth clearly at a general level, and some attempts at formalization also exist, but these ideas are not satisfactorily related with one another. To put it more exactly, no theory has been outlined which makes a strict and precise examination—in the light of certain assumptions as to rates of capital accumulation and population growth—of how the inappropriateness of the technology generated in the centres, and the structural heterogeneity characteristic of the periphery, tend to slow down the growth rate of demand for labour, and to speed up that of supply from low-productivity sectors, with the result that structural unemployment is created.

The lack of precision just indicated brings in its train a second important deficiency. Obviously, this imprecision in itself implies that no integrated and coherent explanation of the three above-mentioned trends is available, that is, no model establishing what conditions should be simultaneously fulfilled in order to ensure that none of those trends and anomalies emerge during the import-substituting industrialization process. For example, to consider—for simpli-

city's sake—only two of the trends concerned, it has not been clearly established—given certain assumptions on trends in the central economies—how sectoral growth rates should be combined in such a way as to safeguard, in the first place, the preservation of external equilibrium, and secondly to secure the gradual reabsorption of the entire labour force in satisfactory conditions of comparative productivity, and within a definite space of time. In other words, the flaws in one of the theses discussed—that relating to employment problems—imply that neither has CEPAL achieved complete logical articulation of the several theories commented upon here.

## 2. *Approach adopted*

But it is less important to dwell upon these problems of cohesion than to stress the actual nature of the approach adopted in these theories—that is, its structuralist character—, since it is upon the type of approach that the scope and limitations of the whole set of analytical instruments ultimately depends.

A clear impression of the structuralist character of the initial conception can be formed from the description given in section I. This basic conception accords priority to the peculiar features of the peripheral structure of production, defining it in terms of the level of labour productivity in its various component sectors and the degree of intersectoral complementarity existing, and contrasting both these with the characteristics of the production structure of the centres. Defining the structural characteristics of the periphery in terms of their differentiation from those of the centres implies, of course, that at the same time a particular system—the

<sup>67</sup>The intersectoral maladjustments in production—infrastructural deficiencies, rigidity of agricultural supply, etc.—constitute a fourth trend peculiar to the industrialization phase. It is not taken into account for the sake of simplicity, and because its explanation is of secondary importance, being undertaken along with and as a corollary of the explanations of other trends.

centre-periphery system— is being characterized. The structural differences between its two poles will tend, according to the initial conception, to be perpetuated, since they are inherent in the dynamics of the system itself. Thus, for example, the structural differences brought into being by outward-directed development are assumed to persist during the phase of import-substituting industrialization. For, as has been pointed out already, while a measure of diversification of production is achieved through the latter process, it is not enough to eliminate altogether the lack of complementarity between the production sectors, or the primary-exporter specialization of the periphery; and although the increase in average labour productivity is considerable, it has been unable to make up its leeway, not only because of the possible subsistence of sectors where it is very low, but because industrialization itself is effected in different productivity conditions from those prevailing in the centre.<sup>68</sup>

<sup>68</sup> This brief re-examination of the conception of the centre-periphery system shows that, in broad outline, its approach is compatible with the definition of 'structure' as the proportions and relations characterizing an economic whole localized in time and space (F. Perroux); and that of 'system' as a coherent complex of structures (J. Lhomme), always provided that this concept is understood to possess a dynamic connotation, i.e., that structures gradually change and with them the system itself changes too (A. Marchal).

With respect to these definitions, see A. Marchal, *Systèmes de Structures Économiques*, Titre III, chapitre I, Paris, Presses Universitaires de France, 1960. It should be borne in mind, however, that the above-mentioned conception basically alludes to the sphere of economic phenomena; and that it antedates by several years the emergence of the methodological concern—which was to become common among the writers forming the so-

The structuralist approach, understood in these terms, is transmitted to the other studies mentioned above, in which the initial conception gradually takes shape. In default of a detailed review of these contributions, it is worth while to examine how this type of approach implies a modification of the objectives and assumptions of certain analytical instruments of conventional economics, by means of which a set of characteristics of peripheral development and of the relations between the periphery and the centres can be organically perceived.

The earliest CEPAL documents often counterpose deterioration theory to what is called the traditional theory of the international division of labour:<sup>69</sup> a counterposition which proves particularly illustrative of the implications of the structuralist approach.

As is common knowledge, "the traditional theory of international specialization centres on the comparison of a trading situation with a no-trade situation, and on the demonstration of the superiority of the former over the latter. This is essentially the Ricardian procedure. The mental process which we perform when, starting from a state of isolation with different pre-trade ratios of exchange in each country, we let the barriers be stripped and then study the effects of trade, is still the core of inter-

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called structuralist school of thought— with incorporating other aspects of the social situation into the interpretation of Latin American underdevelopment. As regards the connotations acquired by the concept of structure in the works of these authors, see the preface by A. Pinto to A. Castro and C. Lessa, *Introdução a economia*, Rio de Janeiro, Editorial Forense, 1966.

<sup>69</sup> CEPAL, *Development Problems in Latin America*, op. cit., pp. xv-xix.



national trade theory. The assumption of a fixed initial stock of factors can be relaxed by allowing factor supplies to change in response to trade itself, without altering the essential character of this demonstration of the gains from international specialization".<sup>70</sup> These gains may benefit one single economy or more than one, depending upon the terms of trade, but logically speaking one result is certain: no country will be adversely affected by trade, since each will attain at least the level of wellbeing that it would reach without external transactions.

The hypotheses of the conception of the centre-periphery system, which are linked to the interpretations of the deterioration trend, are in sharp contrast with this way of looking at international economic relations. For the conception in question, these relations are characterized by the exchange of primary commodities for manufactures, a pattern peculiar to trade between the two poles of the system. Underlying this pattern are the differences between their structures of production, one being specialized and heterogeneous, the other diversified and homogeneous. These differences are implicit in the assumption relating to the disparate increases in labour productivity in the centre and in the periphery, and are basic elements in the explanation of the deterioration of the terms of trade. Taken together, these two phenomena account for the difference in average real income levels; and in turn, this difference helps to explain why structural backwardness tends to persist.<sup>71</sup>

<sup>70</sup> R. Nurkse, "International trade theory and development policy", in H.S. Ellis (ed.), *Economic Development for Latin America*, op. cit., p. 235.

<sup>71</sup> See Section I, sub-sections 3 and 4.

Thus, traditional theory—which presupposes similar degrees of development in the economies trading with one another—adopts a body of assumptions appropriate for demonstrating the advantages of specialization and trade over isolation. The conception of the centre-periphery system, on the contrary, begins by admitting that between these two types of economy there are substantial differences in respect of structural characteristics and average levels of productivity and income. And it propounds a set of alternative assumptions with the aim of showing that, in the dynamics of the development of the aforesaid system, the fruits of technical progress tend to be concentrated in the central economies, and the structural inequality tends to persist.<sup>72</sup>

Since they are geared to the explanation of the above-mentioned trends—deterioration of the terms of trade, external disequilibrium and unemployment—the arguments embodied in the whole set of analytical instruments under consideration delineate an image of underdevelopment quite distinct from

<sup>72</sup> This hypothesis of the perpetuation of the structural differences between periphery and centre has only been postulated in general terms; that is, it has not been developed on any precise analytical lines whatever in the three formal versions of deterioration theory to which this sub-section tacitly refers. To make the point clearer, it should also be repeated that the structural differentiation does not imply that pre- or semi-capitalist modes of production necessarily survive; since it may, for example, be confined to productivity disparities between certain branches of peripheral industry and the corresponding branches in the centres. Nor does it imply the absence of any diversification in the periphery's structure of production, but simply the continual resurgence of the difficulty of giving exports and imports the momentum required for intensive accumulation and growth.

those presented in contrast to the neo-classical and post-Keynesian growth models.

These models, of course, establish the rate of capital accumulation and/or of income growth required to keep up full employment, and/or maintain full utilization of installed capacity, both of which are virtually expressions of the dynamic equilibrium of the economic system. It often happens that the specific objectives and the behavioural assumptions proper to this type of model are left on one side, and that a 'stylized' and extremely simple conception of growth is inferred from them, which stresses some of the conditions necessary for the expansion of income, in particular an increase in the quantity of factors of production and/or in their productivity.

Underdevelopment is judged against this simple standard of reference, an attempt being made to identify the factor or factors that prevent the attainment and maintenance of a high rate of growth of social income. For example, reference is often made to the existence of a twofold vicious circle: backwardness and poverty, on the one hand, reduce the possibilities of saving and accumulation; on the other hand, they limit the size of the market and investment opportunities; and all these are requisites for overcoming poverty and backwardness.

The theories under discussion here do not deny that in less developed societies backwardness of various types exists, or that it may possibly place obstacles in the way of transformation of such societies. But in view of their basic hypotheses, it is understood that they formulate their analysis in a context which is at once broader and more abstract—that of the economic relationships between centre and periphery—endeavouring to show that the latter's relative backward-

ness tends to be perpetuated, with the characteristic differences in productivity, income and structure to which allusion has so often been made.

These theories seek not only to define the position of the periphery in the world economic system, but also to discern the internal aspects of the evolution of the peripheral type of economy. Particularly through the interpretation of import-substituting industrialization, they attempt to show that what is termed inward-directed development is a specific process—not the mere persistence of backwardness—which is characterized not only by the trends and contradictions referred to above, but also by given patterns of structural change which are peculiar to it: the foundation of the industrial sector on the branches closest to the market for final consumer goods entailing comparatively simple technology; the relative rigidity of the agrarian structure; the inappropriateness of the scale and capital density of the technology generated in the centres; the differing degrees in which this inappropriateness is apparent in the various sectors and branches of the peripheral economy; etc.

Although in very brief outline, the considerations set forth in the foregoing paragraphs show that the conception of the centre-periphery system transmits its structuralist character to the theories in which it takes shape, with the result that in them underdevelopment is not envisaged as a mere state of backwardness but as a specific process: the long-term economic evolution of the periphery, conditioned by the framework of its trade relations with the centres. Taken as a whole, these contributions sketch out a theory of the peripheral economy, or, if preferred, a theory of underdevelopment.<sup>73</sup>

### 3. An example of structuralist analysis

In their structuralist character, then, the originality and the chief merit of these contributions are to be found. But at the same time this type of approach constitutes their principal limitation, as can be seen when attention is turned to their formal and strictly analytical aspects. Investigation of what they have in common from this standpoint reveals that they explain the three tendencies peculiar to spontaneous industrialization by *disproportions* occurring between the volumes and/or the growth rates of production, and/or the utilization of productive resources, in the various sectors, internal and/or external (peripheral and/or central).

Strictly speaking, to test the accuracy or inaccuracy of this generalization detailed study of the contributions concerned is needed. But at least an idea of its significance can be formed from one example, i.e., the explanation of the trend towards external disequilibrium.

The pivot of the reasoning relating to this trend is the concept of unequal elasticities, already suggested. The assumption is that the income-elasticity of

demand for imports of peripheral primary commodities is less than one in the centres, and, therefore, that their imports (that is, peripheral exports) will increase more slowly than their income. Similarly, it is postulated that the income-elasticity of the periphery's demand for imports of industrial goods from the centre is greater than one, and, therefore, that in the periphery imports will increase faster than income. Hence the conclusion reached is that to maintain external equilibrium, the rate of growth of the periphery will have to be slower than that of the centre, and that, in contrast, if it is more rapid than in the centre –or, more precisely, if it exceeds the limit set by the expansion of the centre and the inequality of elasticities–, there will be a tendency to external disequilibrium.<sup>74</sup>

On the basis of this reasoning two characteristic features of peripheral industrialization are explained: import substitution and the change in the com-

<sup>74</sup> Let  $G_p$  and  $G_c$  be the growth rates of income in the periphery and in the centre, and  $E_p$  and  $E_c$  the respective income-elasticities of demand for imports. The equation  $G_p \cdot E_p = G_c \cdot E_c$  indicates what condition must be fulfilled if the external equilibrium of the two economies is to be maintained through time, *ceteris paribus* in respect of prices and capital movements. An alternative equation

$$G_p = \frac{E_c}{E_p} \cdot G_c$$

makes it easier to see that if elasticity is lower in the centre than in the periphery (if  $E_c < E_p$ ), the maintenance of external equilibrium requires that the rate of income growth be slower in the periphery than in the centre, and all the slower, the greater the disparity in elasticities. If this limit is exceeded, disequilibrium will probably result.

<sup>73</sup> In the British and American economic literature of the 1950s the name 'Prebisch-Singer thesis' is given to the postulates on the deterioration of the terms of trade, its significance and its causes. During the 1960s, especially after the first session of UNCTAD, the term 'Prebisch thesis', or 'The theory of the peripheral economy' is applied to the several versions of the deterioration theory, or even to the general ideas contained in them. In these remarks, on the other hand, it is considered that, although the conception of the centre-periphery system is its cornerstone, only the whole body of contributions described as 'basic' in the table included in this article forms, *grosso modo*, a 'theory of the peripheral economy'.

position of imports. The argument is simple: if growth is to take place at a higher rate than that imposed by the conditions described above and disequilibrium is to be obviated, it will be necessary to restrict imports of certain goods which come to be included in domestic production, and to prohibit those of other non-essential goods, in order to cope with the huge demand for industrial imports caused by income growth and by import-substituting production. It is likewise understood that import substitution involves a change in the composition of imports, since their restriction affects certain types of goods (for example, non-essential and/or easily-processed consumer goods, during the early phases of the process), while they are expanded in the case of other goods of a different nature (for example, intermediate inputs and machinery).

It should be noted that the foregoing analysis of the import substitution process is formulated in tacit contrast with a theoretical standard of reference, which establishes what conditions must be met in order to safeguard external equilibrium. Given certain postulates relating to the growth of the centres and of the primary-exporter sector of the periphery, it is assumed that the expansion of the sectors geared to the domestic market could be effected in such a way that complementarity between their lines of production, combined with the change in the composition of imports—the timely restriction of some of them, to clear the way for meeting the import requirements of the expanding sectors—, would enable external equilibrium to be maintained. The trend towards disequilibrium is explained in contrast with this standard of reference: import substitution itself, inasmuch as it takes place in the way described above—starting from

import substitution in respect of the simpler goods and moving towards the more complex types—, generates huge import requirements, which tend to exceed the limits set by the slow growth of exports and by the exhaustion of import restriction possibilities. In other words, the changes in the production structure and in the corresponding range of imports are not in practice occurring in accordance with the conditions of proportionality required to preserve external equilibrium. This is explained, therefore, in the last analysis, by *disproportions* between the growth rates of the various peripheral sectors and/or between those and the growth rate of the centres.<sup>75</sup>

#### 4. Main limitations

The foregoing interpretation of the trend towards external disequilibrium can be approached from yet another angle. The ideal conditions of intersectoral complementarity of production required to prevent disequilibrium imply that specialization (lack of complementarity) is gradually eliminated through the substitution process. In contrast, the

<sup>75</sup> This type of explanation reaches a high degree of coherence in the article by M.C. Tavares on "The growth and decline of import substitution in Brazil", *op. cit.* Its importance lies in the fact that in it the movements of the trade balance are associated with the changes in the structure of production; for, as will be seen shortly, this implies that the hypotheses of the basic conception are consistently incorporated in the analysis of external disequilibrium. As Samir Amin has pointed out, the CEPAL documents also contain a theory of the structural adjustment of the balance of payments, but it is less precise than the one referred to here. (See S. Amin, *L'accumulation à l'échelle mondiale*, Paris, Editions Anthropos, 1970, pp. 560-574, and especially pp. 567-571).

actual pattern of change in the structure of production, which makes for disequilibrium, is attended by disproportions which mean that the specialization peculiar to the periphery is not being successfully overcome. Clearly, therefore, the disproportions that account for external disequilibrium are nothing but the expression, from the standpoint of formal analysis, of a key aspect of the initial body of hypotheses: the specialization of the peripheral structure of production.<sup>76</sup>

Not only this trend, but also the other two to which allusion has previously been made, can be imputed to disproportions which are considered to be inherent in import-substituting industrialization. And in every case, these disproportions have the same significance: they constitute a formal expression of the idea that the specialization and structural heterogeneity of the periphery persist, despite the change in

the structure of production that industrialization involves.<sup>77</sup>

The foregoing generalization incorporates the main limitation attributed in these remarks to the body of contributions under review. The approach they adopt defines and gives priority to certain structural characteristics of the periphery and of the centre which relate exclusively to the sphere of production of goods; this makes it difficult, if not impossible, to do more than present the disproportions generated at that level, such as those emerging in the trends peculiar to the phase of inward-directed development.

This limitation derives from the very nature of the approach adopted, that is, from its structuralist character; and accordingly, it is independent of the problems of cohesion indicated in subsection 1, where it was pointed out that the logical articulation of CEPAL's basic analyses has not been satisfactorily achieved. Very broadly speaking, it may be assumed that the requisite for doing so is an ideal pattern of overall and sectoral growth designed in such a way that the trends proper to import-substituting industrialization are not engendered, and providing a suitable cri-

<sup>76</sup> The explanation of the external disequilibrium trend described here assumes that the periphery's exports increase at a given rate and that they retain their primary character. For that very reason, it presents specialization only in the guise of a lack of intersectoral complementarity of production. An alternative standard of reference is conceivable which envisages the diversification both of production for the domestic market and of exports, thus remedying not only the lack of complementarity but also the primary-exporter condition of the periphery. It is important to note that in the first type of model import substitution necessarily involves a fall in the export and import coefficients, and that this 'closed' character of the development process is incompatible with an increase in the ideal share of foreign ownership in the total assets of peripheral economies. These implications are not, on the other hand, necessary in models of the second type, which are compatible with different degrees of openness to the outside world and of denationalization of the economies in question.

<sup>77</sup> Just as the specialization hypothesis underlies the interpretation of the trend towards external disequilibrium, that of structural heterogeneity is of key importance in the arguments relating to the unemployment trend. The two hypotheses play a joint part in the explanation of the deterioration of the terms of trade. Of the two theories designed to expound its causes —or, more exactly, to explain the conditions of disproportionality which lie at its root—, the 'cycles version' is better adapted to the general characteristics of the centre-periphery system during the phase of outward-directed development, and the 'industrialization version' is applicable solely to the phase of inward-directed development.

terion for assessing, by contrast with it, the disproportionality underlying these trends.

Owing to its complexity, presenting such a standard of reference coherently entails defining what overall and sectoral conditions in respect of capital accumulation and penetration of technology will ensure well-proportioned growth, and prevent the emergence of the aforesaid disequilibria and undesirable trends. To attain this end, however, it is enough to establish the conditions of the accumulation 'required' for the several proportionality relations to be simultaneously fulfilled. And these 'required' or 'necessary' accumulation conditions do not correspond to the accumulation process as it may be imagined to derive from the behaviour of specific economic agents, whose decisions, in actual fact, are responsible for the real patterns of structural change which give rise to deterioration of the terms of trade, external disequilibrium, and unemployment.

To take a further look at this same argument, we may enlarge upon an example previously cited. Let us suppose an intersectoral distribution of investment, linked to certain technological options, whereby unemployment could be avoided, and labour productivity brought up to the same levels as in the centre, within a definite time horizon; and that at the same time it provides for increases in installed capacity in the export sector and in each of the sectors producing for the domestic market, together with changes in the range of imports, capable in the aggregate of preventing external disequilibrium. But this ideal pattern of 'required' accumulation cannot explain why accumulation has in practice been taking place at a specific overall rate, or why in reality it has done so at particular rates in the various sec-

tors; in other words, this paradigm does not reveal the reasons why in actual fact an accumulation pattern was produced which has led to unemployment and external disequilibrium.

Generalizing on the basis of the foregoing observations, it may be said that CEPAL's basic theories, by virtue of the approach adopted, succeed only in enunciating the 'laws of proportionality' proper to peripheral industrialization; and in detecting, by contrast with these laws, certain disproportions which emerge as the structure of production changes during the industrialization process, and which lie at the roots of the above-mentioned disequilibria and trends. But the causes of these are not brought to light, i.e., no account is given of the social relations which are established in the sphere of production, and which give impetus to industrialization and the accompanying structural changes.

The same limitation is observable from another standpoint, if attention is once again turned to the basic content of the theories considered here. It has already been pointed out that in the conception of the centre-periphery system there is a basic nucleus of hypotheses according to which this system evolves on bipolar lines, that is, following an unequal development pattern, in which the differences between average levels of productivity and income and between structures of production interact and tend to persist through time. At the heart of their interaction are the differing saving and accumulation potentials which, on the one hand, derive from the inequality between productivities and incomes, and which, on the other hand, promote disparate changes in the structures of production.

The analysis of this key aspect of the initial conception cannot be based only

on the accumulation patterns 'necessary' or 'required' to prevent the emergence of certain disproportions between the sectors of production, since the bipolarity of the system does not depend solely on such disproportions, but also on the general conditions in which accumulation takes place in the system as a whole. Consequently, the theoretical development of the fundamental hypotheses, not achieved in CEPAL's contributions, necessitates studying and incorporating into the analysis the basic economic relations established around the generation, appropriation and utilization of the economic surplus in the centre-periphery system. It is outside the scope of the present article, however, to deal in detail with the implications of the criticisms indicated above.

##### 5. *By way of synthesis*

The article by R. Nurkse previously cited contains two observations which make a useful point of departure for these final remarks.

In the first place, he points out that in practice the traditional pattern of the international division of labour was much more than a mere application of the principles of comparative advantages: it constituted a veritable 'engine of growth'. In other words, he maintains that during the nineteenth century, while the pattern in question was being consolidated, the character and the dynamism of international trade were such that the rapid development which was taking place in the centre was transmitted to the younger peripheral countries through a boom in demand for primary commodities. Secondly, he alludes to the fact that, in some cases, the expansion of the world economy led to a lopsided pattern of development which gave rise

to the coexistence of a modern export sector with much less developed, if not frankly primitive, sectors.

These two observations suggest an indubitably legitimate question. When demand for primary exports loses the dynamism it had in the past, how do the economies which acquired the foregoing characteristics continue to develop?<sup>78</sup>

The conception of the centre-periphery system is based on the same findings, and raises a similar question relating to the type of development of the peripheral economies after the world depression, which is regarded as a turning-point, and symptomatic of a change in the former outward-directed development pattern.

In fact, this question is the *leit-motiv* of CEPAL's fundamental theories: they investigate why the peripheral economies have taken the road of import-substituting industrialization, and seek to explain some of the trends and contradictions inherent in this process, such as the deterioration of the terms of trade, external disequilibrium, structural unemployment, etc.

Thus they analyse the above-mentioned anomalies, but in order to do so, incorporate the general ideas and hypotheses of the basic conception which transmits its approach to them. An attempt has been made to illustrate this point by showing that the theories referred to alter the assumptions and objectives of certain analytical instruments of conventional economics, and thereby come to constitute, in the aggregate, the outline of a 'theory of the peripheral economy'.

<sup>78</sup> R. Nurkse, "International trade theory and development policy", in H.S. Ellis (ed.), *Economic Development for Latin America*, *op. cit.*

Similarly, the formal analysis of external disequilibrium has been described with the aim of demonstrating that this latter is attributed to the way in which during the industrialization process changes take place in the structure of production in the periphery, without fully remedying the lack of complementarity between the sectors of production, or, in other words, without completely eliminating the 'specialization' characteristic of this type of economy. Generalizing on the basis of the example given, an attempt has been made to show that in every case the basic CEPAL theories account for the various trends and contradictions in import-substituting industrialization in much the same way, i.e., by ascribing them to disproportions

which arise as the structure of production changes, and which are simply the reproduction, at other levels, of the heterogeneity and specialization peculiar to the peripheral economies.

Thus, the theories under review examine from a material standpoint the changes in the structure of production which are taking place in the periphery (conditioned by its trade relations with the centre), during the phase of inward-directed development, but they do not refer to those relations between social groups which are inherent in the evolution and operation of the economic system, and by which, in the last analysis, the impetus to change is given. In this sense, the CEPAL theories alter, but do not transcend, the analytical framework of conventional economics.



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# CEPAL Review

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## SEVENTEENTH SESSION OF THE ECONOMIC COMMISSION FOR LATIN AMERICA

The seventeenth session of CEPAL was held at Guatemala City from 25 April to 5 May 1977. In the course of the session the 32 States members of the Commission examined the report on its activities and analysed the Third Regional Appraisal of the International Development Strategy.

The *CEPAL Review* presents the essence of the addresses delivered on this occasion by Kurt Waldheim, Enrique Iglesias and Raúl Prebisch.

The Secretary-General voiced his conviction that the North/South dialogue was coming to a crossroads in the setting of an encouraging but highly complex international panorama. The issues under discussion were complicated, but he trusted that a first package of reasonable and equitable commitments concerning such key matters as primary commodities, indebtedness, and science and technology could be achieved in 1977.

Mr. Iglesias focused his attention on Latin America. After describing the

headway made in respect of economic growth, he expressed concern at the persistence of problems connected with critical poverty, income distribution, population growth and the productive absorption of the labour force — although he also stressed his conviction that the production potential already attained afforded the objective and material basis for their solution. In the last part of his statement the Executive Secretary of CEPAL analysed Latin America's position in the context of international economic relations.

The statement by Mr. Prebisch is an affirmation of his personal viewpoint regarding the region's present problems. Thus, besides touching on strictly economic questions, such as the volume and orientation of capital accumulation and consumption, he highlights the problems related to social justice and political democracy, and emphasizes the need for an integrated and ethical approach to the challenges of development.

### Statement by Kurt Waldheim, Secretary-General of the United Nations

Your session is being held at a crucial moment in the history of international economic relations, and I am convinced that regional discussions such as those you will be holding during the next few days can make a very significant contribution to the ongoing dialogue between developing and developed countries. Latin America can indeed look upon and participate in these negotiations with a feeling of pride, and also with a particu-

lar sense of responsibility, because many of the ideas and objectives which are today at the centre of global deliberations emerged in this region and have been pursued with conviction and determination by Latin American governments over the years.

There is a widespread feeling that the North/South dialogue is coming to a crossroads. We are undoubtedly going through the most critical period of the

negotiations which have been conducted since 1973, when the balance of interests in the world began to shift, raising hopes of a new world order more attuned to a situation of global interdependence.

We should not, I believe, fail to take account of the intensive endeavours which are now being pursued, after a lengthy period of stagnation, and even decline, in international economic co-operation. The reports which will serve as a basis for your work at the session attest to this.

What is perhaps less tangible, but in many ways more significant, is that the North/South relationship is moving closer to the top of the agenda of those governments on which so much depends. Positions which were held to be intractable have now come within the realm of practical discussions. The discourse is different; doctrinal statements are yielding to the examination of specific difficulties.

Yet, these difficulties are real enough, and if we are to remain alert to opportunities, we must recognize the very special circumstances under which these negotiations are taking place:

The issues are very complex. The balance of interests and the implications of different positions are not always clearly identifiable. It should come as no surprise that there are suspicions and that the bargaining is tough;

Grave uncertainties becloud economic decisions and upset predictions. The behaviour of the world economy departs markedly from traditional patterns. A stubborn inflation, unusually combined with high unemployment, and discontinuities in the traditional price relationships, severely strain the ability to devise adequate cyclical policies;

Above all, perhaps, the present negotiation differs from previous efforts in its

stated objective to pursue a more rapid and fundamental transformation of the existing order. Past policies of capital transfers and trade liberalization remain essential, particularly in the light of present imbalances. But more of what is often called today 'affirmative action' is now required to promote changes in the structure of the world economy and in the organization of international relations.

But, when all this is said, it remains true that the intention to develop more meaningful forms of co-operation is stronger, that the conceptual framework and articulation of the negotiations are accepted, and that the commitment to certain specific measures goes beyond mere declarations of principle. The dynamics of the negotiations requires, however, in my view, that a reasonable and equitable first package be achieved this year. On the basis of the clarifications already registered, it is not difficult to select the issues on which agreement could be reached.

### *Primary commodities*

No package would be acceptable if it did not address itself to the problem of commodities.

The negotiations on the integrated programme of commodities which are being undertaken in the United Nations Conference on Trade and Development (UNCTAD) are aimed at establishing a new international framework for the stabilization and improvement of commodity markets. They envisage changes in the structure of trade in primary commodities which would, in varying degrees, benefit both producers and consumers.

The establishment of a common fund, which would provide the assurance

of finance from a central source, constitutes the focus of the Conference at Geneva, which has entered a critical phase. There remain important issues that have to be clarified if agreement is to be reached. Nevertheless, it is encouraging to note that there is within the governments participating in the Conference a very broad commitment to negotiate towards the establishment of such a fund. A productive outcome of the negotiations taking place in UNCTAD is indeed crucially important for the future of international economic co-operation as a whole.

### *Indebtedness*

The external debt of developing countries is not a new problem. Rather it is a more or less permanent feature of their predicament. What is new is the unprecedented dimension of the indebtedness and the fact that it does not only affect adversely the plight of the debtor countries, but that it is often seen to endanger the very equilibrium of the international financial system.

There would be easy consensus about the severity of the problem, if we observe the figures—some of which I would like to quote. The *public and publicly guaranteed debt* of 78 non-oil-exporting developing countries increased from 58 000 million dollars in 1970 to 96 000 million dollars in 1973; that is, at a rate of 18 per cent per annum. In 1974, the rate accelerated to 31 per cent. The volume of that debt accumulation is estimated to have reached some 155 000 million dollars in 1975. Naturally, figures are much more uncertain in regard to *commercial debt* but probably the amount involved is well above that figure.

Yet, in the face of these staggering amounts, opinions seem to differ rather

widely as to the need for new and specific action. One sometimes encounters optimistic appraisals, intimating that the present indebtedness does not exceed the capacity of the financial market and of existing public institutions to handle it, particularly as the economic recovery is seen to be easing the external situation of most debtors.

I believe this analysis is defective on two counts. In the first instance, even if it were convincing on its own terms, it appears to consider the financial problem outside its broad economic perspective.

External indebtedness cannot be insulated from the general context of the development process of which it is only one element. For example, one of the reports before this session shows that the deficit on current account of the non-oil-exporting countries of Latin America rose from a little over 1 500 million dollars annually in the period 1965-1970—that is less than 15 per cent of exports of goods and services—to a little over 4 000 million dollars in 1971-1973—that is 22 per cent of exports—while it jumped to almost 14 000 million dollars annually in 1974-1976—that is, 45 per cent of exports.

Secondly, we should realize that the present predicament may not be a passing phenomenon. We should, therefore, ask ourselves whether the international financial mechanisms, private and public, are, in spite of their more recent diversification and refinement, adequate to cope with problems which are both new and likely to persist.

The problem of those developing countries which have been able to borrow on the market for very important amounts must receive sympathetic attention. For these countries, it is important that future access to private finance

should not be placed in jeopardy, and that the integrity of commitments should not be questioned.

But again, I would repeat, the problem is not a passing one, and we should not declare ourselves satisfied with temporary measures. We should strive to equip the international institutional system with adequate instruments to cope with a situation not previously encountered.

It is difficult to believe that the necessary degree of security can be established without the intervention of governmental or intergovernmental institutions. It is therefore logical to explore anew an idea which was floated soon after the increase in oil prices; namely, the creation of a *multilateral debt refunding facility*. Such an arrangement would help to avoid traumatic experiences in the financial market, and would encourage and facilitate the continuing access to the market of those countries which have relied, and may be again relying, on commercial borrowing.

The case for special treatment of the least developed and the most seriously affected countries is well entrenched in recent United Nations legislation. For them, recourse to private markets is almost by definition excluded; their balance of payments must be supported by adequate public assistance on concessionary terms.

But it is important that the assurance be given that such action, if necessary, will be sustained for several years. Conversely, there must be a guarantee that it will be subject to well-defined criteria.

Such an approach, I may note, could be viewed as deriving from the concept of 'collective economic security' to which the Economic and Social Council devoted considerable attention some time ago. I would suggest that the best

and easiest way of so doing would be to channel a greater proportion of capital transfers through international institutions.

### *Science and technology*

The problem of science and technology has not recently been negotiated with the same intensity as commodities. Nor has it raised the same immediate pre-occupations as foreign indebtedness. It nevertheless remains of the highest priority in the search for a new international economic order.

There is perhaps no area in which there has been a more constant consensus on the need for co-operative policies. This is understandable. Technology is an all-pervasive phenomenon. It conditions all aspects and all models of development, whether the emphasis is on growth, distribution, employment, the balance of payments or the satisfaction of basic needs. Yet it is a process which often seems to unfold along autonomous lines not directly related in a rational way toward the satisfaction of human needs.

Some of the characteristics of the technological process may begin to explain why, in spite of repeated efforts, it has eluded the comprehensive approach which has emerged in other areas of co-operation: the market for technology is peculiar; there are serious questions about the price at which it is transferred; the adequacy of existing institutional arrangements has been increasingly challenged; and there are grave doubts as to whether a large part of the technology transferred is suitable to the conditions that obtain in developing countries.

In such a context, the emergence of an autonomous technological capability in developing countries has lagged

behind the progress of other factors of development. Yet, practical programmes could do a lot, and do it rapidly, to remedy this situation. Such programmes should focus on research and development.

Despite what has been achieved, the technical assistance of the international system has not placed sufficient stress on this element. Resources should now be pledged and mechanisms organized to orient, stimulate and support research and pilot projects specifically geared to the requirements of developing countries.

These are some of the matters which will fall within the agenda of the United Nations Conference on Science and Technology scheduled for 1979. One should not aim at preempting the results which are expected from this event. But neither should one remain idle, using as an excuse that particular deadline. I firmly believe that the 1977 package of measures to come out of the current negotiations should include new co-operative policies and programmes in science and technology through existing channels and institutions.

#### *Collective self-reliance*

I should like to stress how appropriate I consider it that CEPAL should be meeting here and now, at a time when the concept of collective self-reliance is coming to the fore in the third world. Not too long ago, at the Conference on Economic Co-operation among Developing Countries held in Mexico City, I emphasized that the movement of third world solidarity was entering a new and decisive phase. I also pointed out then that this movement has never sought to insulate itself from the world context or from the institutions of world-wide co-operation.

The concept of economic integration and co-operation among States based on equality has deep roots in Latin America, going as far back as 150 years to the visionary ideas of Simón Bolívar. I believe that it is quite fitting on this occasion to recall that the Central American Republics were the first which began to put these ideals into practice when they started their integration movement in the fifties. And although these countries have encountered many problems in their pioneering efforts, I am sure that each of them has come to realize, as have others, that collective self-reliance offers many opportunities and advantages.

The Economic Commission for Latin America should feel justifiable pride in the role it has played in the emergence of this co-operative endeavour. It is indeed highly encouraging that the Commission is promoting other similar efforts, most recently in the Caribbean.

It is often stressed that the main purpose of the United Nations is to harmonize the views and interests of member nations. What we must realize is that in the area of development co-operation this harmonization can only be fully achieved within a well-articulated global scheme. This is one of the most important meanings of the search for a new international economic order.

As we more and more acknowledge the inadequacy of some time-honoured solutions and as we encounter the difficulty of striking a balance between different objectives, there must be a framework within which to formulate our proposals and initiate our actions. It is not and should not be an immutable framework, but it should be adhered to consistently over a period of time.

I have talked today about some of the more vital questions that the world

community faces at this time because I am fully conscious of the role that the regional commissions play in the processes of adjustment and negotiation inherent to the United Nations. This Commission is eminently fitted to assist in the evolution of more promising and practical approaches towards the achievement of agreed solutions.

For the greatest need today is to blunt the edges of differences among nations, not to sharpen them. The political, economic and social benefits of adequate and timely action for a better world order are only too apparent.

I wish you all success in your deliberations.

## **Statement by the Executive Secretary of CEPAL, Mr. Enrique V. Iglesias**

### **I. Central America and integration**

Nothing could be more fitting than to take advantage of this occasion, when the Commission is meeting for the first time in its history in a Central American country, to begin by referring to economic integration—a movement in which Central America has distinguished itself by playing a pioneering role, and which has enabled the CEPAL secretariat to enjoy a long and fruitful association with the Governments of this sub-region.

It naturally gives me great pleasure to recall that, at the fourth session of the Commission, held in Mexico City in June 1951, the delegations of Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua expressed their Governments' interest in promoting the integration of their economies and the creation of wider markets, through trade in their commodities, co-ordination of their development plans and the establishment of enterprises in which all or some of them had an interest.

On that occasion, a request was placed before the Executive Secretary to extend to the Governments concerned the co-operation needed for the study

and implementation of such proposals, and "to study the means or plans for the progressive attainment of those objectives". In addition, the Economic Co-operation Committee was established as a consultative organ of CEPAL and a co-ordinating body for activities relating to economic integration in Central America.

The Committee met twelve times between 1952 and 1963, during which period studies and analyses were made with a view to laying the foundations on which Central American economic integration could be built up.

Towards the end of that period—to be precise, in the biennium 1960-1961—the Governments took courageous decisions in this field which definitively placed them in the forefront of the integration process throughout Latin America. In the short space of five years an almost perfect free-trade area was created, a common tariff for products of third countries was adopted and institutions and machinery were established to promote joint action within the framework of integrated economic development.

It would be difficult to assess at its full value the contribution made by integration to the economic development of each and every country in the region, in terms of their growth and the transformation of their economies. Suffice it to mention, by way of example, that the degree of industrialization in the sub-region rose from less than 14 per cent in 1960 to almost 19 per cent in 1975.

Undeniably, however, the very dynamics of the process brought weaknesses and obstacles to light. The evolution of the Central American Common Market —by far the most advanced integration movement in Latin America in the 1960s— reflected the difficulties which were beginning to affect other sub-regional integration processes as well.

Thus, in the course of this period we found that once an integration process like that of Central America has been set in motion it does not necessarily tend to expand and intensify. Instead, the possibly exaggerated emphasis placed in the past on commercial integration —in other words, the creation of free-trade areas— and the relative slackness in the joint promotion of projects of regional interest led to a geographical concentration of the benefits of integration in the relatively more industrialized countries which tended to weaken the dynamics of the process. In addition, integration was apparently unable —in Central America and still less elsewhere in Latin America— to make the expected contribution towards solving the main development problems with which countries were faced.

All this, together with the transformations and rapid changes in the international economy, suggests the advisability of revising the conceptual framework of economic integration so that it may effectively support the devel-

opment process the region will have to tackle in the next few years.

In this respect it is satisfying to note that Central America is still in the vanguard, having formulated two multiplex and simultaneous approaches whereby to strengthen its integration movement. The first, which is of a global nature and is to be embodied in a new treaty, is designed to promote long-term integration, by establishing the major objectives of the process and setting up the agencies and procedures which would make it possible to attain them. The second, which is more specific —and need not necessarily await the entry into force of the treaty— would consist in the short-term reactivation of the movement through the execution of concrete projects of regional interest.

I am also pleased to be able to state that CEPAL has continued to be associated with this revivifying process, primarily through the meeting held by the Economic Co-operation Committee in May 1975 and the meeting the Committee is to hold this week to evaluate the implementation of the decisions adopted on that earlier occasion.

Whatever Central America decides to do in order to revitalize its integration movement will have profound repercussions on the rest of Latin America, since today, as in the past, it is taking the lead both in ideas and in action in the field of integration.

I therefore wish the Central American countries every success in these new stages of the integration process and reiterate, once again, our keen desire to contribute to their efforts. In particular, our Mexico Office, now under the inspired direction of a distinguished Central American, Gert Rosenthal, will continue to be deeply involved, as Central Americans have been in the past, with this historic work on behalf of integrationist ideals.



## II. The great tasks of Latin American development

There are two main economic and social concerns in Latin America today, namely, how to satisfy the basic needs of the great masses who have not shared in the fruits of the development achieved in the last few decades, and how to place the region on a different and more advantageous footing in the international economy.

At the last meeting of this Commission (in Trinidad and Tobago, in 1975), in several other forums, and most recently in December 1976, when previewing the global outcome of the region's evolution in 1976, I have had occasion to make some basic points in these connexions.

As regards the first of the issues mentioned, I tried to show that the Latin American production system has undergone far-reaching changes in the post-war period, in both quantitative and qualitative terms, so that Latin America is today in a position to undertake tasks which in the past might have seemed over-ambitious but which have now become objectively possible.

The most important of these tasks, without the slightest doubt, is that of substantially relieving if not totally eradicating what is known as 'critical poverty', which affects, subject to varia-

tions in its intensity and in its national features, at least a third of the region's population.

With respect to the other issue – the insertion of Latin America in the world economy – I have tried to highlight the region's greater capacity to withstand and adapt to the repercussions of the international upheavals of recent years, which have still not ended. The existing situation, with the problems and opportunities it involves, must be appraised with eyes fully open to change and innovation – not as though it were a mere case of history repeating itself. Generally speaking, it entails envisaging what kind of 'new international order' would suit Latin America and how the region should fit into that context.

Our suggestions in relation to these vital issues might be construed – superficially – as being unjustifiably optimistic in face of the serious problems confronting our countries.

Forgive me, therefore, if I dwell at some length on each of these issues separately, obvious though the relationship may be between the transformation and social and economic potential of the production system and the characteristics of its external setting.

### A. *The development of the region's production potential*

#### *Economic expansion: the present situation and future prospects*

I do not think it is necessary to recall the details given in my statement in Trinidad and Tobago regarding the quantitative and qualitative changes which have taken place in Latin America since 1950.<sup>1</sup> It is enough to repeat a few important facts. Thus, for example, the regional product almost quadrupled between that year and 1974, reaching a size comparable with the corresponding figure for Europe in 1950, "when that region was already one of the most industrialized in the world and some of its larger countries were among the major economic powers".<sup>2</sup> More specifically, and with reference to one of the strategic sectors for development, I should like to remind you that during this same period production of machinery and equipment increased nine times over. Thus, whereas in 1950 approximately three-fifths of the demand for such goods was covered by imports, in 1974 the proportions had changed to such an extent that three-quarters of these needs were met by domestic production.

These data, together with other familiar facts of a similar kind, are solid proof of the development of the productive forces of Latin America. Moreover, with due caution it can be assumed that this expansion will continue in the immediate future and will raise the

region to heights much greater than those it has reached today, while at the same time significant changes will take place in the economic structure.

Let us look at a few future possibilities in this connexion.

If, for example, we take as our basis the average growth rates for such a long and varied period as that extending from 1960 to 1974, and if we assume that these rates will recur between the latter year and 1990, we shall note some substantial quantitative changes. For a better appreciation of these, they may be compared with the corresponding situations in the European Economic Community in 1970 (excluding the United Kingdom):

- The regional domestic product in 1990 would be a little over 560 000 million dollars. That is to say, it would be bigger than that of the EEC in 1970, which was roughly 500 000 million dollars;<sup>3</sup>
- Latin American industrial production would represent a value of some 165 000 million dollars — a figure only 10 per cent lower than that of 184 000 million dollars shown by the EEC in 1970. Thus, the new Latin American level would be more than three times as high as the value of the region's manufacturing output in 1974;<sup>4</sup>

<sup>1</sup> See *Latin America: The new regional and world setting*, Cuadernos de la CEPAL, N° 1, 1975.

<sup>2</sup> *Ibid.*, p. 18.

<sup>3</sup> Dollars at 1970 prices, as in all the other estimates. The assumed average annual growth rate for the period was 6 per cent, which was that actually achieved between 1960 and 1974. The GDP of Latin America in 1974 was 222 000 million dollars.

- The supply of electricity in 1990 would be very close to 800 000 million kwh, that is, much larger than the EEC supplies in 1970, which amounted to 606 000 million kwh;<sup>5</sup>
- The gross value of output of machinery and equipment in 1990 would be some 138 000 million dollars — a figure higher than that of 126 000 million dollars recorded in 1970 by the EEC.<sup>6</sup>

I hasten to admit that these comparisons are open to all kinds of reservations, one of the most important, of course, being that we are comparing Latin America with a group of countries which has in the aggregate a smaller population and a much higher per capita income.<sup>7</sup>

However, these reservations in no way invalidate my basic aim, which is to illustrate the great change that took place in the dimensions and structure of the region's economic system.

Does the rehearsal of these facts mean that we are ignoring or underestimating the objections of every kind that have been raised with reference to the patterns of Latin American development, in particular its industrialization process?

My answer is an emphatic No!

<sup>4</sup>The industrial growth rate for the period 1960-1974 was 7.3 per cent. The same rate was assumed for the period 1974-1990.

<sup>5</sup>The rate of expansion was 8.6 per cent in the period 1960-1974, and the same figure is assumed for 1974-1990.

<sup>6</sup>The growth rate for the period 1960-1974 was 11.2 per cent, which is also assumed for the period 1974-1990.

<sup>7</sup>In 1974 the population of the EEC was only a little over 200 million and that of Latin America some 315 million, while per capita income in the EEC was estimated at about 2 800 dollars, as against Latin America's 750 dollars (at 1970 prices).

Indeed, I would go even farther and say that we agree with most of the criticisms levelled at the regional set-up and its economic and social features.

### *A critical review of Latin American experience*

The truth is that CEPAL, as many of its documents show,<sup>8</sup> has long been calling attention to the pitfalls, flaws and lacunae in the process of change which began or gained momentum in Latin America after the Great Depression and particularly from the Second World War onwards. But this did not prevent the Commission from becoming involved with the process in question and supporting its fundamental aims.

It was at the meetings of this Commission that stress was first laid on the limitations and dilemmas of import-substituting industrialization, and the need was urged to break down the watertight compartments of national markets in order to project their transformation into the regional and world contexts.

It was likewise at these meetings that initiatives were taken up to broaden and diversify the export base, thus pioneering action by the Third World to obtain fair treatment and ready access for their exports to the central economies.

Here, too, it was that emphasis was placed on the need for external co-operation and financing in order to secure an adequate flow of foreign funds and to step up investment and the transfer of technology, although at the same time attention was drawn to the risks

<sup>8</sup>Among the most recent, see *Problemas de la industrialización substitutiva* (Cuadernos de la CEPAL, N° 14), which contains a selection of CEPAL's expressions of opinion on the subject over the last twenty-five years.

attendant upon excessive or fruitless borrowing, and upon foreign control of national assets and decisions.

Neither were we Latin Americans indifferent to the glaring evidence of the inefficiency and waste which disorganized, parochial and over-protected industrialization can entail. In response, we did not postulate the establishment of a mythical market with perfect conditions of competition as the supreme means of deciding the allocation of resources, but rather advocated the disciplining and control of market forces through rational planning. Let me recall that this alternative has become one of the recurring themes of the current debate on economic policy in the industrialized capitalist countries, in several of which, moreover, it is already a long-standing practice.

Lastly, and most important of all, we have not forgotten that in the final analysis development can only be judged by the degree and manner in which the basic needs of the population are satisfied; and while it certainly is important to make a realistic appraisal of the social groups that take part and share in growth, never must we neglect those left out, who are unhappily so numerous. This has been the focus of CEPAL's work in the field of research, diagnosis and proposals relating to income distribution.

In short, the question I raised a moment ago may justifiably be answered in the negative. Objective recognition of the production potential built up in recent decades as a result of the region's development neither contradicts nor seeks to conceal the great shortcomings and frustrations which have accompanied the process or are inherited from the past.

Far from it. Our intention in stressing the magnitude and nature of this poten-

tial is by no means to rush to the region's defence, but rather to engage in constructive criticism.

In the first place, recognition of its existence is of obvious importance with respect to a controversy which has once again begun to rage of late on the subject of Latin American industrialization. Without going into details, it may be recalled that some arguments have been carried far beyond the analysis and verification of the negative features of the process, and have called in question its very *raison d'être*. Some have regretted that the open, liberal model of the primary-exporting economy has been abandoned, or have deplored the fact that Latin America has followed its present path instead of opting for patterns which are to be found in other regions.

These schools of thought appear to disregard the historical and spatial context of the problem.

Moreover, despite frustrations and disappointments, and sometimes excessive protectionism, Latin American industrialization is now a reality. And it is a reality that forms the basis for progress which has reached many social sectors.

*The elimination of critical poverty: a priority task now practicable*

Our intention to formulate positive criticism, however, is directed especially towards the attainment of another objective of more decisive significance, which is the natural corollary of the foregoing testimony to the production potential created by the regional effort.

I must repeat that if I have dwelt on its existence I have done so neither in a defensive spirit nor from a propensity to optimism, but because it enables me to reaffirm a point made in my statement

in Trinidad and Tobago: namely, *that this production potential is the condition which allows and obliges us to reach goals that may have been difficult or impossible to make for in the past but are so no longer. Today they are objectively and materially attainable.*

At the head of the list, as I indicated earlier, is the substantial alleviation or elimination, within a reasonable time, of the critical poverty in which a considerable proportion of the Latin American population still lives.

The new regional economic situation, the 'critical mass' accumulated, mean that this war on poverty can now be waged, as I shall go on to demonstrate. It must be waged for manifest reasons of justice: the deprived sectors of the population have borne the brunt of the arduous collective effort made in order to create the production potential.

Furthermore, concern for this problem currently forms the ethical or moral backdrop of a much wider conflictive dialogue, between the developed North and the developing South. What is being discussed both at the world and at the regional level is *if and how* it is possible to improve the living conditions of those who are excluded from the advances and benefits attendant on the revolution of technical progress.

It is worth while to bear in mind some relevant round figures at the world level, so as better to appreciate the specific situation of Latin America in this supremely important area.

The World Bank has been consistently concerned with this problem, thus contributing to the efforts made to identify and come really to grips with the situations of critical poverty confronting mankind.

Some unofficial estimates have been issued respecting the investment that

might be needed to bring about a significant improvement, within a decade, in the situation of the 750 million people (650 million in rural and the remainder in urban areas) whose per capita income is currently under 200 dollars a year.<sup>9</sup>

As may easily be foreseen, the investment required to provide this huge mass of people with acceptable minimum standards of nutrition, drinking water supplies, education, public health and urban housing is enormous. It is calculated at between 110 000 and 125 000 million dollars, or between 11 000 and 13 000 million dollars annually for a decade.

It should be noted that this covers only the limited and partial —although not unambitious— goal of establishing the infrastructure, both material and human (as in the case of teaching staff), on which to base a programme and with which to put it into effect. Thus no allowance is made for the sizable operating and maintenance costs stemming from the investment.

These vast sums appear in a different light, however, when it is recalled, for instance, that world expenditure on armaments *in a single year* —1975— amounted to some 300 000 million dollars. Many other comparisons may be drawn —with the total product of the developed countries, with the current level of investment or of specific forms of mass but non-essential consumption, etc. In every case the conclusion must be reached that the above requirements, while great, are within the domain of reality rather than utopian. I am speaking, of course, strictly from the angle of economic feasibility, and without consi-

<sup>9</sup> See Nahbub Ul Haq, *The Third World and the International Economic Order* (lectures delivered in Georgetown, Guyana, November 1975), Georgetown, Ministry of Foreign Affairs.

dering the political obstacles which may certainly constitute a major handicap. But this, I would emphasize, does not detract from the historic importance of the point I have made: *from the standpoint of the development of productive forces, it would seem that human society as a whole, irrespective of the barriers between nations and classes, has potentially passed beyond the threshold of what has been called the realm of necessity.*

This generalization is particularly true of a Third World region such as Latin America, whose per capita income and production potential are considerably higher than those of Asia or Africa.

#### *Income redistribution and development style*

To clinch this assertion it is worth recalling the conclusions reached in a recent study.<sup>10</sup>

If the annual growth rate were to remain the same as in the past—about 6 per cent—, the poorer half of the population of the region could satisfy its basic food and clothing needs within a decade if, by means of wage increases and/or social security benefits, its share of total income were raised from approximately 14 to 20 per cent.

*What would be the primary requisite for attaining this modest but vitally important goal?*

The share in total income of the top 10 per cent in the income scale would need to be reduced from 44 to 41 per cent, and that of the middle strata from 42 to 39 per cent. It should be noted that this would not prevent the *absolute*

income of these groups from rising during the period considered.

It may be asked, however, whether these estimates and others of the same kind are not somewhat naive. Do they not give a misleading impression of the scope and complexity of the undertaking?

Such possibilities and risks certainly do exist. We must therefore combine a realistic appreciation of what present circumstances have placed objectively or materially within our reach with a more detached and clear-sighted awareness of the major obstacles to attainment of the objectives considered viable. But this mental exercise must be accompanied by a passionate feeling of involvement with the task ahead.

While pondering these questions, I came across some apposite remarks by a leading authority on international development problems: Mr. Maurice Williams, Director of the OECD Development Assistance Committee. In a recent article he wrote:

"From years of working in development, I have found that one needs to have a cautious optimism and a towering impatience. Optimism, a belief in the prospect of social and human progress is what development is all about. Yet so much is wrong, people's needs are so great and change for the better depends on constant effort. Consequently, a towering impatience with the slowness with which prospects for progress are realised is also necessary for development work."<sup>11</sup>

<sup>10</sup> See Aníbal Pinto, "Styles of development in Latin America", CEPAL Review, No 1, p. 125, table 11.

<sup>11</sup> See Maurice Williams, "The emerging new realism in North-South co-operation", OECD Observer, No 84, November-December 1976.

*Cautious optimism. Towering impatience.* These are two fundamental ingredients in the approach to the issue we are considering.

I wish to repeat, then, that we should be the last to underestimate the tremendous difficulties of many kinds which lie between the objective possibility of reducing or eliminating critical poverty in the region and a policy to convert this potential feat into reality.

We have no wish to cherish fond illusions.

Indeed, we could not do so, for apart from the political unknowns affecting the issue—which it is not for me to analyse here—we do know that the undertaking involves much more than an old-fashioned redistribution operation in the so-called populist style.

As was stated long ago by the well-remembered Jorge Ahumada, it is not simply a question of building a few more dwellings, a few more schools and a few more hospitals, or of transferring part of the national income, through social services, to people whose basic needs remain unsatisfied.

Everything achieved through these channels is worthy and useful, but even in the best of circumstances it will be insufficient, particularly in the long-term perspective, and when the intention is to bring about *permanent, irreversible* and *cumulative* effects.

The endeavours referred to must be accompanied by others, just as strenuous and more complex, in order to transform the prevailing development style in such a way that the production system may be geared in greater measure to supplying the basic wants of the broad masses. The alternative—clearly undesirable—is that it should continue to give overwhelming

priority to meeting the increasingly varied demands of a minority which is striving to reproduce the consumption patterns found in the countries where average income levels are high.

It would be short-sighted to deny that there are a good many countries in which the numbers and proportions of their inhabitants incorporated in this process have risen over the past decade. But neither should we forget that a major part of the population was inevitably excluded from it, and that even in the case of some groups it has apparently benefited, it has taken place at the cost of a deterioration in essential consumption and services, both public and private.

What is needed, then, is a substantial change in the use made of the economic surplus, which is already considerable in Latin America, as witness the investment rates attained and the conspicuous and wasteful consumption observable in the region.

This reallocation of resources involves, first and foremost, a radical change in the conditions of work and productivity of the many who vegetate in activities as yet untouched or barely reached by technical progress. In many cases the process will mean shifting manpower from areas in which its presence is not justified to places where opportunities for better-paid and certainly more productive employment must be opened up.

It will be very difficult to initiate and subsequently consolidate this process if it is not at the same time supported and reinforced by progressive changes in the structure of income distribution. Especially, although not exclusively, in a market economy, a transformation of this kind is a *sine qua non* for achieving the advocated reallocation of resources.

*The responsibility of the State and the role of planning*

The magnitude and complexity of these tasks—which I am merely outlining in the most summary fashion—are such that no ideological significance can attach to the elementary conclusion that they can be tackled only with the decisive and enlightened participation and even leadership of official policy—that is, of the State—and that such participation necessarily calls for the use of some form of overall planning.

This conclusion does not stem from a doctrinaire urge, but from the very nature of the problems facing modern society, and particularly those of the kind encountered in our region. Such an assertion obviously does not contradict but rather reinforces the widespread concern displayed over the definition of the responsibilities of the State, its relations with domestic and foreign private enterprise, suitable planning methods, and other related subjects.

Indubitably, these are far from having been adequately clarified as yet. And the more comprehensive and demanding the objectives pursued, the more important any effort in this direction becomes.

To conclude this part of my statement—and aside from the legitimate reservations and objections which may be made with respect to my opinions in this connexion—I should like to reiterate my initial argument that the expansion of the region's productive potential makes it possible and indeed imperative to take action aimed at drastically reducing the critical poverty which offends the moral conscience of Latin America.

This may be an appropriate moment to recall some words of Alexis de Tocqueville which were written with reference to the French Revolution, but which aptly epitomize what many of us feel about the question now under discussion:

“Although patiently endured as long as it seems inevitable, suffering begins to be intolerable once men realize that it can be eliminated.”

The under-privileged have now awakened, and with good reason, to the fact that their condition not only must out also *can* be changed. It is unfair to shirk facing this truth; and it is unwise to underestimate the force implicit in this awareness.

*B. The problems posed by the growth of the population and of the labour force*

The reasons for sponsoring a development policy whose central purpose is to satisfy the basic needs of the masses, and therefore to improve their conditions of employment and remuneration, are not solely ethical.

Facts and forecasts tell us quite clearly that unless we proceed in this

way we shall run into increasingly grave and conflictive problems. This becomes quite clear when we consider a subject which is closely linked with the one we have just discussed: namely, the challenges and problems stemming from the growth of the population and of the labour force.



*Population and labour force: a forward look*

Recent CEPAL studies made in connexion with the programme on development styles have estimated probable population and labour-force trends over the next few decades.

This is of course a controversial issue, which, moreover, varies markedly according to the particular conditions prevailing in individual countries.

I do not propose to discuss the conflicting views on the subject, but I do want to take as my starting-point an objective and non-controversial fact of vital importance for the matter which is of concern to us here.

This basic fact is very simple: *whatever the policies adopted in the future with respect to population growth in Latin America, the total number of inhabitants of the region will continue to increase rapidly up to and beyond the end of the century.*

Even assuming that there is a drastic fall in the rate of growth of the population—i.e., that it drops by half (from 2.9 per cent to 1.4 per cent) between 1970 and the end of the century—the population of Latin America would in any event number more than 500 million by the year 2000. Incidentally, if the 1970 rate of increase were maintained—which is admittedly improbable in view of the tendency towards a moderate decline in the rate—the total number of inhabitants is likely to reach 720 million by the year 2000.

Whatever the final outcome—and it will depend on a series of factors which cannot be examined here—this trend will certainly cast some doubt on the current notion of Latin America as an underpopulated region well-endowed with resources in relation to its popula-

tion, although its situation in this respect will continue to be relatively favourable in comparison with that of such high-density areas as India, Japan or even Western Europe itself.<sup>12</sup>

On the other hand, it is true that a population of the size indicated would represent a potential market which, taken as a whole, could serve as a broad base even for modern industries with large economies of scale.

The outlook for the labour force is even more striking. Owing to a number of factors, such as the high growth rates of the past few decades and the age structure of the population, the number of persons seeking employment will increase at an annual rate of 3 per cent, or slightly more, for several decades. In this respect, it should be noted, the differences between countries are less marked than they are in the case of the population as a whole. Estimates relating to a large part of the region (20 countries) indicate that the number of economically active inhabitants is likely to rise from about 97 million in 1975 to approximately 252 million in the year 2000.<sup>13</sup>

For purposes of comparison, it may be recalled that the rate of expansion of the labour force in the European countries between 1950 and 1970 was well below 1 per cent per annum, and that in some cases it even decreased in absolute terms. In Japan and the United States higher growth rates were recorded (2 per cent and 1.6 per cent, respectively), but

<sup>12</sup> In 1970, the population density in Latin America was 30 persons per square kilometre, as against 180 in India, 290 in Japan, 155 in Western Europe, 22 in the United States and 11 in the Soviet Union.

<sup>13</sup> See CEPAL, *Long-term trends and projections of Latin American economic development*, E/CEPAL/1027, March 1977.

they were considerably lower than those found in Latin America.<sup>14</sup>

*The challenge of providing productive employment*

The figures given show beyond all doubt that in the foreseeable future our region will not only have to increase its output substantially and continually in order to satisfy the needs of a growing population but will also have to create employment opportunities for an even more rapidly expanding labour force. It should be emphasized that the second requirement must be fulfilled if the first is to be met.

There is no need to call attention to the magnitude of this challenge. A little information on the increase in the labour force in some of the large industrialized countries has been given simply in order to illustrate the differences in historical situations in this respect and thus show how much harder in our countries is the task of productively absorbing the population increments. As has been said more than once, the problems of creating employment—which are difficult *per se* in the industrialized economies—would have been considerably greater if they had been compounded by labour force growth rates like Latin America's, which are several times higher.

This situation largely accounts for what has been termed the inadequacy of the regional system to generate the

necessary employment opportunities, and it cannot be disregarded in any study of the subject.

To cope with it, as we all know, two paramount and concomitant requisites need to be met: a faster growth rate and higher proportions of investment.

The region's performance in both respects has not been unsatisfactory, especially between the end of the 1960s and the beginning of the 1970s. Sustained rates of economic growth above 6 per cent a year, and coefficients of investment amounting to more than 20 per cent, are ample evidence of the fact.<sup>15</sup> To maintain and, as far as possible, intensify this trend is clearly essential.

However, the problem is not entirely one of tempos and rates! The means, however legitimate and necessary they may be, must not be confused with the ends.

Such confusion is the essential fault found with 'spurious developmentalism'. And there are few today who would not endorse the criticism, either in the central countries or, even more understandably, in the countries of the periphery.

The first objection has to do with a question that has already been considered, and which we have reiterated with some insistence: growth, however essential, is not enough; it is equally, or even more, important to decide *whom this growth is for*.

I shall not harp on this issue, but I will point out that it is inextricably bound up with another of the same kind: *how we should grow*, that is to say, the development style to be adopted.

If we take as our point of reference the difficult problem posed by the

<sup>14</sup> During the period indicated the annual growth rates of the labour force in the countries referred to were as follows: Austria, -0.4 per cent; Federal Republic of Germany, 0.9 per cent; Norway, 0.5 per cent; France, 0.4 per cent; United Kingdom, 0.5 per cent; Spain, 0.5 per cent; Italy, -0.2 per cent. Source: *ILO Yearbooks*, census data.

<sup>15</sup> See CEPAL, *Long-term trends and projections of Latin American economic development*, *op. cit.*

increase in the labour force, we can easily agree that its solution does not depend only on achieving satisfactory growth rates and adequate capital formation levels. These efforts must also lead to an apportionment of resources involving access to better income and productivity conditions for the *entire* active population—due allowance being made, of course, for differences inherent in the nature of the technical progress achieved or the global development strategy adopted.

In contrast, if the process does not follow these lines and is not supported by income redistribution policies, the spontaneous trend will be towards a familiar threefold concentration: in the modern sector, comprising the large enterprises (private—both domestic and foreign—and public); in the social groups linked to this sector; and in the areas and towns forming the focal points of that powerful centripetal movement.

I repeat that in many cases this form of growth has meant radical changes and notable advances, particularly towards establishing a far from negligible production potential. But it is also evident that it can hardly, within a reasonably short space of time, meet the requirements in respect of the basic needs of the majority and the productive absorption of the labour force.

#### *Where and how to absorb the labour force*

All the forecasts suggest that the tendency for the active population to move into industrial activities—in the broadest sense of the term—and into services will continue in the future. Latin America's experience in this regard is not at variance with the trends observable throughout the world, whatever the institutional system adopted.

But our own experiences in the past and others elsewhere—whether positive or frustrated—clearly show the dangers to be confronted and the conditions to be fulfilled.

The first factor to consider is that the relative or absolute decrease in the labour force in the primary sector must be accompanied by intensive dissemination of technical progress in these activities and particularly of techniques designed to increase the productivity of the land. Otherwise, rural poverty persists or increases, agricultural supply shortages are aggravated, and the exodus or expulsion of rural population to the cities may be accelerated to an excessive degree. Gradual changes in the structure of ownership would seem to be a necessary complement to this policy in most countries.

In so far as the objectives indicated are achieved, the trend towards the transfer of labour to other sectors will be moderated, but not halted. This relative retention of manpower will also mean increases in agricultural productivity and supply, and higher incomes for those who work in mining and agro-industry.

The second factor has to do with industrialization strategy, as industry-related activities will have a key role to play in the creation of employment opportunities.

In this area the main objectives would seem to be the priority development—in quantity and productivity—of branches connected with the satisfaction of essential needs; broadening of the supporting platform constituted by the basic industries producing capital goods and inputs; and the projection of these activities into the regional and world ambits. Naturally, these objectives will assume different forms and combinations in each country.

*Metropolization and regional development*

Lastly –to touch only upon what I believe to be of paramount importance—there is the great challenge of urbanization, of the growth of the towns, where an increasing proportion of the population will go, or will remain, whether we like it or not.

I shall not attempt to cover all this very broad and complex field, but will confine myself to highlighting two subjects which are of particular concern to our countries.

One of them is what we might term the spectre of metropolization or the rise of the megalopolis. In varying degrees and with varying characteristics, this phenomenon, with all its serious and well-known implications, is looming up in a great many countries.

Although the trends towards over-concentration in the towns are likely to diminish in the future, as has occurred in the case of other huge cities of the industrial society, such as New York, London and Paris, this can by no means constitute any consolation or any justification of passivity in the face of such a situation.

The first and most general reason is that the consequences of the process are already too acute and harmful in terms of urban pollution, congestion and deterioration in many dimensions which are too well-known to need describing.

The second is that the process of metropolization represents a bottomless pit in that it absorbs increasingly copious resources, and their exponential growth, instead of solving the problems in view, reproduces them on an ever-larger scale. There is no doubt that the social opportunity cost of this investment is immense. These cumulative demands substantially reduce the margin of resources which

could be applied for other purposes with high social and economic productivity.

This is not the place to review the policies that aim at making a direct attack on urban hypertrophy. They pertain and are giving substance to specific disciplines concerned with the environment and human settlements, which are already being practised in many countries and which have been incorporated into the work of the United Nations.

However, I should like to note the fundamental importance in this respect of an approximation which, even if indirect, is of great efficacy as a medium- and long-term expedient: namely, the energetic and persevering implementation of policies designed to promote more balanced regional development.

Both Latin American and extra-regional experience is eloquent in this connexion. In those of our countries whose historical evolution and/or deliberate policies have led to the proliferation of dynamic urban centres, attempts to counteract impulses towards exaggerated monocentricism have been more viable. This has also made it possible to absorb the demand for jobs in a more balanced fashion and at a lower cost.

In this connexion I will venture a reminder that both CEPAL and ILPES have contributed significantly to the knowledge of matters connected with regional diversification.

*Opportunities in the services sector*

Lastly, I should like to refer to another much-debated subject of obvious significance for the question of employment, namely, the role of the services sector.

For many and varied reasons, which have already been extensively analysed, these activities have expanded consider-

ably and prematurely, as was pointed out some time ago in CEPAL studies. In contrast to what occurred in the industrialized economies, the phenomenon did not arise as a natural consequence of the dissemination and intensity of technical progress in the goods-producing sectors but, on the contrary, as a result of the inadequacy of that process. As was once said, for us it is not so much a symptom of development as an indicator of under-development.

At all events, it constitutes a situation built up over the years which is difficult to change radically, although more vigorous and better-oriented growth may alter the distribution of the labour force in the future.

Even with these limitations, there is indubitably broad scope for action to bring about internal changes in employment in the services sector, in the sense of increasing the more skilled or socially meaningful occupations in preference to those which only represent forms of disguised unemployment.

Urban development itself, of course, entails a greatly increasing number of jobs in both the public and the private sectors, which can be filled by means of this qualitative change in the structure of

services. Thus, what today may appear to be a burden, tomorrow may prove to be of unquestionable value.

Given that investment per employed person is much lower than in other sectors, the above process depends primarily on a systematic mass effort in the field of education and training.

Once again it should be noted that there is nothing utopian about this prospect. In fact, it corresponds to what has actually occurred, both in the developed and in some of the developing countries. Among the latter there are striking examples of what can be achieved—in relation both to the major goals of the community and to the specific objective of absorbing labour—by giving priority to the sustained expansion of the educational and health services, as well as those concerned with recreation, sport and culture, conservation and security, and many others of similar utility.

In short, while the challenge of the employment problem is immense, there seem to be clear possibilities of confronting it if it is placed in the context of a development style whose primary goal is the satisfaction of the cardinal needs of society.

### *C. The external economic relations of Latin America*

I remarked earlier that a second major issue raised by the Latin American economic situation has its origins in the nature of the region's links with and position in the international economy. I wish, therefore, to review briefly the problems confronting us today and the objectives and tasks relating to the establishment of a New International Economic Order.

#### *Improvement in the defensive capacity of the Latin American economy*

First, I should like to refer to my initial assertion that Latin America has shown in recent years a greater capacity than in the past to face an external crisis of such intensity and duration as that which is still continuing, somewhat abated but as yet unresolved.

The unquestionable recorded facts are that in 1974 Latin America was still achieving vigorous growth while the central economies were sliding towards the worst and most extended recession since the Great Depression of the 1930s; that in 1975 the total product of the region increased once again —although at a considerably lower rate—, while in the industrialized countries the product fell that year in absolute terms; and that in 1976, in the great majority of Latin American countries, there was yet another boom in economic activity.

Of course, this does not mean that the economic evolution of our countries has become independent of that of the central economies, whose contraction during the recent recession was partly due to deliberate economic policy designed to restore external equilibrium and to curb inflation.

However, neither can there be any doubt that the recent performance of the economies of the region has contrasted markedly with the much more unfavourable results they recorded in past world economic crises which were of less intensity and shorter duration than that of 1974-1976.

I wish, nevertheless, to stress that my postulate has limited connotations. First, it rests on an irrefutable contrast between our countries' critical vulnerability in the past and their clearly different position in that respect at present. Secondly, it refers to a limited and specific experience —to what happened between 1974 and 1976— in connexion with a specific external problem. It does not, therefore, imply any forecast of what might occur at other times and in other circumstances.

This clarification, however, does not detract from the importance of the fact in question, which in my opinion is considerable.

To what factors should we attribute this improvement in the region's capacity for adapting itself to meet external challenges?

In my press conference last December I cited what I thought to be the chief of them, and I hope you will bear with me if I outline them briefly again. They are as follows:

- The greater structural solidity of the economies of the region, due in the main to the diversification of its production system by virtue of industrialization;
- The more diversified composition of exports and, in particular, the increase in exports of manufactures;
- The domestic potential for producing intermediate and capital goods which could previously be obtained only through imports;
- The greater access to international financing, especially of a private nature, even at times of acute disequilibrium in the balance of payments of some countries;
- The limited, but significant, transformation of agriculture, and particularly of an appreciably dynamic modernized sector.

Furthermore, there is the fact —just as significant as the aspects mentioned— that in most cases Latin American economic policies have taken pains to reconcile the balancing of external accounts with the objectives of maintaining the growth rate and level of employment and controlling inflation. Naturally, these purposes have not all been fulfilled simultaneously or to the desired extent, but there have rarely been deviations which have jeopardized the general policy scheme. This undoubtedly testifies to the greater maturity attained by the decision-making and technical groups in the global concept of

the task that economic policy implies and in the management of its various instruments.

Does this mean that Latin America has overcome its main problems in relation to the external sector?

Most certainly not! This indisputable reality is not in contradiction with the fact that old weaknesses persist, new ones have emerged and very serious uncertainties have arisen regarding the incorporation of the region into the external scenario that is taking shape.

In considering these questions it is useful to bear in mind some general aspects that are indubitably of supreme importance.

One of these is linked with what has been called the 'internationalization' of the Latin American economy.

I shall try, then, first of all to present concisely some of the main background material that should be taken into account when analysing this process, and next to consider, equally briefly, the problems and tasks deriving from it.

#### *The internationalization of the Latin American economy*

Because of the rapid expansion of commercial and financial transactions since the closing years of the past decade, this phenomenon has been identified with the increasing openness of our economies, i.e., with a development of the international division of labour in relations between Latin America and the rest of the world, just as has occurred in other areas, and particularly in the case of the central and the socialist economies.

While this trade and financial expansion of recent years certainly did take place, it diminishes in significance and assumes a different guise if it is viewed in

a longer-term perspective and internationalization is considered firstly from the angle of foreign trade, then from that of external financing, and lastly from that of the role played by the transnational corporations.

#### *Internationalization from the angle of foreign trade*

Let us begin with a definite fact: in recent years Latin America has achieved a praiseworthy degree of openness to the exterior which means that it has finally set out along the road to an industrial export trade, in some cases with notable success.

On the other hand, consideration of export and import coefficients in relation to the region's total product at the beginning of the 1950s, i.e., more than 25 years ago, leads to the conclusion that they were higher then than in 1972-1974, the recent phase of maximum import-export expansion, since the coefficient of these transactions, taken together, amounted to 13.3 per cent of the regional product in 1950-1952 and only 10.3 per cent in 1972-1974. This decrease in the degree of openness to external markets was not due to a steady downward trend between the two periods considered, however, but reflects the influence of two clearly differentiated phases. In the first of these—which lasted until about 1967-1968—the share of foreign trade in the product fell more or less continuously. This declining trend was subsequently reversed, but the recovery was not sufficient to bring about a return to the levels of the early 1950s.

It may be noted in passing that this trend obtained in most of the large and medium-sized countries, with varying degrees of intensity, but affecting Brazil—with its dynamic openness to the exte-

rior during the current decade— as well as Argentina and Mexico, Colombia as well as Peru. In contrast, it by-passed the Central American countries as a whole, together with a few South American economies, as their export and import coefficients were higher in the 1970s than at the beginning of the 1950s.

To sum up, then, from the angle of trade transactions the so-called 'internationalization' of the Latin American economy is not in evidence throughout the region.

This phenomenon can be attributed to various factors.

The first and most obvious of these is that Latin American exports did not keep up with the growth of world demand for raw materials and foods. While the latter increased by just over 4 per cent a year between the beginning of the 1950s and the mid-1970s, the volume of Latin American exports of primary commodities grew at an annual rate of only 3.8 per cent. Contributory causes were the greater absorption of such products by domestic demand, the return of traditional suppliers to the world market after the Second World War and the appearance of new suppliers, and last, but not least, the scant emphasis generally placed by economic policies in the 1950s and part of the 1960s on the expansion of exports of raw materials and foodstuffs.

Another obvious fact is that until about 1965 the domestic product of the region increased more rapidly than the volume of trade. Although, as already mentioned, the rate of expansion of the latter subsequently rose, the growth rate of the product did so too, albeit to a lesser extent.

Primarily, however, the trend described stemmed from the far-reaching change in the structure of world trade.

The share of manufactures climbed from 44 per cent of the total in 1950 to more than 63 per cent in 1973 (that is, before the substantial rise in the price of petroleum), while the proportion of world exports represented by food and raw materials fell from 46 per cent to 24 per cent over the same period.<sup>16</sup>

These are unquestionably radical changes, which, while accounting for the increase in the industrialized countries' share in world trade, at the same time constitute the fundamental cause of the decline in the proportion corresponding to those regions and countries which, for various reasons, could not keep up with the process to the same extent.

As regards Latin America, the increase in industrial exports (whose contribution to total exports rose from around 3 per cent at the beginning of the 1950s to some 15 per cent in recent years) was not sufficient to avert the reduction of the region's share in international trade.

#### *The other and more problematical form of internationalization*

Although the development of trade transactions does not confirm some of the assumptions made about the internationalization of the Latin American economy, it is none the less true that the term can justifiably be applied in other connexions, although in doing so we find ourselves on thornier and more contentious ground.

Indubitably, Latin America has become 'internationalized' with respect to its financial ties and to foreign participation in the ownership and manage-

<sup>16</sup> See CEPAL, *The economic and social development and external relations of Latin America*, E/CEPAL/1024.



ment of a considerable proportion of what are among the region's most dynamic economic assets.

A clear sign of the first of these phenomena is to be seen in the considerable variations in the deficits on current account and in the amounts of the external debt that correspond to the non-oil-exporting countries. The average balance-of-payments deficit on current account of these countries rose from just over 1 500 million dollars a year in 1965-1970 to a little over 4 000 million dollars a year in 1971-1973, jumping to nearly 14 000 million in 1974-1976.

For the countries in question, the officially guaranteed external debt (not including commitments with the International Monetary Fund or loans for terms of less than one year) increased from 8 700 million dollars in 1965 to 42 000 million in 1975. Credit provided by private international banks, for its part, soared from some 2 500 million dollars in 1965 to about 25 000 million in 1975, and continued to rise rapidly in 1976, exceeding 30 000 million dollars by the middle of the year.

In short, all in all the region's total external debt amounted to over 70 000 million dollars by 1976. It is worth recalling that in 1969-1970 the corresponding figure was little more than 23 000 million.<sup>17</sup>

The magnitude of these figures and the implied differences from comparatively recent situations speak for themselves, and have rightly aroused concern both within Latin America and abroad.

To assess the position properly, however, a number of important circumstances must be taken into account.

<sup>17</sup> See CEPAL, *The economic and social development and external relations of Latin America*, op. cit.

One of these is the difference in the situations of the individual countries, above all where the oil-exporting as against the non-oil-exporting countries are concerned. Within the latter group, too, the disparities are substantial, so that the average figures for the region as a whole are of only relative validity. Even so, it is useful to note that neither the percentage relation of the external debt to the total product nor that of interest and amortization payments to the value of exports has risen excessively in the last few years.<sup>18</sup>

Another factor to bear in mind is that in several countries, and particularly in some that carry great weight in the area, where the debt grew most rapidly, the trend followed was largely determined by their effort to maintain import levels and even build up stocks in the unsettled years of 1973-1975. Generally speaking, this led to a rise in the rate of investment and external saving, which unquestionably helped to lessen the effects of the fall in external demand on growth rates. In other words, the higher level of external indebtedness was an alternative to the orthodox solution of seeking external equilibrium by restricting domestic development.

In addition, due importance must be attached to the fact that this greater flow of credit not only represented an example of the recycling of the petrodollar surpluses to the region, but also did much to stimulate the exports of the industrialized economies, and helped them to redress their balance-of-payments situations.

<sup>18</sup> The first of these relations was about 18 per cent in 1974-1975 (the same as at the beginning of the decade), while the second rose from roughly 23 per cent in 1965-1973 to 28 per cent in 1975. See CEPAL, *The economic and social development and external relations of Latin America*, op. cit., tables 19 and 20.

### *Internationalization and the transnational corporations*

Another unmistakable sign of internationalization in Latin America is the presence and growth of transnational corporations. This has meant, among other things, a substantial enlargement of the area of foreign ownership within our national systems and the creation of links of dependency between much of the productive, commercial and financial activity of the countries and a matrix of big corporations whose behaviour is governed by a world outlook.

A few figures will suffice to give a rough picture of their present strength in the regional economy.

According to a recent study, in 1975 the total value of sales in Latin America by United States affiliates amounted to 57 000 million dollars.<sup>19</sup> Taking into account the sales of European and Japanese subsidiaries – whose share has risen appreciably in recent years – the total may have reached 80 000 million dollars, almost double the value of Latin American exports in that year.

### *Latin America's new external relations: uncertainties and future tasks*

Given these factual aspects of the internationalization process, the question arises of what we can and must do in face of them: a question which is also closely linked with the positions Latin America must adopt in relation to the features of the New International Economic Order.

Let us therefore begin by studying various aspects of foreign trade policies, and then go on to discuss other questions

arising in connexion with external financing and the transnational corporations.

### *Problems and objectives of external trade policies*

As I have already noted, despite the spell of prosperity in Latin America's foreign trade which began in the second half of the last decade and came to its peak in the period 1972-1974, the share of external trade in the region's aggregate product was nevertheless smaller during that period than at the beginning of the 1950s.

This relative stagnation of the degree of openness to the outside world over such a long space of time clearly brings out one of the most striking distortions or contradictions in regional development. It derives from the contrast between the changes in the *overall structure of production* and those that took place in the *structure of foreign trade* and particularly of exports. Whereas in the former the changes were profound, and reveal a substantial modification of the 'internal division of labour' as a result of industrialization, in the latter the broad lines of the primary-exporter economy – in other words, of what Dr. Prebisch used to call the 'outworn scheme' of the international division of labour – are still maintained.

Generally speaking, this asymmetry means that the Latin American economy is still not reaping all the benefits inherent in the progress and modification of the international division of labour, as the dynamic economies of the capitalist and socialist worlds have done.

From another point of view, more specific and more significant for everyday economic life, the distortion in question is reflected in another well-known feature, namely, the asymmetry between

<sup>19</sup> See *Survey of Current Business*, February 1977.

the dynamics of exports and that of imports. This aspect of the problem has been brought out by CEPAL from the time of its earliest studies.

The position is that the dynamics of exports is influenced by a number of circumstances, ranging from the lower income-elasticity of demand for most primary commodities to the restrictions hindering their access to the central economies. Demand for imports, in contrast, is spurred by other factors which include the nature of Latin American development itself, and the higher income-elasticity of demand for goods which incorporate spearhead technology or are associated with the spending of the higher-income groups.

In practice, this distortion —underlying which is the structural asymmetry to which I referred before— makes itself felt in the long-standing tendency for import demand (in normal development conditions, unaffected by restrictive policies) to outstrip demand for exports. This adversely affects the trade balance and, as an all-too-familiar corollary, deficits on current account and the problems of indebtedness either make their appearance or grow worse.

These aspects of the situation testify to the serious deficiencies from which the Latin American trade system suffers in its dynamics and in its very structure. At the same time, they point to the key tasks incumbent upon external trade policy in our countries.

Naturally, on this occasion I can only put forward a few basic ideas respecting trade policy. Before doing so, however, I should like to stress that any success the Latin American countries may have in overcoming the handicaps affecting their external trade will not only depend on the rationality and coherence of their economic policy but

will also be conditioned decisively by the speed with which progress is made towards the establishment of a new international economic order and by the specific forms it takes.

Leaving aside for the time being these aspects of the problem —I shall deal with them in the final part of this address— I should like first of all to consider some major questions linked to the development of exports.

It seems obvious, of course, that the real possibilities of a genuine 'internationalization' of trade —in the sense of taking greater advantage of the benefits of the international division of labour— will increasingly depend upon the degree of dynamism that can be infused into industrial exports. Everything suggests that trade in such products will continue to grow more rapidly than aggregate primary commodity trade. To some extent, then, the progressive 'opening outward' of the economy and the maintenance or enlargement of Latin America's share of world trade are synonymous with, and a consequence of, the results achieved in that field.

Latin America has made steady progress in this area during the past decade, and as a result most of the countries of the region have considerably augmented and diversified their exports of manufactures.

Despite this sizable increase in exports of industrial products in recent years, it must be remembered that sales of primary commodities still represent about 85 per cent of total Latin American exports. Furthermore, the range of commodities exported by the countries of the region today is much wider and more diversified than in the past.

These are fundamental and decisive circumstances. Undeniably, the performance of total Latin American exports

will continue to depend for quite a long time on the course followed by sales of raw materials and foodstuffs, because of their great preponderance in the whole. The maintenance of domestic policies which do not discriminate against the production and/or export of primary goods but, on the contrary, promote their expansion and diversification is consequently, in most of our economies, an essential requisite for the success of a programme aimed at overcoming external restrictions.

Together with these requirements of an internal nature, however, there are others of equal importance which can only be met if the Latin American countries co-ordinate their action and a decided spirit of co-operation prevails in the international economic community. Such a spirit is essential, for example, in order to reach agreements designed to diminish the marked and persistent instability in the international prices of primary commodities.

Concerted action by the Latin American countries, in its turn, is essential in order to ensure that their exports of raw materials and food are not subjected to discriminatory treatment on the large markets of the central countries. I must confess, however, that in this latter respect we cannot speak uninhibitedly. We demand that the centres should eliminate obstacles, but, except in a few cases, we have not been able to achieve this extensively and decisively in our own intra-regional trade. The boom in exports of Latin American manufactures to the centres during the final years of the protracted spell of prosperity which the latter enjoyed during the post-war period perhaps created the illusion that the only true way of escape from the external restrictions on our economies lay in that direction.

Nothing could be further from my mind than to underestimate the decisive importance of this increase in Latin American sales of industrial products to the central countries. However, when evaluating the prospects of these exports, it must be remembered that there are great uncertainties regarding their growth in the next few years and also in the more distant future.

This is one of the reasons why we should not continue to neglect the great potential of intra-regional trade, which would make so valuable a contribution to solving the ever-latent problem of the external bottleneck. This potential is particularly important in the case of the dynamic industries which are indispensable for securing more vigorous and more autonomous development. Furthermore, the intensification of reciprocal trade, far from operating to the detriment of fuller opening-up to the world market, would tend to facilitate this after a time, since it would initially provide a broader market than the national one and thus make it possible to establish or expand industries which require larger scales of production if they are to be internationally competitive.

In addition, another priority objective is indubitably the diversification of our markets, for this would be a further element that would help to reduce the external vulnerability of the economies of the region. Accordingly, the important traditional trade, financial and investment links with the United States and the countries of the European Economic Community should be reinforced. It is also necessary that the region should continue its policy of expanding and intensifying its relations with the socialist countries. Secretariat programmes now under way with co-operation agencies in the socialist area

are pointing in this direction. We have also been stressing the need to strengthen our links with Japan. Lastly, we should deepen and extend the relations between Latin America and Canada. This country forms part of our regional community, and has been carrying out ambitious programmes of regional interchange and co-operation with exemplary determination and farsightedness.

*Reservations in respect of opening outwards*

Lastly, I should like to make two additional observations on export policy. The first concerns the need to make an adequate evaluation of the costs and benefits of the expansion of exports in order to ensure its efficiency. It would be desirable not to repeat in this sphere excesses such as formerly occurred in the import substitution process. As is well known, one of the legitimate criticisms of the process in question is that it was carried out in certain sectors and periods with the aid of over-protection, which in some cases led to an inefficient allocation of resources. Acceptance of this justified reservation regarding that feature of import-substituting industrialization should not, however, lead us to swing from import substitution at any cost to the promotion of exports at any cost. In other words, the argument relating to the distorting effect of a tariff structure with excessively high and heterogeneous rates is equally applicable to a system of excessive export subsidies.

My second observation relates to another aspect of the growth of exports and, more generally, of the greater openness of the economy. Obviously, in so far as exports expand rapidly and the export coefficient rises, imports of goods

and services and the import coefficient will also tend to increase.

Nevertheless, both for the rate of economic growth and, above all, for the development style or model, the *structure* or composition of the new imports is decisive. To put it in extreme terms: the greater capacity to import can be used either to purchase the machinery and equipment necessary to broaden the production base and raise the level of employment in the economy, or to bring in imports of luxury consumer goods which are only within the means of very small groups of the population.

The economic, and in particular the ethical and social significance of these two options is very different, of course; undoubtedly, too, intermediate situations arise in practice. It does, however, seem legitimate and necessary to ask whether some of our countries which have been successful in boosting their exports have taken sufficient advantage of the possibilities thus opened up for strengthening and diversifying the economy's production capacity and satisfying the needs of the majority sectors.

I fear that in not a few such situations this has not been the case, and the progress made in opening outward has been linked, in reality – and in the consciousness of large groups – with an intensification of the already glaring differences between the consumption patterns and life styles of the high-income strata and those of the underprivileged sectors of the population.

There have been exceptions, of course, and – much more important – this is in no way an inevitable consequence of a progressive opening-up of the economy. Needless to say, whether the greater capacity to import is used to promote development and social justice

or spent on non-essential consumption for the benefit of only a few ultimately depends on the capacity for domestic saving and the degree of equality of income distribution. This means that if full advantage is to be taken of the opportunities offered by the growth of exports for furthering economic and social development, it is indispensable to increase domestic saving likewise and to make income distribution more equitable.

Let there be no misunderstanding: these remarks on some of the adverse consequences which may stem at times from the expansion of exports are not arguments in favour of abandoning this course. On the contrary, I am firmly convinced that unless Latin America succeeds in steadily boosting its exports, it will have difficulty in achieving rapid and continuous economic growth. And this, I am also convinced, is an essential prerequisite—although of course not the only one nor sufficient in itself—for securing a significant improvement in the well-being of the groups which until now have not received an equitable share in the fruits of development.

My purpose in putting forward these views is to draw attention once again to *how* growth occurs and, above all, *for whom*: two aspects of the question which, as I have already pointed out, are closely and indissolubly linked with the development style or model followed and must be constantly borne in mind if economic growth is to be accompanied by greater social justice.

*External financing and transnational corporations: queries and suggestions*

I have already spoken of the nature and magnitude of the situation created by the new forms of external financing and by the presence of the transnational

corporations, which constitute the most obvious manifestation of the 'internationalization' of our economies. Although the two phenomena are closely linked, I shall consider them separately for the sake of clarity.

With regard to the first question, it is clear that future developments will depend mainly on the degree and way in which changes occur in the structure and dynamics of the export and import flows within the framework I have just sketched out.

The problems of financing and external indebtedness cannot be considered statically, but must be viewed in a dynamic context, together with the future evolution of the foreign trade of the countries of the region. If exports are growing dynamically and wise policies are being applied as regards the growth of imports, then the significance of a relatively high external debt and the needs for international co-operation in respect of financing will not be the same as in cases where the Latin American countries experience difficulties in achieving a favourable trade performance. In any event, however, international co-operation in the financial field is indispensable.

A few comments are also called for on some important specific aspects of our recent experience.

Although the role played by international private credit in alleviating the balance-of-payments troubles of recent times should not of course be underestimated, it is equally clear that the characteristics and current high level of participation of such loans raise questions which warrant reflexion.

The main problem concerns the compatibility of the normally accepted practices of private banks with the needs which external financing should satisfy

from the standpoint of development policies. This is a broad and complex subject to which I cannot do justice in the present statement. It may be asked, however, whether it is not necessary and possible to achieve adequate harmonization of these two points of view.

Thus a very delicate and potentially conflictive situation seems likely to arise unless efforts are made in good time to devise satisfactory compromise formulas that will protect and reconcile the legitimate interests of the parties involved.

Beyond this problem looms up another of a general character, to which we have long been drawing attention. Those that are considered to be 'middle-income' countries or areas have relatively little access to the sources of multilateral credit, and virtually none at all to concessional treatment.

I shall refer to this subject later on, but I should like to put forward two considerations here and now. First, this is one of the points that are of vital interest to Latin America in the reorganization of institutions and practices which the New International Economic Order is bound to involve. Secondly, stress must be laid on Latin America's need to continue being able to obtain financing from official sources, both national and international. This does not of course imply any failure to recognize the principle of justice which underlies the new orientation of the official financial institutions towards assigning a greater proportion of their resources to other Third World nations whose level of development is lower than Latin America's. Nor does it signify any underestimation of the contribution which has been and must continue to be made by private credit and investment.

Unquestionably, however, the region cannot come to depend entirely on these sources for its external financing. This is even more evident in the case of the smaller Latin American countries and those at an earlier stage of economic development, for which access to official sources of financing and 'concessional' loans is still a factor that determines their possibilities of achieving a higher and more sustained growth rate.

Lastly, I should like to revert to an aspect of the external indebtedness question which seems to me to be of fundamental importance: namely, the balance that must be kept between the amount and growth of the external debt and the value and rate of expansion of exports.

As I have already had occasion to mention, the aggregate size of Latin America's external debt has been increasing rapidly of late. Although this increase has to a considerable extent reflected the influence of world inflation in recent years, a rate has clearly been reached which would be difficult to maintain and which it would probably be wise to try to reduce.

Patently, however, the urgency and priority of this task are closely linked with the intensity of export growth and the efficiency of import substitution. These will be the final determinants of the extent to which it will be possible to provide for regular and punctual debt servicing without the necessity of deliberately restricting the rate of growth. Consequently, this is another extremely important reason why, in my view, the countries of the region should in the immediate future assign high priority to a strategy aimed, on the one hand, at systematically increasing and diversifying exports and, on the other, at ensuring efficient import substitution.

*The need for a code of conduct*

As regards transnational corporations, it is common knowledge that their own dynamism and their considerable influence on the operation and structure of production systems has made it essential to clarify the relations between them and the host countries.

In the course of time a consensus of public opinion on the subject has taken shape, in which the official authorities of the host countries also participate, in view of the obvious repercussions which the activities of such corporations have on variables as vitally important as the balance of payments, external monetary flows, the employment situation and others of the same nature.

Of great advantage in tackling this problem today is the unquestionable progress that has been made in many Latin American countries in respect of their bargaining capacity *vis-à-vis* the transnational corporations. The greater integration of these corporations in the national economies—inasmuch as the bulk of their operations are carried out

with a view to the domestic market—places most of them in a position considerably different from that of the big primary export enterprises which dominated the scene in the past.

At all events, there are few who question the need to go farther towards defining, at the national, regional and world levels, operative codes of conduct whereby the governments and the transnational corporations can be guided and their legitimate interests harmonized.

Hence there springs up naturally, once again, another topic and objective proper to the formulation of the New International Economic Order. Indubitably, to the extent that this goal is successfully attained, the disadvantages and risks of the contemporary trend towards 'internationalization' will diminish and the favourable potential which the transnational corporations can offer will be developed.

Let us now pass on to deal for a few moments with the problems of the New International Economic Order and the special interest of the region in its objectives and patterns.

### III. The New International Economic Order

The 1970s provided a clear demonstration that the international economic system constructed on the bases established at Bretton Woods, after the Second World War, had run into a crisis. Order among a few had progressively developed into disorder for the many. This is not the place to enter into consideration of the political and economic factors behind this phenomenon, nor to describe once again how that order, which provided the framework for one of the most dynamic

phases in the economic development of the industrialized countries, also led to an accentuation of the disparities among the countries of the world, so that the gap between the rich and poor nations, far from narrowing, actually widened.

It is, however, important to show how the collapse of the international economic system has triggered unprecedented reactions and activities.

On the one hand, the recollection of the hardships of the world crisis in the



1930s, and a greater sensitiveness to social problems, have induced the major centres to adopt economic measures aimed at minimizing the social cost and averting acute depressions, whose uncontrollable economic and political repercussions would have affected a large part of the world. At the same time, the international community has awakened to consciousness of the new forms of interdependence among nations. As a result, a movement has begun—slow as yet, but promising—towards the construction of a new international economic order. The Special Sessions of the United Nations, the Paris Dialogue, the fourth session of UNCTAD and many other world forums held during the past five years to analyse some of the major topics of concern to mankind confirm the existence of this greater critical awareness and a sensitivity more receptive to the urgent necessity of establishing a system of international relations based on new principles, institutions and practices.

I am not among those who believe that all the evils of underdevelopment derive from the pattern of international relations between the rich and poor countries. Anyone who held that view would be turning a blind eye to the profound injustices which still persist in our countries and which are rooted in our own environment. Neither should it be overlooked, however, that international relations have habitually developed as a function of the interests of the more powerful countries, and for the benefit of their own nationals.

The aforesaid critical awareness of the historic juncture through which the international community is passing originates from precisely this situation, and it is responsible for the mounting demand that principles should be established on which to base a different

system of international relations, more conducive to greater equality of opportunities for all nations.

Two facts improve the prospects for this movement towards a new international economic order.

In the first place, the developing world has repeatedly presented a united front in support of common and responsible positions. Despite many differences of all kinds, despite the disparate effects of the international economic situation on the developing countries, despite their varying degrees of economic development, the nations of the Third World have maintained a necessary and commendable unity.

So important a circumstance should be neither overlooked nor underestimated, for without this unity, international negotiations between countries of such unequal economic and political power would be doomed to failure and would disappoint the legitimate expectations of the weaker countries.

In fairness, however, reference should also be made to another factor which inspires fresh hopes. There are certain industrialized countries where new attitudes are beginning to develop, and even to prevail, in some circles of opinion and in their governments. They are making an effort to grasp the problems of the developing countries, and are taking up positions that are more sympathetic and hence more conducive to a better mutual understanding. These attitudes constitute what has come to be called in the industrialized nations 'a new realism'.

Are they perhaps the product of increased awareness of the closer interdependence which now exists between nations and which became clearly apparent during the recent economic crisis? Or do they perhaps derive from

an enlightened realization that there will be no lasting peace in the world as long as international economic relations are still marred by the vast inequalities of opportunity which characterize them to-day?

Whatever the reasons underlying this new willingness to engage in international dialogue, it is to be welcomed. The limited but useful measures that the international community has adopted to palliate through its resources and action the situation of the countries most seriously affected by the recent world economic crisis should be appreciated as a foretaste of what is to come.

*Priority objectives of the New International Economic Order*

What do the nations expect from the New International Economic Order?

I will not deal in depth here with a subject which has already been so clearly and eloquently expounded by the Secretary-General of the United Nations at this same meeting. Let me simply say that the search for a new order must be conducted at several levels and comprise more than one stage.

The Seventh Special Session of the United Nations has provided us with a frame of reference both for the stages and for the levels required. This new order calls for a series of measures and agreements on the part of the world community that will enable structural changes to be made in international economic relations and will permit of fairer distribution and greater equality of opportunity for all countries.

Radical changes will have to materialize in the final stage of this process, ranging from improved distribution of trade profits, credit and international liquidity and disciplining of the power of

transnational corporations to international control over the communal assets of mankind. These are civilization's collective patrimony, and access to them is a legitimate aspiration of those most in need.

A continuous series of negotiations, gradually reflected in concrete and effective advances, is a *sine qua non* for arriving at this new system of international relations.

The attitude of the developed countries is vital to the success of such a process. But the full participation of the developing countries is also indispensable; and this in turn requires that the negotiation machinery be made more democratic, in which connexion the United Nations, as the most important political forum in the world, must play an essential role.

So far as making the movement towards a new economic order a positive reality is concerned, the next few months will see some decisive meetings. The Paris and UNCTAD negotiations must reach substantive points of agreement. If these meetings are successful—as we all hope—the gates will be thrown open for the negotiating process to continue in the United Nations and at other international gatherings. Conversely, if nothing comes of them, frustration may grow and there may ensue a period of sterile confrontations which nobody wants and which will do nobody any good.

Needless to say, the chances of progress in this area depend primarily on political will and political decisions. These, moreover, must be of a general character; they cannot be partial in their scope, but, on the contrary, must cover all the basic items on the negotiation agenda.

Such decisions must not be made conditional upon the complete economic

recovery of the industrialized world or delayed until it has taken place. This recovery is a necessary and supremely important objective, but it is equally true that any headway made in the movement towards a more equitable and dynamic international economic order would help to promote the growth of the industrialized economies and place it on a sounder footing.

*Latin America's interest in a new international economic order*

I have already had occasion to refer to the close linkage between the economic development of Latin America and its external relations. However, I would like to emphasize a point inseparably bound up with the problems raised by the New International Economic Order. I am referring to the fact that Latin America, because it has reached a more advanced stage of industrial development and diversification of its production system than other Third World areas, has come to be ranked as an intermediate group or, so to speak, the middle class of the international community.

Does this mean that the region is in a position to dispense with international co-operation? And does the relative progress it has made in the attainment of some of its development objectives signify that it does not participate in the common claims which the Third World is addressing to the central countries?

Allow me to make myself quite clear on this point and to formulate some essential considerations on the subject.

Firstly, the status of intermediate region or 'middle class of the world' is a gross abstraction. As I said at the outset, there can be no denying that Latin America has taken significant strides for-

ward in the economic development process and especially in industrial development. However, it is equally true that both at the national level and at that of large social groups, conditions still apply which are similar to those characterizing other nations of the Third World. Thus, any generalization may be seriously misleading.

Secondly, although, on account of the degree of development now achieved, Latin America's external relations present some special features, its problems can be tackled adequately only on the basis of global approaches in which all the regions of the Third World participate and are associated.

A clear and significant example of this community of interests is to be seen in the field of raw materials. As I have already mentioned, despite the advances made in exports of manufactures, 85 per cent of our exports consists of primary commodities. Thus, manifest links of solidarity with the other Third World nations exist in relation to the defence of commodity trade and prices. That is why Latin America must continue to give unwavering support to the work of UNCTAD and, in particular, to the Integrated Programme for Commodities.

What other matters today compel the special attention of the region in the discussion of the major problems of the New International Economic Order?

As we have repeatedly said, Latin America has a vital stake in assuring itself of expanding markets for its exports of manufactures. This calls for determined persistence in efforts —sometimes doomed to disappointment— which are aimed at eliminating or lowering tariff and above all non-tariff barriers. There are sectors in the developed world which realize the importance of progress in these fields for the countries of the

Third World and, more especially, for those of Latin America. Yet we cannot but feel some disillusionment at the resurgence —sometimes systematic and sometimes sporadic— of protectionist tendencies. As the industrial exports of Latin America are consolidated and expanded, and the region secures an increasing share of world trade in these products, such tendencies might reappear. It is therefore imperative that the countries of the region should call on the highest political bodies to ensure continuous progress towards more open markets and the sanction of a code of conduct to regulate the imposition of non-tariff barriers.

Mention has already been made of the region's need for external resources; and, as I also pointed out, Latin America —without overlooking the needs of other economically more depressed areas— must continue to receive a flow of official credits for periods and at interest rates that only those sources can guarantee. The attainment of the official external assistance targets is vital; and it is also vital to obtain assurance that an adequate proportion of this assistance will be channelled into the region and, in particular, into the least developed Latin American countries. Hence it is that we attach high priority to the strengthening of such regional institutions as the Inter-American Development Bank, as well as to the continuation of the activities of the World Bank in the region. We must be emphatic on this point: Latin America needs official capital and will continue to need it. The activities of the institutions referred to and of those functioning at the subregional level deserve every support from our countries and from the international community.

I also recalled earlier that the role of private credit has been expanding in the

region, and acknowledged the importance of these resources. It is necessary, however, to design and establish safety mechanisms which will enable our countries to face up to balance-of-payments crises without having to depend exclusively or primarily on private sources of capital. It is for this reason that on other occasions, and particularly at the Trinidad and Tobago session of CEPAL, I have spoken of the desirability of establishing a financial safety net which would enable us to cope more adequately with balance-of-payments pressures deriving from abrupt changes in the international economic situation. The necessary mechanisms should be promoted by the central banks of the Latin American countries and backed by resources from outside the region. Similarly, it seems important that Latin America should support initiatives at the international level to open up new financial facilities taking particularly into account the special situation of developing countries in the intermediate group, which at present are so dependent on private capital markets.

The introduction of new technologies has played a fundamental part in the development of the region's production potential, and this process will be of ever-increasing importance in the future. The Latin American countries should therefore promote all such forms of international co-operation as may facilitate the transfer and assimilation of appropriate technologies.

Lastly, another of the region's essential tasks is to support the establishment of codes of conduct regulating the activities of transnational corporations, so as to ensure that their operations are compatible with the legitimate interests of the countries and with the principle of respect for their domestic policies.

Mention of these points does not mean, of course, that we do not attach full importance to other activities of transcendental significance in the movement towards the New International Economic Order, such as the agreements designed to lay the foundations for a new international monetary system. If we have stressed certain points it is because they are the aspects of the question that arouse most interest in the region.

As the developed countries incorporate in their international co-operation policy the general elements which most directly favour the interests of the Third World, Latin America's aspirations will be to a large extent satisfied without the necessity of resorting to vertical or geographical approaches which might be detrimental to the overall relations of the region both with other developing countries and with the industrialized world as a whole. Such approaches might also generate complex political problems, with implications of all kinds.

*Co-operation within the region and with the Third World*

Regional co-operation and international co-operation are inescapable necessities for Latin America. They must be practised simultaneously and with equal enthusiasm, since neither, on its own, could satisfy the aspirations entertained by our countries.

Clearly, as regards regional co-operation, there are at present ample and varied opportunities to take advantage of the considerable new productive, technological, and above all, organizational

potential which Latin America has at its disposal today. In this connexion, it is useful and instructive to note that in repeated instances of late Latin American firms have had their tenders accepted for large-scale and complex projects in open competition with international enterprises.

Similarly, due importance must be attached to the fact that many Latin American countries have built up a valuable stock of experience in activities as basic to development as oilfield operations, mining, iron and steel, fishing, some branches of agriculture, and public works.

These circumstances make new patterns of regional co-operation viable through specific projects and activities, a domain in which SELA has a major role to play.

Parallel with advances in this area, an indispensable requisite is to make headway in the integration movements through multilateral undertakings that provide a framework within which to insert the aforesaid specific activities and projects. All this will also foster progress towards the goals of Latin American integration and co-operation which the countries of the region need to reach.

Let me say again that we attach enormous importance to the many possible forms of co-operation with other developing countries. Herein lies, in our opinion, another potential which has barely been glimpsed. Factual proof of this is furnished by the contacts and relations which some Latin American countries have established with countries of Africa, and by the mutual desire to increase these links substantially.

## Conclusions

It has been my wish to place once more before this plenary meeting the product of my personal thinking and the fundamental ideas which our secretariat has been gradually evolving on the basis of the invaluable experience gained through contact with each and every country in our region.

I have had no intention to pronounce individual judgements on specific situations or to overstep the bounds of our obligation to perform strictly secretariat functions. I trust that the reflections presented here will be viewed as the discharge of what we consider to be our intellectual responsibility – an endeavour to direct attention to the problems that we honestly feel are of major concern to the region.

It is for the governments, in the exercise of their unconditional sovereignty, to accept these ideas or not, and to define solutions for what they regard as their priority problems within the context of the cultural patterns and historical values characterizing their particular economic, social and political systems.

Five propositions have been stated here which we believe to be fundamental.

The first constitutes an appeal for the construction of a new intra-regional economic and social order, taking due account from the outset of the fact that Latin America's actual and potential production capacity now allows it to aim at far more ambitious social goals than in the past.

The pursuit of these objectives should speed up a process whereby much more

rapid solutions can be found for the immense social problems affecting large under-privileged segments of the Latin American population. Accordingly, it is essential to revise our development styles and make social policy the focal point of our concern. The latter should be geared, in particular, to satisfying the basic needs of the population. It is not enough to be efficient in the economic sphere. It is also important to know for what and for whom this efficiency is of service.

The second calls upon the region to renew its commitment to the building of a new international economic order based on principles of distributive justice and equality of opportunity at the world level. As in the past, Latin America has a very important role to play in the North-South dialogue. It must also boldly face up to the task of intensive collaboration in all possible forms of co-operation with the other developing areas. This commitment is a moral imperative stemming both from our relatively advanced stage of development, and from the importance for the Third World of strengthening efforts to achieve collective self-reliance.

To this end, the major work of dialogue and compromise will have to be centred in the United Nations. A heightened political determination must exist at all levels, and above all among the countries which bear the brunt of the responsibility for the success of the process. An appeal must be made to the moral conscience of mankind and the enlightened vision of leaders and governments to forge ahead with the negotiations for a new economic order, as the

Secretary-General of the United Nations said at this meeting, and to avoid sinking into a phase of sterile and wasteful confrontation.

From these two reflections a third logically follows. To carry out these herculean tasks, the State must be modernized and thus prepared to carry great domestic and external responsibilities, within the sphere of the functions assigned to it by each country and each economic system.

To tackle these and other problems of the new international economic order, as well as those of a new internal order, both economic and social, we must study the past objectively, in order to learn the lessons of history and make projects for the future. The latter is an imperative necessity. I am inclined to believe that the inveterate faith in the regulatory forces of the market, both at the domestic and at the international levels, has tended to stifle forethought and blind us to the need to think about where we are going, fix accessible objectives and choose the most rational means of attaining them. The market is of great importance and significance, but it cannot be expected to do what is not within its power. It has neither a social nor a time horizon. These shortcomings can only be made good by deliberate and properly concerted action, in the form of convergent measures and combined national and international efforts. This is another of the major tasks with which the State in Latin America is faced.

A fourth line of thought turns our eyes to the region itself as the cornerstone for the construction of our future. It is essential to breathe new life into regional co-operation, starting from the vital premise that if we tackle our problems together, at the end of the process we shall all be better off than at the

beginning. We are united by a common past, a common geography and a body of interests which, because they are complementary, are shared in common too. The new forms of co-operation recently put into effect in Latin America must be reinforced by pooling efforts, at the bilateral and multilateral levels and at that of groupings of countries. Furthermore, our integration schemes must be objectively and dispassionately reconsidered, with a view to strengthening them by taking heed of the lessons of the past. In this sphere it is necessary to rise above passing disappointments and to formulate new solutions with faith and political vision.

Fifthly and lastly, in order to attain our national, regional and international objectives it is essential to invoke Latin American unity. Latin America has blazed new trails in the terrain of development and co-operation which are now acknowledged in the world forums as initiatives of our region. Of an equally pioneering character have been Latin America's efforts to break new ground and press forward in the field of regional co-operation. And in all these enterprises there has been a common denominator without which any objective becomes harder to pursue: the unity of the region.

We have the impression that sometimes this determination weakens under the influence of passing crises or the unequal degrees in which we are affected by the world situation. It is worth recalling once again, however, that the temptation to 'go it alone' is not a good idea for any country, big or small. This is a lesson taught us day after day by the increasing interdependence of nations.

The diversity and complexity of the problems facing us is in no way incompatible with joint action by the

developing countries both at the regional and at the world level.

In these great tasks of the region, the CEPAL secretariat wishes to play its part side by side with the governments of the

member States, today as in the past, in a spirit of loyal commitment to Latin America and to the objectives of the United Nations Charter.

## Statement by Raúl Prebisch

Since I have been kindly invited to participate in this meeting—a gesture which I very much appreciate, together with the encouraging words so generously lavished on me here—I should like to offer a few reflections on certain problems which are causing great concern in our countries. Unquestionably, the most important is that, despite the momentum gained by development, vast masses are still excluded from enjoyment of its results. What has come to be called critical poverty continues to exist, and is growing relatively worse.

This is a problem which CEPAL has long been canvassing, but without managing to get it regarded as of paramount importance, perhaps because of the widespread belief that the very dynamics of development would spontaneously resolve it once and for all.

But that has not happened, and never will. For the persistence of this grave malady is due to deep-seated disorders in the system which mere palliatives cannot cure: disorders that cannot be attacked solely by means of new prescriptions—for example, the establishment of minimum consumption and welfare targets for the underprivileged strata of society. Of the imperative need to attain and even surpass such targets, there cannot be the slightest doubt. But how is it to be done? We cannot allow ourselves to be

beguiled by the manifest justice of this and other similar proposals into shirking that basic question.

This is the first point about which I want to speak now. No sooner are poverty and unemployment mentioned than the image of the technology which comes to us from the centres looms up. The CEPAL economists were perhaps the first to bring this problem into focus, a quarter of a century ago. At that time we imagined a technology adapted to the periphery and designed to serve the purpose of increasing the productivity of capital rather than reducing the labour force. But where is that technology? It would, of course, be inadmissible to put the clock back. Still, there might be a possibility of arriving at such a technology after prolonged efforts. What should we do meanwhile? I would say first what we should not do: take pains to make work for work's sake. Paul Hoffman, that distinguished figure who was the first Administrator of UNDP, used to recall how, in the United States during the great Depression, in face of the persistence in creating work by having earth moved with picks and shovels, a State Governor wondered: Why not go one better and use soup-ladles?

I believe a great deal can be done by intelligently adapting the technology of the centres, and a number of highly



encouraging specific cases bear witness to our technicians' capacity for innovation. Nevertheless, the more I think about this problem the more convinced I am that attention must be devoted to other basic factors.

The deep-seated ill does not in fact lie in the technology itself, but in the social structure into which it is introduced: a structure which permits highly inequitable appropriation of the fruits of the increasing productivity which the technology brings in its train. These fruits of technical progress represent an ever-growing capital accumulation potential. And I am persuaded that if this potential were utilized as far as possible in economic and social investments we should make steady progress towards the elimination of critical poverty and other evils. It would be, in reality, the starting-point for a transformation of the system in a profoundly social sense.

To establish minimum welfare targets without making full use of the capital accumulation potential which technical progress affords us is to drift off into the thin air of pious illusions.

Let us not deceive ourselves. Capital accumulation on a much larger scale and more rational in its composition than at present is a *sine qua non* for absorbing, at rising levels of productivity, the broad masses that are vegetating in the lower income strata of society.

The effort required is herculean. For there are substantial obstacles in the way, and one of them is the consumer society: in other words, the unbridled imitation of the consumption patterns of the centres, which tends to spread rapidly from the upper income strata in our countries to the middle strata. The diffusion of such consumption is obviously detrimental to capital accumulation. To put it bluntly: the consumer

society is incompatible with the eradication of the society of under-consumption.

The responsibility for all this is usually imputed to the transnational corporations. But let us not lay our own blame on the shoulders of others. If the consumer society is gaining more and more ground, it is basically because of the inequitable income distribution deriving from the prevailing social structure. The transnationals boost the consumer society and are closely linked to it, but the social structure depends fundamentally upon ourselves.

The transnational corporations are ambivalent. They are admirable for their innovations, their organizational capacity, their ability to attract minds that are gifted in the spheres of technology and economics (and, in some instances, prone to unwise interference in politics). Their positive contribution to development cannot be disregarded. But their ambivalence gives grounds for serious and lasting concern. For everywhere, and especially in the centres, they carry a considerable share of the responsibility for the deterioration of the environment and the destruction of non-renewable natural resources. And where the periphery is concerned, their immediate interests and the collective interests are not necessarily the same.

I remember hearing a young Soviet economist at a United Nations meeting on the transnational corporations say something like this: "I have heard the advantages and disadvantages of the transnational corporations mentioned in this discussion. My country has initiated and will maintain relations with transnationals, since it has the power to utilize the advantages and avoid the disadvantages."

The right attitude. It is true that in this part of the world we have not the

same power, but we may gradually acquire it by means of closer cohesion among our countries: a cohesion which can only be based on community of interests and unity of aims and the combined action of the peripheral countries in different spheres of collective negotiation. This has become very important, and especially so at the present juncture, when President Carter has just expressed great willingness to welcome any constructive positions that Latin America may take up in respect of foreign investment. Thus an exceptional opportunity arises for unhesitatingly facing the expansion of the transnationals in the periphery.

In this whole question certain entrenched positions must be abandoned. I am inclined to think that attempts are sometimes made to attract the transnationals so that they may do what we ought to be able to do ourselves, if we assimilate and adapt their technology and their organizational capacity, and, in addition, increase capital accumulation by efficiently mobilizing our own potential. But I am afraid that in many cases we seek the capital of the transnational corporations in order to evade this internal mobilization effort, while devoting a disproportionate share of the potential in question to imitating the consumption patterns of the centres: a course which sooner or later turns out to be counterproductive, to say the least. For —among other reasons— if the increase in productivity brought about by the transnationals is worthy of consideration, no less so is the fact that they transfer a substantial part of the resulting income abroad.

No, the transnationals should not act as a substitute for our own efforts in the matter of capital accumulation and technical progress, but should help us to

carry them out. This is not exactly what happens, however; and they are also taking our place in other fields, such as the export of manufactures. It must be recognized that they are making a vigorous drive to open up new avenues, with very positive results. Latin American technicians and entrepreneurs are also doing much. Nevertheless, we could achieve a great deal more, if in the light of past experience decisive impetus were given to the mechanisms of reciprocal trade.

I confess that I am feeling disconcerted, or rather, disillusioned. LAFTA is barely skimming the ground in Montevideo, is failing to look higher, and for that very reason is running up against major obstacles which could be removed only by virtue of great farsightedness. Among the possible ways of giving a 'big push' to inter-Latin American trade, particularly in intermediate and capital goods, where the more advanced industrialized countries are meeting with serious difficulties, perhaps the formation of Latin American multinational corporations is the most promising. The ideal thing would be to combine the technology and organization of the transnationals, wherever this was an indispensable requisite, with Latin American capital, initiative and markets, and to attract international resources in a framework of political autonomy. In this respect we were hoping that something might come our way out of the financial surpluses of the petroleum-exporting countries. These hopes are languishing, however. Venezuela is an exception because of the vision and dynamism of its President, particularly in view of the encouraging words addressed to us two days ago by his distinguished Minister of Finance. But no really significant investment is being

placed in the periphery. The developed countries continue to attract the petroleum-exporters' investments, while the developing countries go on awaiting them, admittedly without displaying any very striking capacity for initiative in order to obtain them.

Meanwhile, the transnationals are doing what best suits them in respect of trade in manufactures, and this does not always coincide with what is best for development. They are shrewd as regards exploiting their technology and their constant innovations in our domestic markets and in their export trade with other developing countries, but they scarcely avail themselves at all of the huge market of the industrial centres. Why not? Can this be called internationalization of production? Of course not. The consumer society is being internationalized, but the internationalization of production is encountering serious obstacles.

The situation thus arising in relations between the Latin American periphery and the centres is more than strange; it is paradoxical. The goods produced by the transnational corporations have generally enjoyed the benefit of tariff reductions which have been agreed upon by the developed centres and which have contributed to the notable expansion of world trade. Yet the transnationals seem reluctant to export these goods to the centres when they are produced in the periphery, despite the great opportunities which such tariff reductions afford. And in the case of certain processed and semiprocessed products in the manufacture of which the Latin American countries have acquired technical capacity and competitive ability, the tariff schedules of the centres raise what are sometimes insurmountable barriers to Latin America's exports.

In this there is flagrant irrationality. The dynamic role of the transnationals in the development of the periphery is blazoned in the centres and they are given incentives to penetrate into the peripheral countries. But at the same time the centres pay no heed to the necessity of responding positively to those countries' export efforts, in default of which the financial remittances of the transnationals help to aggravate the tendency to external disequilibrium, thus creating new factors that weaken the dynamics of peripheral development.

The phenomenon of disequilibrium, of the external bottleneck which some believed had been done away with during the international boom period that ended in 1973, is once again making itself manifest. This is an unquestionably serious matter, for the bottleneck tendency, in conjunction with insufficient capital accumulation, considerably slows down development.

Here I want to stress my profound concern at what these facts imply. We need to reach and maintain high rates of development in order to solve our problems: high rates combined with progressive income redistribution and a different composition of the social product. We have already shown our capacity for more thriving growth than was thought possible a quarter of a century ago. But this growth must be far more intensive still if we are not only to absorb, at rising levels of productivity, the increment in the labour force, but also to ensure that the lower strata, which are stagnating in a 'sub-consumer' society, are productively incorporated into the system. The task will not be easy, considering that in this last quarter of the present century the labour force will grow faster than the population, and will have doubled by the year 2000.

Thus, a greater effort than in the past will be required in order to cope with this situation, for the moment unmanageable. The rate of economic and social investment must be speeded up, and so must the rate of exports, in order to attain the vital goals of development.

This problem of absorbing the population of economically active age is extremely serious from the social and political standpoint, and if I did not lay the strongest possible emphasis on that fact I should be failing in my intellectual duty: the duty of a man who has always sought to examine objectively, but not without human warmth of feeling, the course of events in Latin America. This is what I do and shall continue to do, refraining from indulgence in the scepticism of eventide.

It is not merely those at the bottom that have to be absorbed, but also those, chiefly in the middle strata of society, who have enjoyed the privilege, denied to the others, of receiving education and vocational training: new generations that in face of the insufficient dynamism of the system find their life horizon seriously restricted.

It is easy, then, to understand their refusal to conform, their frustration and the spirit of rebellion which leads them to call the whole system in question; not merely its incapacity for productive absorption of the active-age population, but also the stubborn reality of the social exclusion of the lowest strata from the system, and, among those who are within it, the distribution struggle—a struggle which is governed by no regulating principles, and moves farther and farther away from social equilibrium as the forces of production make progress for the main purpose of satisfying the consumer society. The distribution struggle thus tends to create a disparity

between the economic process and the democratic process, with very grave consequences. The disparity cannot be remedied by curbing or suppressing the democratic process; rather must the economic process undergo a fundamental transformation, so that individual initiative and market forces can acquire the social efficacy they lack today.

This brings us face to face with one of the key problems of our time: the loss of confidence in the values inherent in democracy—one of the major *idées-force* of western civilization—both by the few who find their privileges in jeopardy and by the many that are crushed under their daily burden of poverty, under the degradation of their human condition.

In referring to the non-conformity of the younger generations, I do not want to oversimplify a highly complex psycho-social phenomenon. But I am inclined to believe that if here, in what we used to think of as a Promised Land, certain ideological seeds take root and grow, it is because the great internal and external contradictions of development afford favourable conditions for them to bear fruit. Bitter fruit of violence, germinating counter-violence... and so on, in a tragic spiral.

In these unhappy circumstances, is it not inevitable that human rights should be feelingly invoked? It cheers me to find everywhere, and especially in the Northern hemisphere, sincere and troubled concern for human rights, eloquent proof of which was the speech delivered yesterday, with such force of conviction and sincerity, by Ambassador Andrew Young. A generous irradiation of human solidarity, not to be confused with certain meditated acts of punitive hegemony, such as the proposal to saddle the international credit institu-

tions with the inadmissible role of applying discriminatory sanctions; as if we had not already potent reasons to deplore some of the ways in which great international interests exert political influence in matters that should be our countries' own exclusive province.

I cherish the fervent hope that this demonstration of human solidarity on the part of the centres may signify a vital *volte face* in the history of their relations with the peripheral countries. However, if this is to be the case, it is not enough to concentrate attention only on symptoms, on external manifestations. We must go deeper, right down to the factors responsible for the events that arouse our concern.

Two centuries of belief in the virtues of the unrestricted play of international economic forces have stifled consciousness of the ethical responsibility of those who were the first to forge ahead towards those that have lagged behind: a responsibility that embraces trade, financing, technology and the transnationals.

That same faith in the spontaneous play of economic forces, applied to the

internal economic forces of our own countries as well, has made us lose sight of supremely important human principles. Ethics is one and indivisible. In face of the major ills of development, the inescapable fact of their ethical basis must be reaffirmed. We must not forget this at the present crucial moment, when we are on the very verge of a planetary crisis of unexampled nature and magnitude, but also see before us the possibility of a utopia once inconceivable: a utopia consisting in the intelligent and socially meaningful use of the great contributions of science and technology to secure the lasting welfare of our peoples—a utopia which, if we make up our minds to it, will become a reality. What is needed to achieve it is an ethical 'big push' in the centres and the periphery alike... Ethics, and rationality as well, to build not only a new international order, but also a new internal order, without which measures of international co-operation, however enlightened, will not lead to the great changes for which the periphery clamours at this exceptionally vital turning-point in its history.