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Director

RAUL PREBISCH

Technical Editor

ADOLFO GURRIERI



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Environmental factors, crisis in the centres and change in international relations of the peripheral countries

*Luciano Tomassini**

On the basis of ideas put forward in previous studies, the author continues his exploration of the changes which have occurred in international relations during the past few decades, with the aim of substantiating his thesis that the developing countries should direct their course towards a strategy of selective participation in the international system.

He begins by evaluating the ideas which, since the post-war period, have been advanced to interpret centre-periphery relations, and shows how some of them have been left behind by reality. Going more deeply into the real processes concerned, he devotes attention to the structural changes which have taken place in the developed and developing countries; in the case of the former he studies the formation and crisis of the transnational system, while with respect to the latter he refers in particular to the patterns and implications of their economic development.

In the last part of the article, he alludes to the general process of economic internationalization and proposes some ways of integrating the developing countries in the world economy. In his opinion, these countries ought to choose strategies which imply neither passive subordination to external economic forces nor the replacement of international markets by centralized mechanisms, but aim at securing selective insertion in the world system.

*CEPAL Regional Advisor on International Economic Negotiations.

Introduction

The purpose of these pages is to help to elucidate certain questions connected with recent trends in the international relations of the peripheral countries in the light of the new perspectives opened up by a set of factors which will doubtless be recalled for the increasing weight they will have carried during the last third of the twentieth century: factors which are responsible for the strengthening of the links of interdependence in the international system, and among which environmental considerations take an outstanding place.¹

In line with the tradition of CEPAL thinking, as regards what in our opinion constitute its fundamental theses, recognition is accorded at the outset to the importance of centre-periphery relations in the evolution of the developing countries; to the structural dependence of these latter on the main cyclical centre, constituted by the developed countries; and to the tendency towards deterioration in their terms of trade, or, in more general terms, their declining participation in the benefits deriving from their economic relations with the industrial centres.

The changes undergone by these relations in the course of the past decade are next explored, and some modifications are suggested that should be introduced into CEPAL's interpretative hypotheses based on the post-war

¹The present article follows up some lines of thought started in a paper by O. Sunkel and L. Tomassini, entitled "La dimensión ambiental y el cambio en las relaciones internacionales de los países en desarrollo", which was presented at a seminar on Development Styles and Environment in Latin America, and of which a revised version was published in *Estudios Internacionales*, No. 50, April-June 1980. The discussion of certain specific aspects of ecological problems considered in the paper in question, such as environmental pollution, energy, natural resources and industrial redeployment, is omitted here, since several of them are dealt with in other contributions included in this same issue of the *Review*. Analysis of the alternatives that the existence of these factors poses from the angle of national development strategies is also omitted. The present reflections concentrate on their implications from the standpoint of the form that will probably be taken by the developing countries' international relations. The author wishes to lay stress on the inspiration he has drawn from dialogue with Osvaldo Sunkel, but assumes full responsibility for the analysis carried out subsequently to the above-mentioned paper and, in particular, for any errors that the present may contain.

situation, in view of the changes brought about since then in the international system—and above all in the advanced capitalist countries—by the impact of what for the sake of brevity we shall term the Antonine syndrome.² Among the interpretations corresponding to historical circumstances which have changed during the past few years are those relating to the 'delinking' of the peripheral countries from the world economy, to their unilateral dependence upon the industrial countries, to the irreversible nature of the features noted, to the emphasis on international trade as a nexus between the two segments of the system and to the monolithic character of the so-called hegemonic centre.³ Here it is proposed to draw a distinction between the central theses of CEPAL thinking with regard to the importance, structure and general *modus operandi* of the centre-periphery system, viewed in a broad historical perspective, and some interpretative hypotheses through which it was sought to describe the peculiar characteristics presented by centre-periphery relations in a given period. In other words, an attempt will be made to ensure that perception of the system's structural features does not preclude awareness of the change that

the relations in question have undergone; and to do so more forcefully a two-edged weapon will be used, which consists in emphasizing the chiaroscuro presented by the questions discussed, with the drawback that the available space for dealing with them will barely be enough for the enunciation of a few conclusions.

To go straight to the heart of our central conclusion, we will hazard the hypothesis that the Antonine syndrome—the interruption of the expansionary cycle of the world economy, uncertainty with respect to supplies of certain strategic natural resources and the transformation of values in an increasing number of social groups, all of which have affected the great industrial centres after a period of unprecedented prosperity—is bringing about a modification of the former international division of labour on which centre-periphery relations were based, and is confronting the periphery with an unheard-of combination of risks and opportunities. It is thus faced with the necessity of pursuing its historical path towards development in a considerably altered international scenario.

In accordance with a maxim coined in the United States to justify the theory of spill-over as a solution for the problems posed by the asymmetry in the aforesaid relations, it was long maintained that what was good for the centre was good for the periphery. In the course of recent years, some analysts began to wonder whether the prosperity of the industrialized countries could be maintained without progress on the part of the developing countries, and propounded the hypothesis that what was good for the periphery ought also to be good for the centre (Sewell, 1978 and 1979). In the present article another possibility is ex-

²In his theory on the downfall of civilizations, resulting from their loss of dominion over their physical and human environment, the deterioration of their capacity for creative self-government and the propensity to mimesis as a mechanism for the diffusion of social patterns, Toynbee finds that in the case of the Roman Empire this constellation of circumstances occurs in the time of the Antonini, at the very height of the apparent apogee of hellenistic civilization. Another classic historian saw in the world of the Antonini "the least bad of the possible worlds" in ancient times, and based his opinion on the constant threat of economic difficulties, on the changes in values and on the sufferings endured by the poorest groups in several regions. If a cause for this situation is sought, it may be discovered in the inadaptability of the social structure and social life to the real economic necessities of the Roman world (Crouzet, 1958). The simile used here for purely semantic purposes may have a certain applicability to the situation today, according to some historians of culture (U. Eco, 1973; R. Vacca, 1975; A. Stavrios, 1976; and others), for whom the crisis of the *pax americana*, the fragmentation and privatization of power, ecological deterioration, neonomadism and the recrudescence of *insecuritas* and, therefore, of *auctoritas*, would seem to be jeopardizing the worldwide expansion of capitalism, and presaging the emergence of a new Middle Ages.

³Thus, for example, in this last connexion the CEPAL analysis first drew attention to the replacement of the Uni-

ted Kingdom by the United States as the leading hegemonic centre, later to the appearance of subcentres represented by the European Economic Community and Japan, and, lastly, to the emergence of the socialist countries as an additional pole of the world economic system. It will presently be argued that it is possible to perceive similar changes with respect to other features that characterized in their time the interpretative system formulated by CEPAL at the beginning of the post-war period (see, *inter alios*, Pinto, 1973).

plored that is suggested by the problems of today, namely, that what is bad for the centre might be good for the periphery.

The elements in the Antonine syndrome which might lead to this conclusion are not, of course, confined within the bounds of international economic relations, and spring from the global evolution of the societies concerned. It is necessary, therefore, to follow the path

traced by Raúl Prebisch when, referring to his recent articles, he said: "I have sought to arrive at a global interpretation which embraces the most important factors of development. They are economic, technological, social, cultural and political factors. To propose to explain reality in the light of a purely economic theory is to find oneself hopelessly trapped in a blind alley" (1978).

I

The evolution of the frame of interpretation of centre-periphery relations⁴

1. *From the theory of co-operation to the analysis of the centre-periphery system*

The interest of the international community in the underdeveloped countries was first awakened after the Second World War. It was, in a measure, the result of the decolonization process which started at the time and of the struggle of the great powers to extend their fields of influence into the Third World, as an integral part of the cold war. Thus concern about underdevelopment came into being, and with it the first external aid programmes.

Underlying this process there was a series of theories on the nature of development and on the most appropriate strategies to promote it. The common denominator of these conceptions was the assimilation of the concept of 'development' to that of 'modernization'. Development was envisaged as a univocal process, necessarily passing through pre-established stages, in pursuit of a path along which all countries alike must travel. The difference between development and underdevelopment lay in the fact that some countries had followed this road earlier while others had barely got beyond its first milestones. To account for this situation some theories place the emphasis on the structure of personality (Riesman, 1951; McClelland, 1961; and Hagen, 1962); others stress the role of social value or preferences (essentially Parson and Shils, 1952, and the original Latin American version by Germani,

1962); others again underline the structural conditions that would have to be fulfilled to make sustained economic growth possible (Rostow, 1960). In all these approaches, the accent is placed on the need for modernization, this being understood as imitation of a model coined by the countries which were the protagonists of the industrial revolution and are now developed. The possibility was never even mooted that the causes of underdevelopment might lie precisely in the nature of the prevailing relations between the backward societies and the industrialized countries; a sort of "natural harmony of interests" between the two groups of countries was presumed to exist. The development of the backward countries was to be substantially induced by the spill-over from the economic growth of the great industrial centres. The existence of a profound gap between the two categories of countries was recognized, and so was the marked asymmetry in their political, military and economic relations, but this situation was attributed to the fact that the countries in question were at different "stages of development". It should be the part of international co-operation to help to bridge that gap and to encourage the development of the backward countries. The international co-operation programmes which were launched

⁴ This section is based on the first part of the paper by Sunkel and Tomassini referred to as having been published in *Estudios Internacionales*, No. 50 (1980).

on the basis of these assumptions did not produce the expected results, and the period extending up to the close of the 1960s terminated in a mood of sheer 'disillusionment with aid', testimony to which is to be found in a number of evaluations formulated at the end of the period, as well as in the reports prepared by Pearson, Peterson and Prebisch.⁵

"Donors and recipients alike" (one such report concludes) "tended to view the modernization and development of low-income countries as an attempt to repeat the Industrial Revolution in quick time. They focused inordinate attention on individual investment projects and relatively little on the causes and results of stagnation" (Pearson, 1969, p. 5).

That approach overlooked the historical background and structural characteristics that had shaped, in the course of time, the relations between the underdeveloped and industrialized countries. It assumed that development was a process that could take place independently and in the same way in different places and at different times, and that it consisted in reproducing, in different circumstances, a pre-established model. In this sense, it helped to endorse the primacy of the industrial powers, and to consolidate an international system constructed in their image and likeness.

CEPAL called these assumptions in question from the very outset of its activities, about the beginning of the 1950s under the leadership of Raúl Prebisch. In CEPAL's view underdevelopment did not consist merely in the lack of growth but, on the contrary, constituted the style of growth peculiar to the peripheral economies. Its analysis contained from the start the elements which, with the passage of time, were to affirm the existence of a world economic system that simultaneously generated development in the centres and underdevelopment in the periphery (CEPAL, 1950; Prebisch, 1952).

According to this analysis, the 'centre' (made up of the developed countries) had established an international division of labour whereby it reserved for itself the production of manufactures and capital goods, and assigned to the 'periphery' (the underdeveloped countries) the role of producers of foodstuffs and raw materials. In the framework of this type of specialization, the international markets systematically operated against the interests of the developing countries, giving rise to a secular trend towards the deterioration of their terms of trade and of their capacity to import, as well as to persistent external imbalances.

The trend in question consisted in that over the long term the prices of the primary commodities which the peripheral countries specialized in exporting declined in comparison with those of the manufactures and capital goods which they had to import from the centres. This was due in the first place to the fact that, as could soon be seen, the entrepreneurial and labour sectors in the industrialized countries, instead of transferring to the periphery the benefits deriving from productivity increments induced by technical progress, through a correlative reduction of prices, converted them into a steady rise in their own income. A second contributory cause was that demand for primary commodities is relatively inelastic, as can be inferred from Engels Law, according to which the more the income of a society increases (as occurs in the centres) the smaller is the proportion that the consumer allocates to food and basic commodities, which means that the growth of demand for products of this type is slow and irregular. Thirdly, the same effect is produced by certain characteristic biases in modern technology, which tends to encourage the generalized substitution of synthetic for natural products, and material-saving production processes. The protection that the industrialized countries have traditionally accorded to their primary sectors, by making access to their markets difficult for the commodities in which the periphery specializes, did the rest.⁶

⁵ For a critical analysis of these and other similar reports, see Helio Jaguaribe, "Implicaciones políticas del desarrollo latinoamericano", in Díaz-Alejandro, *et al.*, 1976.

⁶ As has been pointed out elsewhere, this line of analysis, originally minted in Latin America, attained worldwide currency as from 1964, when it inspired the proposi-

From the standpoint of the developed countries, it was only to be expected that such theses should be contested. Thus, for example, the trend towards deterioration of the terms of trade has more than once been called in question in the light of empirical evidence (Ellsworth, 1956; Flanders, 1964; and Haberler, 1969). In broad outlines, however, the argument still holds good, especially if its validity is measured not so much in terms of the real evolution of basic commodity prices as in relation to the trend which the developing countries had reason to trust they would follow (Fishlow, 1978). Nevertheless, in the context of the present discussion, it is worthwhile enquiring into whether some of the assumptions on which this theory was historically based are still valid.

2. The advance of the transnationalization process at world level

The centre-periphery scheme of analysis was based on the assumption that both the role assigned in the international division of labour to the peripheral countries—that of producers of raw materials—and the trend towards delinking of their economies from the international economic system, reflected in their declining participation in world trade, would be irreversible. The industrialization of the peripheral countries and the conclusion of commodity agreements emerged in the light of this analysis as the two paths which, by modifying the developing countries' specialization in the international division of labour and improving their terms of trade, would lead them towards the acquisition of a larger share in the fruits of technical progress. The drastic reduction in the purchasing power of their exports resulting from the depression of the 1930s, and the additional difficulties in importing caused by the war, afforded these countries new incentives to adopt policies that would protect and encour-

age the creation of an industrial sector which, in an initial stage, was based on deliberate policies of 'inward-directed growth' and import substitution, and to insist on the necessity of regulating the raw materials markets.

The supposition that the delinking between the peripheral countries and the international economy was irreversible was based on a number of postulates, which included the existence of an extremely rigid international hierarchy, the predominance of security objectives over economic interests (two assumptions linked with the cold war) and the existence of a poorly integrated international economy, in which the mobility of factors was much less than that of goods. The events of the following decade made a difference to these assumptions. The relative weakening of the rigidly bipolar system which stemmed from the Second World War and the trend towards the dispersion of world economic power strengthened the capacity for manoeuvre and the competitiveness of the developing countries, led to the diversification of the markets and of the sources of supply of capital goods, technology and financing which were available to them, and, therefore, acted as a spur to their integration in the international system. The fact that economic interests came to acquire increasing importance in international relations in comparison with security objectives also helped to flexibilize the participation of the developing countries in the international system, and encouraged them to seek a higher degree of autonomy, since economic power is relatively less concentrated than political and military sway. The trend towards the formation of a transnational economic system based on increasing interdependence among the various national societies, in which the internationalization of trade and of primary production was followed by that of industrial production and services, did still more to incorporate the peripheral countries in a global system that was being rapidly consolidated.⁷ The hardening of East-West relations that has taken place since last year may represent a set-back rather than a definitive change

tions formulated by the developing countries in UNCTAD. Indeed, it served as the basis for the new trade strategy of the Third World (Prebisch, 1964). But these notes refer only to the change in the conceptual interpretation of centre-periphery relations, and exclude questions relating to the strategies that have oriented negotiations between the two groups of countries (Tomassini, 1967 and 1969).

⁷See, primarily, such authors as Bergsten and Krause, 1975; Cooper, 1968; and Nye and Keohane, 1975.

of direction on the road towards détente, if account is taken of the structural characteristics of the chief contestants and the nature of the economic and technological relations that have already grown up between them; and it is in any case too recent an episode to give grounds for drawing lasting conclusions.

"The centre-periphery approach has been very useful in explaining the historical background of the capitalist development of the periphery in terms of the characteristics of the corresponding centres in their phases of expansion and crisis (as is pointed out by some of the authors who have done most to enlarge upon this approach). Thus, for example, it is recognized that the spread of the industrial revolution and the imperialist expansion of the central countries during the latter part of the nineteenth century were the factors that contributed most to the peripheral countries' conversion into specialized exporters of primary commodities. Furthermore, it is admitted that the period of crisis through which capitalism passed between the First World War and the 1940s was one of the determinants of the industrialization of many countries at that time underdeveloped. Nevertheless, except in the restricted context of the importance attaching to external markets for basic commodities, capital and technology, and of the growth experienced by the transnational corporations since the Second World War, to which attention has been drawn in the literature on dependence, the analysis of the peripheral countries' development in the last two decades in frequently conducted as if that global capitalist framework had ceased to exist, had remained essentially unchanged, or was of no importance." (Sunkel and Fuenzalida, 1978.)

The past decade witnessed the gradual working-out of a schema centred on the analysis of a transnational set-up in which the central and peripheral countries are not only linked by external relations, which pertain to the sphere of the goods and factors markets, but form part of one and the same system, whose features radically determine the peripheral

country's political, economic, social and cultural structure. The centre-periphery analysis had primarily focused attention on the trade relations between the two groups of countries, since they were considered to be the main form of linkage between the two segments of the system. It had also predicted that the industrialization of the periphery, by modifying its specialization in the international division of labour, would necessarily engender a more autonomous form of growth. The fact that the industrialization of the peripheral countries took place during a stage characterized by the transnational organization of the world economy somewhat affected the validity of these diagnoses and the corresponding predictions. In reality, the process in question was not carried out in isolation, but made progress thanks to the establishment of new and deep-rooted connexions with foreign economies. In other words, the development of the peripheral countries incorporated them in the external economy more closely and in different ways, as they gradually replaced imports of consumer goods by those of the capital goods and inputs they required to pursue their industrialization processes, and assimilated the ways of life, the consumption patterns and the structures of production proper to advanced societies, enhancing the strength and complexity of their interrelationships with a booming transnational system. To put it another way, the development of the peripheral countries went hand in hand with their increasing integration in the international systems.

"It is a fact" —according to an authoritative testimony— "that the Latin American countries have developed within the context of growing integration in the international economy. Although external factors have always been of decisive importance in the evolution of the region, the present extent and characteristics of its external relations are new". (Iglesias, 1980.)

This state of affairs involves imitative adoption by the peripheral countries of the style of development prevailing in the centres. In this process a very important role is played by the transnational groups operating in the developing countries, since their goal is to

reproduce that style locally, organizing the societies of the periphery in the image and likeness of the centres. The transnational integration of the peripheral countries strengthens the tendency for 'transnationalized' sectors to exist in their economies alongside marginal sectors. It also permits the subsistence of a high degree of asymmetry—and, therefore, of dependence and conflict—between the various segments of the system. Yet, without regard to these negative connotations, the transnationalization of the peripheral countries is being intensified.

3. *Crisis in the system and interdependence*

The period of exceptional prosperity enjoyed by the great industrial countries during the 1950s and 1960s undoubtedly provided the background that made the formation of the system possible, as well as the progressive transnational integration of the peripheral countries. In the course of time, however, the costs, the contradictions and the undesirable effects of the process became increasingly apparent. The 1970s were marked by the downturn of the expansionary cycle in the centres. This situation determined the evolution of the world economy as a whole, which has been characterized since then by insecurity with respect to supplies of energy and other strategic raw materials, by conditions of acute instability and by chronic inflationary and recessive trends. Hence it is that this last period has witnessed an ever-deepening awareness that economic growth has its limits. The first report on these problems published under the auspices of the Club of Rome helped to launch a debate which generated a number of different reactions on the theoretical plane, while the action taken by OPEC in 1973 gave the alarm in the field of actual fact (Meadows *et al.*, 1972; *The Ecologist*, 1972; Ward, 1973; Mesarovic and Pestel, 1974; Heilbroner, 1974; Kahn *et al.*, 1976; Herrera *et al.*, 1976; Mishan, 1977; and Freeman and Jahoda, 1978).

This awareness is associated with certain trends observable in the centres, to which the following section refers, and outstanding among which are the increase in the operational costs of their production systems in

consequence of wage adjustments and rising public expenditure; the changes in labour force and consumer preferences; the diminishing rates of return on investment; and the slackening of the pace of technological innovation, *inter alia*. It is also tied up with the higher prices and uncertain supply of energy and other industrial raw materials, and with the need to face increasing environmental costs, in consequence of the tempo, style and degree of concentration of economic growth in the centres. From one point of view, these trends have brought in their train the consolidation of a transnational system based on the gradual interpenetration of national societies. From another, they constitute factors that are making for a loss of competitive capacity on the part of a growing number of economic activities in the industrial countries, and are exerting pressure in favour of changes in the former international division of labour.

Hence these factors are altering the terms in which centre-periphery relations have traditionally been stated. Hitherto these relations had been envisaged in terms of the clash of interest between two groups of countries occupying clearly defined positions in the international division of labour. In this set-up, the developing countries were struggling to improve their share in the distribution of the benefits deriving from international economic relations, and trying to get the industrialized countries to adopt concessional or preferential measures designed to promote a process of unilateral transfer of resources to the periphery. It was not clearly realized that the welfare of each of these two groups of countries depended, to some extent, on the progress of all and on the operation of the world economy as a whole. Today, thanks to the deepening of the relations of interdependence between all countries of the world, centre-periphery relations tend to present themselves in terms which make it possible to supplement that transfer of resources, on which the attention of the Third World has been concentrated up to now, by an effort to identify areas of common interests that may serve as a basis for reciprocally advantageous action, in which confrontation gives ground to negotiation.

This process, which of course is not exempt from conflicts and which will entail prickly negotiations, presupposes the introduction of more or less radical reforms in the world economy, whose present structure is biased in favour of the industrialized countries.

The evolution of centre-periphery relations just outlined is due to the changes that have taken place in the two segments of the system, mainly in the course of the past fifteen years.

II

Structural changes in the centres

It has already been noted that during recent decades the international system has been characterized by the strengthening of transnational relations at all levels. This phenomenon is largely due to the fact that the internationalization of trade was followed by the internationalization of the production cycle. Among the principal agents of this process were, unquestionably, the transnational corporations, which expanded rapidly during the period referred to, and whose growth was stimulated by the tendency towards vertical or horizontal conglomeration of productive activities under a single firm, i.e., through control either of the activities forming the entire chain of the production cycle or of activities distributed over a wide range of branches of industry. By the end of the 1960s the value of the output of the subsidiaries of transnational corporations located in the OECD countries already exceeded the value represented by those countries' foreign trade. Between 1955 and 1970 the 500 biggest industrial firms in the world, according to the periodical *Fortune*, raised their share in the total profits of industrial activities from 40% to over 70%. The share of United States firms located abroad in the overall gains of that country's enterprises soared from 7% in 1960 to about 30% in the mid-1970s, during which period the percentage of the United States' global investment represented by its investment abroad increased in similar proportions (Barnet and Müller, 1974, and Müller, 1977-1978).

Such was the process of formation of a transnational system based on connecting streams which often overflow the classic chan-

nels of the national States. This system was grounded on a sort of transnational community motivated by a set of similar values, objectives, professional skills, consumption patterns, status symbols and ways of life. The process is finally being completed by the appearance on the international scene of an increasing number of protagonists, currents of opinion and centres of influence which operate across national frontiers. The most obvious result is the deepening of relations of interdependence among all the peoples of the world, a phenomenon of which the scope will be briefly indicated at a latest stage. In reality, the development of each individual country is becoming more and more dependent upon the resources, markets, attitudes, policies, systems of life and cultural values prevailing in other societies, and its styles of development are increasingly determined by the dominant trends in the transnational system as a whole (Sunkel and Tomassini, 1980).

It is this system which —as was said before— in the opinion of many observers of the contemporary situation is showing signs of crisis, at least if we grant the ambivalence that characterizes every crisis, according to José Medina Echavarría's felicitous and well-known definition of this concept as a state of transition... which does not exclude either the system's strengthening and recovery or its final breakdown and ruin.

It has also been stated already that the past decade witnessed an ever-deepening awareness of the fact that economic growth has its limits. This *prise de conscience* was stimulated by the recessive and inflationary tendencies

that were observable in the centres, and were linked to the rise in production costs and the loss of competitive capacity on the part of their production apparatus, in an increasingly large number of sectors. The resurgence and the high degree of fluidity and interconnexion of the international financial markets, subject to regulation by no authority whatever, helped to accelerate the international propagation of economic disorders. The uncertainty reigning about supplies and prices in the field of energy—as well as in that of key industrial inputs—did much to aggravate a situation of international instability which is strengthening the recessive and inflationary trends noted above.

According to a recent UNCTAD report, prepared on the basis of consultations held at various levels, the international economy will continue to hold out gloomy prospects. After a feeble and incomplete recovery from the severe recession of 1974-1975, in 1979 the world economy entered upon a new phase of decline which presumably will be intensified in 1980, with some hopes of a dubious revival by 1981. According to the aforesaid report, the growth rate of the OECD countries will be only 1.1% in 1980 and perhaps 2.7% in 1981, instead of 3.3% as in 1979; that of the socialist countries will not exceed 4% in 1980-1981, and the developing countries will find it difficult to raise theirs above 5% per annum over the same period (UNCTAD, 1980).

This state of stagnation, and the different forms it takes in the developed and in the developing countries, corroborate that trend towards the dispersion of world economic power to which allusion has already been made: a trend which has been reflected, firstly, in the weakening of the relative position of the United States as against Japan and the European Economic Community, and, secondly, in increasing competitiveness on the part of the relatively more advanced developing countries *vis-à-vis* the industrialized countries.

Factors of three kinds, essentially, are pushing in this direction from within the developed societies: the appearance of a number of bottlenecks on the supply side; the emergence of a series of structural rigidities in their respective economic, political and social systems; and the transformation of the values and

demands prevailing in the societies in question.

A great deal of speculation about the first of the above-mentioned factors has found expression in a copious literature, to part of which reference has already been made. Within this literature, special attention should be drawn here to the latest and considerably updated works of Walt W. Rostow (1978 and 1979). According to his analysis, the world economy would seem to be entering upon a fifth upsurge of the Kondratieff 'wave',⁸ characterized by the emergence of an imbalance between the requirements of economic expansion, on the one hand, and, on the other hand, the supply of foods, raw materials and inputs available to sustain the expansion process, as well as by a correlative rise in the prices of these. The first such 'wave' or cycle apparently occurred at the close of the eighteenth century, having been brought about by the breakdown of the equation between population and food supply which followed the French Revolution and the Napoleonic wars, and which gave rise to the pessimistic prophecies of Malthus and Ricardo. The second of the cycles in question would seem to have centred upon the future of the United Kingdom's coal reserves, in the mid-nineteenth century, and prompted the admonitions by which Jevons sought to advocate a reduction of the growth rate both in his own country and on the continent. Prior to the Second World War similar challenges once again arose, represented, according to Keynes' classic analysis, by the tendency for a given unit of manufactured goods to allow the purchase of a steadily declining amount of raw materials every year, and for comparative advantages in international trade to turn against the industrialized countries. A fourth cycle, with similar features, characterized the period following the Second World War. The evolution of the international economy as from the 1960s would seem to signify the appearance of the fifth of these cycles.

⁸ According to the writings of the Russian economist N.B. Kondratieff, who suggested in the 1920s that the capitalist economies were subject to long cycles or "waves", lasting some 40 to 50 years, that were characterized by the appearance of limitations on the supply side.

"In the coming years, as in other periods when primary commodity prices were relatively high, the leading sectors will be found in fields connected with natural resources: generation and conservation of energy, expansion and conservation of raw materials, development and conservation of water reserves, agriculture (notably in developing regions), transport, pollution control, and research and development along a broad front primarily related to natural resources. To promote the growth of the investment required in these sectors considerable changes will have to be introduced in public policies, in order both to create scenarios in which private investment can increase appropriately, and to generate the necessary public investment funds wherever the private sector cannot do the work". (Rostow, 1979, p. 40.)*

The emergence of these bottlenecks on the supply side would seem to constitute, firstly, the natural price of a long period of expansion and prosperity for the industrialized economies, and has given rise, secondly, to the familiar debate on the limits of growth to which several allusions have already been made.

The second group of factors determining the interruption and crisis of the expansion process of the contemporary transnational economy, and operating within the industrial societies, consists of a number of structural rigidities which have been gradually incorporated into these societies as a result of the behaviour of their economic, socio-political and environmental variables, and also as a sequel to the system's prolonged boom period. A no less abundant literature —of which an example deserving special mention is a recent study on the future development of the industrially advanced societies in harmony with that of the developing countries, promoted by OECD (1979)— records the appearance of these rigidities. Some of them are worth singling out for comment.

Among the macroeconomic limitations that have emerged during the period attention

has been drawn, in the first place, to the investment shortage originating in the decline of the rates of return on capital in most of the developed countries, in the increasing uncertainty and the risks deriving from economic, political and social circumstances, and in the growing amount of idle capacity in consequence of the trends described. Secondly, there are the huge balance-of-payments deficits piled up by several industrialized countries which play a predominant role in the system and which in order to reduce these deficits find themselves under pressure to limit their rates of growth. Thirdly, account must be taken of certain changes that have recently occurred in international trade patterns, such as the fall in the ratio between trade and the world product, changes in the relative share of the various countries and the increased sensitivity of international trade to national policies, in a dangerous neoprotectionist context. Last but not least, mention must be made of the chronic outbreak of inflation.

Certain socio-political constraints on growth are also cited among these rigidities. Those stemming from the evolution of the labour force in the industrialized countries are none the less decisive for being contradictory: this evolution comprises not only its growth (which will probably turn into a shortage in the near future), but also the changes in the labour supply deriving from its greater skills, the alteration in the preferences of those looking for work, and the rigidities created by the protection that the trade-union organization or government policies accord to certain sectors —all of which is reflected in specific and presumably transitory forms of unemployment. Mention is also made of the so-called 'institutional sclerosis' observable in the industrialized countries, and imputable to the oligopolistic character of groups of producers which in face of the weak capacity of consumers to join forces exercise their economic or political power to defer innovations or prevent changes in the allocation of resources that may threaten their positions. The same analysts indicate, among the sources of these rigidities, the increase in government intervention through the proliferation of regulatory measures, the

* Unofficial translation.

expansion of public expenditure or the growing State participation in industrial activities, a tendency aggravated by the progressive incapacity of governments to co-ordinate their policies, which in turn results from their commitment to an increasing number of social objectives.

The need to control or correct the impact of specific economic activities on the physical environment, deriving from pollution or from their pressure on natural resources, also implies additional costs, on which we will not dwell here for the reasons already noted.

One last category of factors which is influencing the transformation and crisis of the contemporary transnational system relates to the radical change that is taking place in the values or social preferences of an increasing number of groups and sectors within the advanced societies. From Bell's 'post-industrial society' (1973-1976) to the 'made-to-measure' society which according to Toffler is to follow the age of mass production (1980), with, *en route*, the attack on the gigantism of the industrial countries' economic and social systems launched by Schumacher under the slogan of 'small is beautiful' (1973), a number of images are offered by social science in the northern countries to interpret their phase of transition and crisis. This metamorphosis of values of course involves changes in the prevailing orientation of demand in the societies in question, including not only the demand determining the type of goods and services expected from the formal sector of their production systems, but also that relating to the needs which are met through the informal sector of their economies, such as transport requirements for maintaining contact between relatives in societies characterized by a dispersed family structure, or recreational facilities in communities that attach increasing importance to the use of leisure time and entertainment. There are also other forms of demand whose satisfaction depends upon certain non-economic processes, such as the requirements of self-realization, community participation and spiritual fulfilment, which are likewise gaining in importance in industrial societies.

One of the most original and enlightening

aspects of the recent OECD study mentioned above is the way it throws into relief the preferences expressed by the various societal groups, in accordance with a classification which divides them into materialist and post-materialist values. Among the former are, included the preference for security and national defence, economic growth, price stability, the purchase of durable goods and the maintenance of law and order; and among the latter, appreciation of the embellishment of cities, protection of nature, the construction of a society in which "ideas count more than money", a less impersonal community structure, and a keener sense of participation at the community, labour and political levels. From the survey referred to it appears that to the cleavages inherent in the distribution of income and power, characteristic of industrial societies throughout the first half of the twentieth century, are now being added further splits between the materialist and the post-materialist view of life, essentially in line with distinctions of sex, age and profession, and involving a number of social groups, still in a minority but particularly active, which express their preference for the second set of values.

Nothing could be more obvious than the linkage existing between the change in the values prevailing in industrially advanced societies and the possibility of keeping up the rate and style of growth which these societies have known in the past.

The three categories of factors noted above have sown seeds of crisis in the contemporary transnational system and have hampered it in incorporating the structural changes that it needs in order to adapt itself to new circumstances and to allow the great industrial countries to continue growing at the same rate as before, to preserve their styles of development and to maintain their internationally competitive position. At all events, the necessity of structural adjustment policies has come to constitute the dominant concern in the contemporary international scenario.

With respect to the structural nature of the changes required in the societies in question, and to continue quoting unsuspected sources of partiality in support of the method of analysis

adopted from the outset in CEPAL thinking on this subject, let us recall that in a study he was commissioned to write by the Council on Foreign Relations, Lincoln Gordon states his central thesis to be "that these types of structural growth policies are already of major importance in most national economies, are likely to grow even more important, and are increasingly involved in international economic and political relations" (1979). We may thus pass on to draw certain conclusions on the basis of testimonies whose intellectual source is closer to us.

The first of these conclusions relates to the widening of the margin of autonomy that some developing countries might enjoy within the framework of the contemporary transnational system, in consequence of the elements of stagnation and crisis in the system. "From this angle, it must be pointed out that Latin America's potential autonomy *vis-à-vis* the external world has substantially increased in the last two or three quinquennia", is the conclusion reached in a study on the trilateral system and Latin America, which notes that among the causes of this situation are the dispersion of economic power in the world economy and "the considerable development and potential for capital accumulation and technological change achieved in much of the region" (Ferrer, 1979, p. 102).

The second is connected with a phenomenon to which attention has already been drawn, and which will be reverted to later, namely, the reduction of the industrial countries' competitive superiority over the developing countries in a steadily increasing number of sectors. These are trends that are operating in favour of more or less radical changes in the former international division of labour, and are paving the way for a process of world-wide redistribution of economic activities, the scale of which in the next few years it would be difficult to conjecture. In this context it is of interest to quote the opinion of one of the Latin American members of the Brandt Commission: "what I have found most surprising is that the way in which Western Europe (and Japan too) looks at the world and its relations with the developing countries is based on the sensation that owing to competition from some of the

developing countries it is systematically losing industrial sectors in which it used to believe it reigned supreme. Thus, one hears the story of how the United Kingdom or some of the countries of Continental Europe, which had already resigned themselves to the dismantlement of their textile industry, are today having to admit that they are losing ground in competition with what they call the newly industrializing countries, or the more advanced of the developing countries, in entire sectors such as steelmaking or shipbuilding. They are finding themselves obliged to close down those activities, once again no longer for circumstantial reasons, but because the capacity to run them has been gradually transferred to some of the developing countries which can offer not only the incentive of lower costs but also, more surprisingly, a more advanced technology... That is, what is now at issue is no longer the old question of the prospects of industrial competition based on low wages that used to be debated in the 1950s or 1960s, but a matter of competition based on the developing countries' use of more advanced technologies and equipment" (Botero, 1979).

In the course of the same symposium at which these opinions were expressed,⁹ Helio Jaguaribe after describing the three alternative lines along which the world order might in his view evolve in the future, indicated that the most probable —although not the most to his liking— was that of "centric and omnicomprehensive culturalism". And he added that "the process of incorporation by acculturation (as in the classical world) is gradually opening out towards the periphery" (1979, p. 43). Herein lies the third and most general conclusion to which this reading of the trends observable in the industrial centres leads us.

It is a conclusion that José Medina Echavarría had already reached in his latest writings when, after noting that "the beginning of the economic recession in the great industrial countries has gone hand in hand with the initiation of détente", he explored the prospects

⁹ Seminar on Latin America and the New International Economic Order, CPV and RIAL, Viña del Mar, 7-11 January 1979.

for the Latin American countries' external relations in that new scenario. For in his opinion, from the point of view of these countries, within "the more open horizon" that is glimpsed in this scenario, "there can be no doubt that détente opens possibilities of new options which are no longer limited to the choice between the two principal models". Which led him to conclude that, if the Latin American

countries are incited by the new climate of international permissiveness to run their own more independent course, "the opportunities thus opened up for them could be just as promising as they might be unfavourable and negative", - a conclusion which will be adopted in the last section of the present notes (1976, pp. 49 to 52, *passim*).

III

Change and differentiation in the countries of the periphery

The remarkable rate of growth recorded by a steadily increasing number of developing countries during the past twentyfive years, and their progressive integration in the international economy, have brought about deep-seated changes in their economic, political and social systems as well as in their relations with the industrialized countries.

It has already been pointed out that in the early 1950s nobody pinned great hopes on the possibility that the development of the peripheral countries might be induced by stimuli deriving from external markets, and might go hand in hand with their gradual integration into the world economy; in contrast, what was advocated was the adoption of import-substituting industrialization policies and of mechanisms designed to regulate the international commodity markets.

During the initial phases of the industrialization process, the aim of many developing countries, particularly in Latin America, was to substitute domestic production for imports of manufactures. Through import substitution they sought to increase the proportion of domestic consumption that was satisfied with local products. Among the immediate motives for adopting this strategy were the chronic balance-of-payments crises suffered by the developing countries because of their structural subjection to external bottlenecks; it also served the long-term political objectives pursued by the national governments. In the first connexion, it was hoped that import substitu-

tion would enable the peripheral countries to reduce their disbursements in foreign currency and increase their autonomy; in the second, the strategy in question afforded the ruling élites a way of satisfying the pressure exerted by the social sectors whose bargaining power was increasing in consequence of the development process itself, through a policy destined simultaneously to foster growth, income distribution and employment.

This strategy essentially implied an effort to wrest the domestic market out of the hands of foreign producers. In so far as domestic demand warranted the creation of new industries that some day—and this consideration has now become very important—might be able to compete with the displaced foreign producers, it was possible to justify the levels of protection applied, using the arguments adduced on behalf of nascent industry in the past. Of course, in so far as this latter condition was not fulfilled, import substitution strategy was bound to come up against certain limits. In other words, either industry began to bring in the foreign exchange required for its subsequent development, or its growth rate was adjusted to the supply of external means of payment generated by primary production, to which in some cases the strategies concerned had assigned a second priority. In practice, all that happened as a general rule was that imports of consumer goods were superseded by imports of the capital goods and inputs required for the operation and expansion of the new industrial sectors.

In the course of time, many countries recognized that the propensity to use foreign exchange without generating it is not inherent in manufacturing activity, and one after another reached the conclusion that it was necessary to place less emphasis on protection and attach more importance to efficiency, competitive capacity and export promotion. With penetrating foresight, one of the authors who has most lucidly analysed this problem concludes an early paper of his as follows:

"Policy makers are likely to increasingly recognize the conundrum and adopt export promoting policies. Such a change in policy will bring the trade restrictions of the industrialized countries into the centre of the stage, and make trade, not aid, the fulcrum of international economic debate" (Schydrowsky, 1974).

Thus, as from the mid-1960s—and even earlier in the case of island State or city-States that had no other alternative—the first moves were made to try out, in different tempos and diverse forms, new strategies based on the liberalization of the domestic market and the opening-up of the peripheral economies to the outside world.

Because of their theoretical background, their age or their lack of historical vision, many specialists have seen in this transition a contest between rival schools; today, however, viewing it in the perspective that time affords, it will doubtless be possible to appreciate more clearly that in practice these phases were not then presented as alternatives, but rather as complementary processes. For many Third World countries, import substitution represented the only valid option at a given moment in their history, taking into consideration the stage of development they were passing through and the existence of an unfavourable external conjuncture. It often served as a basis not only for their industrialization but also for the consolidation of their own national identities. Moreover, at the time not only was there not seen to be a necessary contradiction between the internal and external markets, but the former frequently served as a springboard assisting access to the latter. While it is true that changes took place in growth strategies and in

the external relationship patterns of the developing countries during the period in question, it is no less true, as has been wisely recalled in a recent high-level report, that these changes did not take place overnight.

"They" (the developing countries) "cannot accomplish these changes suddenly; but since the 1960s many developing countries have moved towards strategies to promote exports and to offset disadvantages due to the insulation of their domestic markets. A number of countries which have introduced export-oriented policies have been able to exploit their comparative advantage in world markets. They include some Latin American countries with a fairly long history of national independence, and some island and city state economies which were from the outset obliged to rely on export demand. Once industrialization has taken root, it is not only in labour-intensive industries like clothing or leather products, but also in moderately capital-intensive industries like electronics, steel and shipbuilding, that they can become highly competitive in world markets" (Independent Commission on International Development Issues, 1980, p. 174).

In consequence of these strategies, as the same report records in broad outline, the share of manufactures in the total exports of developing countries (excluding petroleum) gradually climbed from 10% in 1955 to 20% ten years later, and about 40% in 1975. Obviously, this boom in exports reflects more complex transformations undergone by economies which attained intermediate stages of development. It is likewise true that it was concentrated in what was still a limited number of countries. This leads us to refer, although in general terms, to the increasing differentiation between the countries of the periphery that has been observable in recent years and to the situation of those of them whose development has reached an intermediate stage.

The literature on the subject has proliferated in recent years. The report prepared by the World Bank in 1978, as the first in a series of annual reports on the evolution of the international economy, may afford a useful, although controversial, point of departure for dealing with the topic (IBRD, 1978).

"The developing countries have grown impressively over the past 25 years: income per person has increased by almost 3% a year, with the annual growth rate accelerating from about 2% in the 1950s to 3.4% in the 1960s. Contrasted with what little can be gleaned of the experience of these countries before 1950, this is a substantial improvement over the historical record. Moreover, it compares extremely favourably with the growth rates achieved by the now developed countries over the period of their industrialization." But the report goes on to show that there have been marked differences in the performance of individual developing countries over this period. "Growth rates have generally been lower in the low-income countries of Africa and Asia where the majority of the world's poor live. In countries accounting for half the population of the developing world, income per person has risen by less than 2% a year."

Stress must be laid, therefore, on the great heterogeneity displayed by the developing countries as regards the size of their economies, their income levels, their resource endowment, their economic structure, their organizational patterns, their technical capacity and their linkages with the world economy. It is thus legitimate to distinguish at least between (a) the petroleum-exporting countries, (b) the least developed countries forming the so-called 'Fourth World' and (c) the countries that have reached intermediate stages in their development process.

The report of the World Bank adopts per capita income as the basic indicator for differentiating between these last two categories of countries. It includes among the low-income countries those with an annual per capita income of up to 250 dollars, regarding the rest as middle-income countries. Clear as it is, this indicator is manifestly insufficient to characterize countries in terms of their various stages of development. Such a criterion makes it possible to include in this last category countries like Bolivia, Egypt and Thailand, which are still predominantly rural and in which the bulk of the population still lives at subsistence levels along with others like Venezuela, Singapore and some of the countries of southern

Europe, which have an average per capita income of over 2 500 dollars. There are also wide disparities between the low-income countries: the World Bank itself subsequently drew a distinction in this group between mining economies and predominantly agricultural countries (IBRD, 1979).

In other analyses account is taken not only of the level of per capita income but also of the percentage of total exports represented by manufactures, the per capita value of industrial exports and the proportion of such exports constituted by 'complex products'. Among 'simple' industrial products are usually included textiles, clothing and footwear, as well as chemical products basically obtained by elementary processing of primary commodities; the other industrial goods are regarded as 'complex'.

A common denominator for all these countries is the fact that they all possess a growth potential considerably higher than that of the least developed countries, and, consequently, have greater opportunities of raising the level of living of the poor — opportunities which are not exclusively concentrated in the rural sector. Another common feature is to be found in the high growth rate of their industrial exports during the past fifteen years and their steadily increasing access to international credit over the most recent period. Owing to these latter circumstances, their development depends much more closely upon international trade and world capital markets than does that of the poorer countries, and their economies are therefore much more sensitive to the trends observable in the industrialized countries.

The fact is that during recent years some of the countries of Latin America, Asia and Southern and Eastern Europe have developed swiftly as producers of manufactures which are highly competitive in international markets. The phenomenon, sometimes described as 'the emergence of two or three Japans' in the field of trade, is acquiring more and more importance. The literature of the English-speaking world describes these as *newly industrializing countries* (NIC's). They are shown in the following table.

NEWLY INDUSTRIALIZING COUNTRIES

Philippines	Argentina	Spain	Hungary
Hong-Kong*	Brazil*	Greece	Poland
India	Mexico*	Israel	Romania
Iran		Malta	
South Korea*		Portugal*	
Malaysia		Turkey*	
Pakistan		Yugoslavia *	
Singapore*			
Thailand			
Taiwan*			

*Countries classified in this category by OECD. The remainder appear in a study by the Foreign Office of the Government of the United Kingdom (1979).

These rapidly industrializing countries are seen by the developed nations as increasingly serious competitors, not only in their own markets but also in those of third countries, to which circumstance must be added the loss of the markets of those same countries that are expanding their exports to the extent that at the same time they are applying import substitution policies. In fact, the proportion of the OECD countries' imports coming from these rapidly industrializing countries rose from 2.6% in 1963 to 8% in 1976, and is still increasing fast. The recrudescence of protectionism in the developed countries is the consequence of this process.

It is true that the benefits deriving from the

expansion of industrial exports are very unequally distributed in the periphery, owing to the disparities indicated, and that an unduly high proportion of them is absorbed by the countries at an intermediate stage of development. It must be borne in mind, however, that development is a dynamic process, and that probably an increasing number of countries will be able to attain the conditions necessary for participation in it. In this sense the countries at intermediate stages of development would seem to be pointing to the road that other developing countries might follow in the future.

Obviously, too, the opportunities that the developing countries have been finding open to them in the field of industrialization and trade in manufactures might be restricted by the recrudescence of protectionism in the industrialized countries. But it is also possible that the 'protectionist curtain', which over the short term certainly does pose this threat, may ultimately prove only to be concealing forces which, when a longer time has gone by, may operate in favour of a more balanced international division of labour. In this context we should like to resume our preliminary discussion of the changes that may have come about in centre-periphery relations during the last fifteen years.

IV

The internationalization of the world economy and centre-periphery relations

A query was raised at the beginning of the present article as to the current validity of some of the interpretational hypotheses on the probable future course of centre-periphery relations, based on post-war experience; and among these—to take up the thread of the argument again—we will give priority to the postulate of an irreversible trend towards the delinking of the peripheral countries from the international economy. It would seem to be a matter

of investigating whether these countries evolved in the direction of intensification of the 'inward-directed growth' at which many of them aimed, and which corresponded to the trend described, or whether as a result of the changes that have occurred during recent years in the two segments of the system an inverse tendency towards 'internationalization' of their economies has emerged. Aníbal Pinto has recently made contributions of essential signif-

icance to the discussion of this question (1979).¹⁰ Although the solidity of that study would justify our confining ourselves to commenting on the data it contains and the conclusions at which it arrives, the phenomenon is so new and the concept so ambiguous that a few perplexities still subsist and impel one to continue thinking about the current internationalization process of the peripheral countries—a process which may mean very different things according to whether it is conceived as a ‘resumption of the march of history’ on the part of the peripheral countries towards their incorporation in the international economy, or as the emergence of an as yet ill-defined relation of interdependence among all the economies of the world.

Whatever the significance of the process, and whether its consequences be beneficial or pernicious, there can be no doubt that, as is maintained in Part Three of the *Economic Survey of Latin America 1978*, “the process of internationalization of the world economy (and society) will continue”, although “the possibility that the process will lose ground or fail to make headway” cannot be ruled out (CEPAL, 1979 b, p. 557). At the same time, as regards the region, the CEPAL document on Latin America and the New International Development Strategy states, with reference to the 1970s, that “during the present decade there have been radical changes in the manner of Latin America’s integration in the world economy and the process of internationalization and association with industrial-market economy countries has been intensified” (CEPAL, 1979 b). The remarks of the Executive Secretary of CEPAL at the Commission’s last session pointed in the same direction, and drew attention to the ambivalent character of the phenomenon.

“The experience of recent years shows that Latin America has pursued a more open form of development, more closely linked with the international economy. This is nothing new as we are all aware, for the influence of external factors has been a historical constant in the region

and in the developing countries in general. What is new are the forms this phenomenon has acquired. To avoid misinterpretation, let us say, that we consider this evolution to be positive and necessary for the internal development process in so far as it enables activities requiring more wide-ranging markets to be projected outwards, and the way ultimately opened for another scheme of international division of labour. We must also recognize that not all the effects of this relationship with the international economy are positive, however. There are also risks to be identified, and an attempt must be made to lessen them” (Iglesias, 1979 a).

Reserving for the last section a brief review of the balance of risks and opportunities which this phenomenon involves, and of the alternatives with which it confronts the developing countries as regards their external strategy, we should like to confine ourselves here to describing its characteristics. To that end we shall examine the way in which the process concerned is reflected in the internationalization of trade, financing and the production cycle. Because we are dealing with a new phenomenon, in the weighting of the available indicators more importance has been attached to its dynamic and qualitative aspects, which do not merely reflect a state of affairs but indicate a trend.

As Aníbal Pinto notes at the start, between 1950 and 1965 the annual growth rate of the periphery’s exports climbed to 7.6% (6.8% in the case of Latin America). This rate of increase is in striking contrast with that of primary exports during the most thriving phase of their growth, between 1871 and 1913, when they expanded at an annual rate of 3.5% (Ferrer, 1976, p. 23). The expansion of the periphery’s industrial exports during the last part of the above-mentioned period was particularly significant.

Between 1960 and 1965 these sales, at constant prices, increased at an annual rate of 12.3%, that is, almost twice as fast as the total exports of the countries concerned. From 1960 onwards, the developed countries’ imports of manufactures from the markets of the developing countries grew faster than their industrial imports from the rest of the world, and between

¹⁰For fuller treatment of this material, see CEPAL, *Economic Survey of Latin America 1978*, Part Three, entitled “Latin America and the Internationalization of the World Economy: Significance and Options” (1979, b).

1970 and 1976 their imports of manufactures from that source increased at an annual rate of about 14%, that is, twice as rapidly as their total exports of industrial goods and four times faster than their own manufacturing output (UNCTAD 1978). The share of the developing countries in world industrial production, which had stood at about 7% for the preceding twenty years, rose to 9% between 1970 and 1977.

As has several times been noted, the developed countries, in consequence of the increasing competition from the developing countries and the problems besetting their own economies, as from the past decade began to discard the liberal principles adopted at Bretton Woods, which had permitted the exceptional expansion of world trade and the rapid growth of the industrial economies during the post-war period. Although protectionism is nothing new, having reached a peak around the 1930s with disastrous consequences for the international economy and the peace of the world, in recent years its scale and characteristics have altered. The latter include its systematic nature, its permanence and its selectivity, that is, its discriminatory application against products which are becoming highly competitive, and among which are the principal industrial goods that the developing countries are able to export.

It is common knowledge that the tariff reductions granted by the developed countries in the framework of multilateral trade negotiations mainly benefit the advanced-technology products which are the objects of their own reciprocal trade, and higher tariffs are maintained for the manufactures which the developing countries are in a position to sell. This is superadded to the traditional grading of tariff duties according to the degree of processing undergone by the products that the developing countries export. At the same time, in the last few years, there has been a proliferation of non-tariff restrictions, the impact of which is often more effective or more insidious than that of tariff barriers. They comprise, of course, quantitative restrictions which range from a ban on imports of specific products (meat, for instance, in the case of EEC), to the imposition of quotas

(as on food and vegetables in EEC or on sugar and more recently steel in the United States). They also include the levying of compensatory duties on exports from developing countries which the industrialized countries consider to be 'subsidized': a type of measure that has been applied abusively during recent years, with particularly destructive effects from the standpoint of the export promotion policies that the developing countries have been bringing into force at the cost of a great deal of time and effort. Then, too, there are the various types of trade restriction agreements, outstanding among which are the so-called market organization agreements signed by exporters and importers with the object of limiting trade in specific products (the most conspicuous case in point being the Multifibres Agreement), and the 'voluntary restrictions' that are agreed upon bilaterally between the exporter country and the importer country, at the dictates of the latter.

As has already been remarked, from a dynamic and long-term viewpoint such as it is desired to adopt here, what lies behind this protectionist curtain is the developed countries' tendency to lose competitive capacity in an increasing number of their branches of industry.

This has led many to suggest that without detracting from the importance attached by the developing countries to the adoption of a general system of preferences, the benefits these countries could obtain from greater liberalization of international trade ought not to be minimized either. One writer attributes the dubious attitude of many developing countries to the Tokyo Round to their defence of the margins of preference established by the GSP. As in practice, the same author concludes, these have created rather than diverted trade, and have been applied in a very restrictive fashion, it would seem that the developing countries as a whole would derive greater benefit from a more generalized, permanent and non-discretionary reduction (Perry, 1979).

All this foreshadows drastic changes in the former international division of labour. Sir Arthur Lewis expects that by the mid-1980s more than half the exports of the developing coun-

tries will consist of manufactures, and in this connexion holds that "the abolition of restrictions on manufactured imports is much more important than anything that can happen in the commodities area". In his view "the division of the world into developing countries that export agricultural products and import manufactures and developed countries that do the reverse is on the verge of ending" (Lewis, 1980, p. 37).

The significance of this trend, limited as yet, is strengthened by occurrences in the field of international financing. The insufficiency of the developing countries' export earnings to meet their growing import requirements, among which, of course, petroleum holds an outstanding place, has to some extent been offset by the remarkable financial permissiveness prevailing in the world economy. The sound articles on this subject published in this *Review* render a relatively meticulous recapitulation of the trends in question superfluous (Masad, 1976; Devlin, 1978 and 1979; and Zahler, 1980).

It is common knowledge that these trends are related to the explosive growth of the external debt of the developing countries, a phenomenon which has been accompanied by a drastic change in its composition in favour of commitments contracted with private sources. Although all this has unleashed a pack of premonitions as to the supposed limits that the process is likely to encounter, and the 'contingent' nature of such credits in comparison with the rigidly 'stable' character of those from public sources which were relatively more important in the past, the truth is that at least in the fog of the present international economic conjuncture these limits cannot be discerned.

This opinion is corroborated by the fact that the rapid growth of the peripheral countries' external debt during recent years has served not only their needs but also the interests of the industrial centres themselves. The second half of the 1960s witnessed the recrudescence of the international capital markets, in the forms of a thriving Eurocurrency market, which had not been long in existence before it showed unequivocal signs of interest in operating with the developing countries. The rapid increase in Eurocurrency deposits, the grow-

ing number of banks operating in those markets and the consequent intensification of competition among them pressured them into sectoral and geographical diversification of their loans so that they could better distribute their risks by looking for new customers, and made borrowers eligible that formerly would not have been so. Later an additional factor supervened: the slow growth of credit demand in the industrialized countries in a context of prolonged recession. Furthermore, any possible misgivings on the part of the developing countries with respect to private credits were tempered by the fact that these loans were extended on more liberal terms, as regards both the use of the funds and the degree to which the creditors intervened in the management of the borrower country's economy. In the last analysis, the developing countries, in resorting with apparent unconcern to external borrowing, merely opted for deferring the recessive effects deriving from the rise in the prices of petroleum and of the capital goods imported from the industrial countries, instead of applying orthodox prescriptions which would have meant the paralysation of their economic growth.

According to a recent estimate, the external debt of the non-petroleum-exporting developing countries will increase from 330 000 million dollars at the end of 1979 to 440 000 million by the close of 1981 (UNCTAD, 1980). With respect to the future, in addition to the foregoing considerations, it is useful to take into account once again the observations of Sir Arthur Lewis.

"Superficially this is a most precarious situation, and there is even fear that the inability of such governments to repay their loans may bring down the whole international banking system. But why should they be called on to repay? A banker lends money to earn interest. So long as the interest is safe, there is no need to repay the principal. The loan can be rolled over. A customer who insists on repaying is just a nuisance who is putting the banker to the trouble of finding another customer... What we need is an adequate flow of long-term finance, of various kinds, through all conceivable channels, including a long-term capital market reopened to good borrowers, supplemented by

the multilateral and bilateral government agencies and by private foreign investment, on terms ranging from market rates to grants to the poorest countries" (*op. cit.*, pp. 65-66).¹¹

In short, according to the same writer, "the developing countries will depend on foreign borrowing long after they have ceased to depend on foreign enterprise".

In the meanwhile, however, private investment continues to act as one of the most powerful factors of linkage between the industrialized and the developing economies. According to CEPAL data, the annual growth rate of foreign investment was almost 12% between 1967 and 1975, exceeding both that of the product and that of world exports (CEPAL/CET, 1979 (d)). The best way of appreciating its impact in all its ramifications would be to concentrate on its leading agent, the transnational corporations. Much has also been written on this subject (United Nations, 1978; CEPAL, 1979 a; and Křakal, 1979). As happened in the case of trade, during the period referred to the share of developing countries in world foreign investment decreased from 31% to 26%, while the investment in question veered from the primary sector to the manufacturing sector and its countries of origin were considerably diversified. Apart from the fact that this latter trend helped to increase the developing countries' capacity for manoeuvre, it is worthwhile to dwell for a moment on some of the qualitative aspects of the behaviour of the transnational corporations in those countries, during the most recent period.

The first of these aspects is the tendency to

'internalization' of foreign investment which emerges as it shifts from primary activities to manufacturing, with the well-known chain effects. As Anibal Pinto has recalled, in the past the link of foreign investment with the peripheral countries was a factor more of geographical than of economic significance; but in this picture a radical change has taken place in recent times, enhancing what the same author has felicitously termed the 'co-optation capacity' of foreign enterprises as regards determining the behaviour of an increasing number of economic agents and social sectors in the recipient countries — a circumstance which intensifies the internationalization of their economies. The second feature is the growing participation of transnational corporations in the global exports of the recipient countries (especially exports of manufactures), after an interregnum coinciding with the application by the developing countries of strategies based on import substitution, a stage during which their production was geared essentially to a domestic market. This is revealed by the fact that during the first half of the 1970s the transnational corporations' exports of manufactures increased at an annual rate of 23% (CEPAL, 1979 c, p. 168). The third and most important feature consists in the inclination shown by the transnational corporations to internationalize production of final goods, installing productive activities in those locations that offer comparative advantages, or to internationalize the 'production cycle', splitting up the corresponding processes with a view to manufacturing the various components of the finished products in the most suitable locations. All this has generated a process of redeployment of productive activities which is arousing considerable attention, however fervid the controversy over its results,¹² as has been well documented in recent

¹¹ It is interesting to compare these views with those of Walter Robichek, Head of IMF for the Western Hemisphere. He observes that as a general rule a nation's debt is not reduced. It is highly likely that an attempt to reduce it would cause economic upheavals. When the international bankers say they are prepared to issue loans to a developing country on a certain scale, this statement must be taken to mean that they intend to continue commensurately raising the ceiling of loans to the country, with no time limit. Only thus can the deficit on a country's balance-of-payments current account be supported and the problems of debt servicing be safely avoided. The worst possible course that the international private financing community could follow with a developing country is to alternate periods of over-lending with periods in which no new loans are granted at all (1980, p. 16).

¹² In connexion with the familiar view according to which these displacements would seem to be due exclusively to wage differences between the centre and the periphery, and therefore would not help to raise income or increase the value added of the new lines of production in the recipient countries, it has been recalled that the growth of investment has been relatively greater in the centres (where the prevailing rates of pay are appreciably higher) and that investors tend to offer wages substantially above average in the periphery. This would appear to endorse the

years (Evers, 1977; Institute of Social Studies, 1977; Müller and Moore, 1978; Grunwald, 1978; Mukherjee, 1979; and Foreign and Commonwealth Office, United Kingdom, 1979).

By industrial redeployment is meant the transfer of an existing industry from one location to another in response to market factors or to government intervention. It has already been noted that as from the 1960s the participation of the developing countries in world industrialization began to increase and to take new forms which made it possible for them to absorb a steadily growing number of industrial activities formerly located in the developed countries, both in the United States and, to a more marked extent, in EEC (particularly the Federal Republic of Germany) and Japan. The branches in which this trend is strongest include not only traditional labour-intensive industries (such as textiles and clothing), but also heavy industries (steel-making, refineries, petrochemicals and fertilizers), shipbuilding and the metal-transforming industries and certain

polluting activities, such as the chemical and pulp and paper industries.

One of the factors that have done most to stimulate this process is a propensity to industrial complementarity or subcontracting, by virtue of which manufacturing firms in the developed countries share their production with subsidiaries or independent enterprises established in the developing countries, where they can avail themselves of the local advantages in respect of wage levels, tax treatment, supplies of natural resources, less strict environmental regulations or direct granting of subsidies. In this way there has grown up a brisk interchange of parts and spares and a close complementarity between the production processes required for the manufacture of the corresponding final products, which constitutes one of the key features of international trade at the present time. In practice, the transnational corporations virtually command half the world's trade, much of which is carried on between subsidiaries of one and the same firm.

V

Change in the international relations of the developing countries

1. *Internationalization: openness or interdependence*

On the basis of the background data reviewed, a few very provisional conclusions may be drawn with respect to the question we initially posed as to the manner and measure in which, as a result of the changes that have occurred in

the international scenario, centre-periphery relations have altered their course. More precisely, we wondered at the outset whether perhaps, even if the structural features characterizing these relations remain the same, the time has not come to revise certain interpretations based on past situations, the account of which we began with a mention of the trend towards the delinking of the peripheral economies from the world economy.

It seems needless to recall that the same indicators may be the object of conflicting interpretations. In the case with which we are concerned we should like to start by pointing out three kinds of bias which support that interpretation according to which the periphery, spurred by the circumstances reviewed above, would seem to have confined itself in the present historical conjuncture to resuming—in a new guise and more precipitately—the course

hypothesis that the motivations accounting for the displacements in question are identifiable with a more complex set of factors, in which the loss of certain comparative advantages by the centres and the acquisition of new advantages by the periphery are dynamically combined. "From the point of view of Marxist categories, it could be said that the extraction of the relative surplus value (conditioned by the differential growth rates of productivity and wages) has been more attractive than the extraction of the absolute surplus value created by the intensification of the efforts of workers and/or the compression of wages." (CEPAL, 1979 (b).)

upon which it had started in the nineteenth century towards the internationalization of its economies. The greater importance assigned to the static aspects of the magnitudes considered, as compared with the amount of attention paid to their dynamic elements —i.e., those that reveal an accelerated trend which warrants expectation of 'major changes' in a near future— is one of the biases mentioned; among its manifestations is the fact that more weight is attached to the decline in the periphery's total share in international trade than to the boom in its exports of manufactures, which is rapidly yoking it to that segment of demand in the centres which shows greater elasticity or dynamism. The emphasis placed on the bigger relative gains of the centres as against those of the periphery, rather than on the changes which much of the periphery has undergone during recent decades in absolute terms, that is, in comparison with its behaviour in the past, produces the same effect; as happens, too, when the reduced share of the periphery in international investment is underscored without sufficient stress being laid on the drastic changes that have taken place in connexion with the expansion, diversification and penetration (or co-optation capacity) of new investment in the economies of a steadily growing number of developing countries. Lastly, the propensity to regard every 'novel' tendency as 'exceptional', and therefore merely contingent, completes an approach which in every case tends to reach the disquieting—or intellectually soothing— conclusion that 'there is nothing new under the sun'. A case in point is the discussion on the probable interruption or continuity of the financial permissiveness which has made possible the remarkable change and increase in the developing countries' external borrowing during recent years.

Once we are on guard against these biases, the conclusion may be reaffirmed that the indicators noted are the unequivocal expression of a closer interlacing of the developing countries—especially those which are relatively more advanced—with the international economy, and that the tendency towards delinking of the two segments of the system, which seemed to characterize centre-periphery relations during the post-war period, is being replaced by an

increasing interdependence. In the case of our own region, the interpretative summary of a recent meeting organized by CEPAL recalls that one of the questions raised bore on the degree to which Latin America "has become integrated into the world economy not only through its trade patterns but also through expanded investment, capital flows and international debt",¹³ and the following answer was arrived at.

"Increased diversification of the region's economic structure has led to a new kind of relationship with the world economy. Countries in Latin America have moved from dependence on a few primary products or agricultural commodities to a more macroeconomic interdependence that is more complex and interlaced with the world economic system. The combination of increased industrialization, the rise of the multinational corporation as a major presence in the region and the recycling of the OPEC surplus to Latin America in the form of increased debt have brought this region to a degree of integration into the world economy which is higher than in the past and also higher than that of other developing regions. This new macroeconomic interdependence poses problems as well as potentialities, but it is an important feature of the Latin America of today. This aspect of the new Latin America shows what a stake this region has in the fate of the world economy..." (Bradford, 1980, p. 113).

Let me say at once that the various interpretations of this phenomenon and the actual opposition it arouses in many observers have their roots in a confusion which little has been done to clear up hitherto, and which is further aggravated by the ambiguity surrounding the concept of interdependence itself.¹⁴ This ad-

¹³ "A new Latin America in the changing world economy", a meeting organized by CEPAL and the Latin American Programme of the Woodrow Wilson International Center for Scholars, at the Belmont Conference Center, near Washington, D.C., on 25 and 26 June 1979.

¹⁴ The studies on interdependence carried out in the centres during recent years—which, incidentally have been little assimilated in the countries of the periphery—have not succeeded in freeing this concept from the ambi-

vance towards interdependence (as against delinking) between the peripheral economies and the central economies is in fact synonymous or consubstantial with the experiments in 'external openness' conducted by some of the developing countries at different times and in different circumstances, as options allegedly counter to the 'inward-directed growth' strategies: experiments which in recent years have been protagonized by an increasing number of Latin American countries, and have represented various combinations of pragmatism and orthodoxy. Does the fact of recognizing that the prevailing post-war trend towards delinking of the peripheral countries from the industrial centres is changing, and giving way to fuller integration of the developing countries in the world economy, mean repudiating 'inward-directed growth' and unconditionally embracing openness-oriented strategies based on 'outward-directed' growth? Here we can only sketch a conclusion. Two different planes are involved. After more than a decade of analysis and discussion on these subjects, it is pos-

guity in question (in this connexion, see principally Rosencrance and Cooper, 1968 and 1972; Rosencrance and Stein, 1976; Nye, 1976; and Keohane and Nye, 1977). But the phenomenon exists, and had already been noted by the powerful intuition of José Medina Echavarría, when, referring to "an ever-recurring theme in recent years", he postulated "the possibility that some time the present theme of dependence will become out of date because of the slow or rapid modification of its nature as a form of unilateral hegemonic dependence", and suggested that, intellectually at least, it would be possible to think about "another form of this dependence as a plurilateral relationship" (*op. cit.*, pp. 59-60). Outlining a description prepared for other purposes on the basis of the bibliography indicated, interdependence might be defined as the increased sensitiveness reciprocally shown by given national societies to events or trends occurring in others, a phenomenon which when carried to extremes might result in an undesirable state of external vulnerability. Its evolution would depend on three conditions, *inter alia*: (a) the greater degree of diffusion or of internalization of the external linkages of a given society; (b) the construction of a multiple agenda, with relatively little ranking, of topics whose treatment depends upon the society's external relations; and (c) the development of a number of channels for the management of those relations. Within this same frame of reference, among the effects of interdependence upon the developing countries' international relations mention may be made of the diversification (geographical and topical) of their external relations, the widening of their margin for international manoeuvre, and the strengthening of the elements of change in the traditional pattern of their international relations.

sible to forecast that, in a considerably changed scenario, some of the peripheral countries will press on towards development along the same lines as in the past: towards development with 'inward-directed' growth, based on industrialization, on making the most of their domestic resources, on the expansion of their national markets and on reciprocal economic co-operation. But to borrow another of Aníbal Pinto's felicitous metaphors —paraphrasing Von Clausewitz' well-known saying that "war is nothing but a continuation of political intercourse with the admixture of different means"—, what is involved here is a continuation of the march of history towards the development and industrialization of the peripheral countries along paths more appropriate to the new scenario: paths among which the changing forms of their external relations hold an outstanding place.¹⁵

In other words, it is our opinion that the objective features of the international scenario today have a bearing on the external strategy that the developing countries ought to adopt, *relatively* irrespective of whether they have opted for an 'openness-oriented' model, in which exports serve as the 'engine' of development, or have continued in the direction of 'inward-directed growth', using exports as the 'lubricant' of this development, according to another of the metaphors coined by Lewis (1980), or have tried out some sort of combination of the two models, depending upon their ideology and the characteristics of their economy.¹⁶ Here we will hazard the hypothesis that

¹⁵As was noted at the outset, we have kept out of the discussion on alternative policies of 'inward-directed growth' and 'outward-directed growth', rich and lively as it is (see especially in this connexion Assael, 1979), in order to concentrate on the options before the developing countries today with respect to the formulation of their external strategies. A lucid analysis of the changing external conditions in which the development of the peripheral countries is taking place, accompanied by a proposal directed towards the creation of an "endogenous nucleus of technological dynamization" on the internal front, is contained in an unpublished study by Fajnzylber (1980), which the present author had an opportunity of reading only after he had finished writing this article.

¹⁶It must not be forgotten that however much weight is carried by ideological considerations in the choice between these options, the circumstances, the degree and the particular forms in which an individual country inclines towards one or the other depend substantially upon its

whatever the line chosen by a developing country within this spectrum, it will have to be pursued in an external setting characterized by an increasing interrelationship with the international economy, very different from the situation prevailing after the war. And we also venture to assume that to some extent and in different ways the external setting in question will impel the peripheral countries to attempt a greater degree of openness than in the past. And here a second distinction is required, for this greater degree of external openness must no longer be deemed synonymous with a policy firmly based on economic liberalism; in practice it can coexist with different forms of State intervention and economic development planning. In short, there would not appear to be a rigid correlation between certain degrees of State intervention in the economic process, inward-directed growth and delinking from the world economy, just as at the other extreme neither should there be such a correlation between economic liberalism, external openness and interdependence on the plane of international and economic relations. In any event, this last phenomenon is a key feature of the external panorama today, and as such should be taken for granted. It would therefore seem possible in some specific cases to combine various forms of State intervention and external openness, so as to regulate the participation of national economies in an international economic system characterized by increasing interdependence.¹⁷

Of course, if a country adopts an exaggerated model of external openness, on the basis of a falsely optimistic appraisal of the possibilities deriving from the aforesaid increasing interlinkage of the world economy and from the role of the external market as an engine of growth, it may jeopardize its long-term development prospects. But it is also true that a country which pursued a more balanced strategy, based

on a better equilibrium between the use of the internal and external markets and on selective import substitution in some sectors accompanied by policies of openness and export promotion in others, might throw away many opportunities in so far as, together with other peripheral countries, it were to persist in applying external insertion strategies based on an outdated conception of the international economy and of its principal trends, and did not learn to turn to the best possible account the balance of risks and opportunities offered by the external scenario today.

2. Integration of the developing countries in the international economy: some options

The foregoing remarks lead us to refer to the main options which in one way or another have inspired the various strategies that they have tried out successively or concurrently in their negotiation with the industrialized countries—a subject which we have several times discussed elsewhere.¹⁸ One of the factors most responsible for the failure of international economic negotiations to achieve more than very modest results lies in the conceptual confusion which seems to prevail in the corresponding debate. The greater the proliferation of conferences, forums and proposals designed to promote the establishment of a New International Economic Order (NIEO), the more clearly evident it becomes that in this field there reigns “a great disorder under the heavens”. From various standpoints specific proposals are formulated which may be considered as optative, contradictory or merely unrelated, as the case may be. In contrast, no sufficiently explicit account has been given of the major world economic order models which lie behind the various ‘packages’ of measures. Basically, the following are the models concerned:

(a) The segregation or delinking of developing countries from the international capitalist system, and their adherence to strategies based on individual and collective self-reliance: a proposal which seems to be diametrically opposed to the current trends of the inter-

characteristics, particularly as regards the size and structure of its economy and the traditional pattern of its linkage with the outside world.

¹⁷As is suggested in the last part of the study by O. Sunkel and L. Tomassini to which allusion has several times been made.

¹⁸See L. Tomassini, 1977, 1978 and 1979 a.

national system, and which has been confined to the realm of ideas, no moderately lasting and successful experiments in this direction having been recorded, except in the case—in many respects unique (and apparently undergoing change)—of China;¹⁹

(b) Indiscriminate incorporation of the Third World countries in the former system of the international division of labour, relatively updated: a course which would seriously compromise their long-term development potential, and would involve the intensification of their ties of dependence with the industrial countries and the gradual loss of their autonomy, with the ensuing sequel of frustration and revolutionary reactions;

(c) The establishment of a sort of "global social-democracy", based on the regulation of international markets or on their replacement by more centralized mechanisms, along the lines laid down in the Declaration and Programme of Action for the Establishment of a New International Economic Order (NIEO): a programme which would probably necessitate the installation of a sort of world authority and/or a substantial increase in the bargaining power of the Third World.

These strategies approximately correspond to the alternative which in terms of the concepts of 'exit', 'voice' and 'loyalty' Hirschman proposed some time ago from a broader point of view, in order to analyse the operation of social systems. Within these alternatives, the measures propounded in the framework of NIEO approach the option of protest ('voice'),

reflected in their spirit of confrontation and in their far-reaching programme of reforms.

To revert in passing to opinions formulated on other occasions, this last programme would seem to be inspired by a mixture of pessimism and mistrust *vis-à-vis* the prospects of progressive integration of the developing countries in the international economy, an attitude which gradually led to the proposal of a number of 'concessional' or 'preferential' measures, designed to promote a unilateral transfer of resources from the developed to the developing countries, by means of mechanisms parallel or alternative to those of the market. Thus the Third World has thrown all its weight into supporting the integrated basic products programme—which substantially represents a mechanism designed to stabilize the improvement in commodity prices—instead of negotiating broader arrangements that would enable it gradually to acquire a greater share in the processing and marketing of such products, by virtue of the industrialized countries' manifest interest in promoting the development of natural resources, in view of prospective shortages. It has pinned high hopes on the general system of preferences and very few on the benefits that could be obtained through fuller liberalization of trade at the world level. It continued to urge the necessity of more official aid for development on better terms, even long after it had already become obvious that the industrialized countries were unwilling to meet the minimum targets set by the international community in that respect; and this despite the thriving resurgence of the private capital markets and its increasing access to these, a situation which has deferred systematic consideration of the most appropriate means of making that access more stable and more efficacious. It has persisted in placing emphasis on the need to adopt an international code to regulate the transfer of technology, instead of devoting more attention to improving its capacity to bargain with external suppliers and to assimilate and adapt the technology in question, in which field very valuable experiments had been carried out. It has also striven to promote the adoption of a code of conduct to regulate the behaviour of transnational corporations, but has shown less

¹⁹Setting aside the circumstance that because of its characteristics and historical background China was in a unique position to undertake an experiment of this type, information in recent years suggests that this great country would seem to be overhauling its traditional policy of isolation and self-centred development. Little is known of other incomplete and minor examples, such as those afforded by Albania and Cambodia, and as far as the available information goes, they have been definitely regressive. Lastly, other countries too are reviewing their traditional self-centred development policy, as is revealed by the note on Cuba in the *Economic Survey of Latin America 1978* (CEPAL, 1979). On the conceptual level, there have been few articulate formulations of this position, save for such exceptions as the early writings of ul Haq (1970 and 1976) and the works of Emmanuel (1969) and Amin (1970 and 1973).

interest in analysing the experience of those countries which in recent years have been trying out new and more advantageous contractual arrangements with those enterprises.

It is not surprising, therefore, that the insufficient integration of the peripheral countries in the international economy has constituted, in many cases, a sort of 'self-fulfilled prophecy'. At the present stage it seems needless to stress that in this as in other respects great differences are observable in accordance with the level of development of the various countries—a topic to which we have already referred in Part Three of the present article. This reminder having been given, it is worthwhile to underline the fact that Latin America has displayed a good deal of imagination in trying out new forms of linkage with the international system, although on many occasions and for diverse reasons it has not allowed these experiments to influence the adoption of the positions it advocated on a more official or more rhetorical plane. In this connexion, a recent meeting at which these questions were discussed, and to which allusion has already been made, reached the following conclusions:²⁰

"Latin America aspires to a type of development fully integrated with the international economy. We believe that in general the countries of the region do not support those options which might favour a path of 'separate development'. This strategy seems historically alien to the options which in practice most of the Latin American countries have already adopted. That does not mean that there is only one way for the countries of the region to achieve integration in the international economy. There are numbers of paths to that goal. These paths will depend upon each individual country's size, economic structure, political orientations and traditional external linkages. But we also believe that this plurality of paths does not rule out the possibility of concerting external policies to an increasing extent, and that the countries of the region will be in a better posi-

tion to negotiate with the industrial centres if they take solidary action than if they choose to 'go it alone' " (quoted in Hill and Tomassini, *op. cit.*, pp. 10 and 11).

3. *Towards a strategy of selective participation in the international system*

The conclusion which it is desired to suggest at the close of the present article is that the integration of the developing countries in the transnational economic system does not necessarily entail only negative effects. As has been pointed out elsewhere, this is a process with a considerable margin of ambiguity as regards its implications for the peripheral countries, since it involves a novel balance of risks and opportunities. At the same time, the type of consequences that it generates for the peripheral countries does not depend solely upon the will or the interests of those countries that hold a central position in the system, since in face of it the peripheral countries can assume either an active or a passive role, to use the terminology recently employed by Enrique Iglesias (1979a). To avoid entering upon a new topic, let it once again be he that briefly presents this balance.

"Our international position is positive in so far as it enables us to assimilate technology, expand abroad activities which require larger markets, and open the way to new forms of the international division of labour in which our countries occupy the place for which they are already fit.

"But there are also risks in our new external position. These risks take shape in the limitations which such links place on our development, in the changing impact of the external cycle on the evolution of our economies and in the restrictive and protectionist policies employed by the industrialized countries as a way of protecting themselves against the recessive and inflationary trends which have characterized the world economy recently.

"The existence of an open world economy and the establishment of an international division of labour which is more in keeping with the capacities of each country, large or small, have become an increasingly important requirement for the development of the Latin Ameri-

²⁰I.e., the above-mentioned seminar on Latin America and the New International Economic Order (Viña del Mar, 7-11 January 1979).

can countries. We depend more and more on the operation of a world economy based on genuine interdependence" (Iglesias, 1980b).

If this is so, the developing countries should not choose strategies which imply either their passive subordination to the forces of the world economy or the replacement of international markets by more centralized mechanisms, but should seek new forms of 'selective participation' in the system. It would appear that a strategy of this type would be more in keeping with current trends in the international scene. Moreover, it would enable the developing countries to attain at one and the same time the threefold objective of availing themselves of the advantages deriving from their increasing integration in an international context of steadily growing interdependence, mitigating the undesirable effects of an unstable and unfavourable external cycle, and preserving or maximizing the autonomy of their national development processes.²¹ Considering how little attention has been paid to this alternative, it is interesting to remember that one of the first calls to such action came from Latin America.

"The experience of Latin American demonstrates the need to abandon the idea that the essential stimulus to development comes from total integration in the international economic system. On the contrary, the introduction of new styles of consumption and production, and likewise the attainment of a minimum level of autonomy, necessitate ad-

vancing towards policies of selective participation in the system, such as will make it possible to choose the type of linkage desired. It is a question of minimizing dependence, of maximizing autonomy and of seeking new models of self-reliant development" (Latin American Forum, 1975).

A strategy of 'selective participation' in the system, such as that proposed above, should achieve an adequate combination of three types of action: (a) structural reforms designed to correct current defects in the international markets; (b) long-term agreements between the central and the peripheral countries which, supplementing the action of market forces, will promote a redeployment of certain economic activities and a pattern of trade that will encourage the development of those productive activities for which some of the developing countries have been fitting themselves in recent times; and (c) concessional programmes aimed at palliating some of the more obvious disadvantages that are affecting the peripheral countries, especially those that are in the initial stages of their development process.

Selective participation of the developing countries in the international economic system of course presupposes the introduction of more or less radical structural reforms in the world economy as it works today. So one would have to speak of 'participation with restructuration'.

To that end it is necessary that the central countries give up protecting their primary activities as they have been doing hitherto; that they countenance more extensive local development and processing of the peripheral countries' natural resources; that they make it possible for the developing countries to build up industrial activities capable of generating higher value added, a greater capacity for technological innovation and a more vigorous overall activation of their economies.

The industrialized countries will have to apply whatever adjustment policies may be necessary to permit the operation of those forces which today are making for a more rational rearrangement of the former international division of labour. The costs of such policies do not seem to be excessive in absolute terms, and in any event would represent only a small fraction of the costs incurred on account of the changes

²¹ A variant of this approach lies in an idea which has recently gained ground in international discussions, namely, that of founding centre-periphery relations on a strategy based on the identification of areas of common interest, and on the structuration of a global economy in which both groups of countries can obtain real benefits. Such was the approach adopted by the Brandt Commission in its proceedings. Its *Report* points to the need for "positive mutual interests" to be identified. And it goes on to add: "We believe there are numerous such interests. But greater efforts are required to place them at the centre of debate. The North-South dialogue has suffered from the atmosphere which prevailed in the past of Southern 'demands' and Northern 'concessions'; it is only in more recent years that prominent leaders of opinion have begun to call for the dialogue to be regarded as an opportunity for partnership, one in which all sides can work for their mutual benefit" (Independent Commission on International Development Issues, 1980, p. 65).

in the allocation of resources, the displacement of productive activities, industrial redeployment and the adaption of manpower which are occurring as a result of specialization, competition and technological change within the industrialized countries themselves, as well as of their competition with one another.

At bottom, it is a question of the central countries' putting into practice the principles they have long maintained in the economic field. These countries should not consider the above-mentioned adjustments policies as an extra burden assumed for the benefit of the developing countries, but as a normal part of their industrial modernization processes, which in any event they will have to tackle if they do not want to condemn their production apparatus to a state of backwardness and lose their capacity to compete in the industrial field with their own advanced capitalist associates, and even, gradually, with their new rivals in the South.

The developing countries, on their side, should gradually abandon a strategy of negotiation with the developed countries based on a 'shopping list' of claims deriving from the more or less exhaustive but unduly reiterated analysis of their injuries or grievances (a strategy which, hitherto pursued with little regard for the viability of such claims, has produced only meagre results), and replace it by a strategy of more selective bargaining. This new strategy should not cease to urge the necessity of con-

certing agreements with the industrialized countries which over the long term will enable the periphery to obtain greater benefits from its participation in international economic relations and in the maintenance of concessional programmes for the less developed countries; but at the same time it should concentrate on taking advantage of the 'loopholes' which are opening in the world economy, as a result of the radical transformations undergone by centres and periphery alike, and of the substantial changes that have taken place in the international scenario. It is worthwhile to observe that while the first strategy has been collectively adopted by the developing countries at the level of multilateral economic negotiations, with little success, it is the second that is usually followed—circumspectly but to their considerable advantage—by those countries that play a more active part in the world economy. However, as was stated at the outset, the object of the present notes was only to outline the changes that have taken place in centre-periphery relations in the course of the past fifteen years, without dwelling on those that might be introduced into the bargaining strategies of the developing countries. A task that still remains to be undertaken, therefore, is that of also outlining the form that might be taken by that strategy of 'selective participation' in the system which is postulated as more in keeping with the trends perceptible in the international scenario of today.

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Comments on Peripheral Capitalism and its Transformation*

Comments by Lucio Geller

1. It is necessary to state from the outset a fundamental coincidence of opinion with Prebisch's article on "Socio-economic structure and crisis of peripheral capitalism", if the selection of the critical points chosen by the commentator and the content of his remarks are to be intelligible. This area of coincidence can be broken down into two propositions: firstly, that the crisis of the system in the Latin American countries is a structural crisis, a theoretical understanding of which calls for analysis of the specific forms of capital accumulation, and of the social and political conflicts linked with these; and, secondly, that the analysis of the dynamic operation of the structure in question must begin with the internal factors. I understand, and accordingly agree, that this is a matter of the priority of internal over external factors at the start of the analysis, although the latter must not be left out of count. This second point is of great interest for the commentator, because it allows him also to invoke the authority of the article under consideration in discussions of a more punctual character; thus, for example, some time ago certain Argentinian economists, seeking to account for the military coup of 1976, gave a foremost place in their explanation to references to the new trends in the international division of labour (external factors) which would seem to be determining the resolution of internal conflicts. I note in passing that this ranking of the explanatory factors is, in that respect, akin to theoretical analyses such as those of Gramsci (see *Note sul Machiavelli - Sulla Politica e sullo Stato Moderno*), in which, in a few pages, he expounds a methodological proposal for the study of politi-

cal conjunctures in which for the purposes of analysis internal factors acquire priority.

One initial digression before concentrating on the points selected for these comments: in Prebisch's article there are two texts, one economic and one political. The fusing of the two is very salutary; the article thus regains the analytical perspective of classical economics. In following this path, however, some risks are run to which reference must be made and which, in my opinion, have not been altogether avoided.

Thus, for example, Prebisch sets himself the following programme of work: to make "full knowledge of the system that is to be transformed" and "precise awareness of where its great defects lie" the first step towards a subsequent "theory of change". However, the fact that the article begins with the structural diagnosis and then goes on to political considerations does not mean that in the overall process of theoretical reflection some politico-ideological *a priori*s have not been accepted. The exposition of his line of thought would seem to differ in order from its elaboration. This is a question which is admittedly difficult to resolve, but it must be tackled because of the risk that political preconceptions may be doing violence to certain economic categories, or passing over other aspects of the economic and social process, or attributing the wrong relative weight to certain analytical variables.

A classical example illustrates the aforesaid risks. Ricardo's labour value theory and his theory of land rent provided grounds for eliminating the tariff protection by which English farmers were benefiting. To that end, Ricardo established the theoretical principle—historically incorrect—that the expansion of agricultural production would be accompanied by diminishing returns, and failed to take into account that there was also a part of land rent which derived from the technical progress incorporated into the economic units, and which for Marx constitutes differential rent II.

Prebisch expresses very legitimate con-

*These comments on the recent articles by Raúl Prebisch published in this *Review*—"Socio-economic structure and crisis of peripheral capitalism" (No. 6), "The neo-classical theories of economic liberalism" (No. 7), and "Towards a theory of change" (No. 10)—are some of those that were formulated at a special seminar organized by the Centro de Capacitación para el Desarrollo (CECADE, Mexico) at the end of 1979. The rest of the comments will be published in forthcoming issues.

cern at the fact that processes of transition to more socialized patterns of production have sanctioned political inequalities and repressive systems; although this has not always been the case. But it is one thing to devote theoretical consideration to the social inequalities that existed in the original socialist accumulation, as well as to the social and political dynamics that have permitted the crystallization of these inequalities, and quite another to criticize them in the light of criteria pertaining to political liberalism and western civilization, applied on the plane of ideology, and not in a context of specific social relations. Hence it is that many of his opinions are difficult to share in this respect.

2. The following is the argument advanced by Prebisch on which I am proposing to comment: the crisis of the system breaks out when trade-union power, in the course of the democratization process, competes with the upper strata for the distribution of the surplus. To this competition a limit is set by equality between the growth rate of the surplus and the growth rate of the product; once this limit is passed, the upper strata use their economic power to raise prices and invoke monetary expedients to make the increase possible.

The result is social inflation which allows the surplus to be restored to its usual size; and as the distribution struggle becomes increasingly conflictive, the inflationary spiral gathers momentum and the chaotic state of social behaviour leads to the use of force.

This outline interpretation, which certainly does not do justice to the many nuances present in Prebisch's reasoning, nevertheless affords a useful opportunity to note the following points: in the first place, the social protagonists of the crisis are confined to two major groups called trade-union power and upper strata (if a different terminology is adopted, reference may be made to the social conflict between proletariat and bourgeoisie), to which two economic categories correspond - wages and surplus; secondly, in the dynamics of the conflict, it is trade-union power that takes the initiative in attack; the upper strata will adopt a defensive strategy (even the use of force will be merely defensive), once the limit in question has been reached.

(a) The two foregoing observations imply, in my opinion, two incorrect simplifications. Let us begin with that relating to the social protagonists. Of course, the class struggle cannot be excluded from the study of political events in Latin America, especially in the countries of the Southern Cone, where trade-union power has attained significant dimensions. But from this necessary association an interpretation of political processes, including crises in systems, cannot be linearly derived. Suffice it here to note that in several Southern-Cone countries interbourgeois conflicts have dominated political events in recent years; neither the triumph of the *Unidad Popular* in Chile in 1970, nor the upsurge of Peronism in 1973, can be understood without reference to the clash of interests between sectors of the bourgeoisie. It may even be said that some characteristics of the accumulation process in the countries concerned, which actively exacerbated these interbourgeois conflicts, might shed light on the radicalization of broad sectors of the petty and middle bourgeoisie. We are alluding particularly, in the first place, to the rapid process of capitalist centralization which led to the social disruption of large segments of the domestic entrepreneurial sector; in Argentina, for example, the number of employers in industry decreased by over 50%, and similarly that of employers in agriculture and business dropped sharply, while the 1970 census shows a marked fall in the number of own-account workers in industry and agriculture. Secondly, employment difficulties also affected middle-class sectors, despite the increase in professional jobs in the State and services sectors (especially in the services with a capitalist content); as a result, employment opportunities, or earnings, fell short of the demands and aspirations of some of the social sectors in the middle strata.

These observations are important because in Prebisch's text manifestations of violence seem to come from the lower strata, and no mention is made of the extent to which middle-class sectors have called the capitalist State in question, both from the ideological standpoint and through concrete political action. The omission of the interbourgeois conflicts also implies overlooking the fact that the first armed

encounters in Argentina —taking them as indicators of violence and of the crisis of democratic ways of life— occurred between segments of the army.

It is true that some allusions are made in Prebisch's text to the conflicts to which I am referring, but they figure in connexion with an explanation of traditional inflation, and are never finally incorporated into the line of reasoning concerned with the crisis of the system.

(b) The second simplification is that which attributes to the upper strata a purely defensive strategy. And herein, in my opinion, lies the origin of the restricted conception of the surplus as it emerges from the text under discussion.

It should be noted that the surplus is not, as in classical theory, the difference between value and wages; or, expressed in more conventional terms, the difference between the price of output and the cost of producing it. According to the text, the surplus is the productivity increment resulting from technical progress and not diverted to wages because of the structural heterogeneity that operates through the labour market. It is a substream of the value added which the upper strata appropriate by virtue of capitalist production relations; we insist that it does not constitute the whole of the value added which is distributed as profits, interest or income. This is not an arbitrary interpretation of the text; otherwise, there would be no foundation for that critical limit in the system which is represented by the point where the rate of increase of wages becomes identical with the growth rate of productivity.

This theoretical proposition poses some problems when an attempt is made to reconcile it with empirical evidence. Inasmuch as the growth of real wages would be subordinate to the rate of increase of productivity, some correspondence between the historical trends of the two variables might be expected; for example, that the rate of increase of productivity should push wages upwards, while the explanation of the difference between the trends of the two variables would lie in the structural heterogeneity that trade-union power fails to offset. Another problem stems from the fact that

this theoretical approach excludes the possibility of significant reductions in real wages until the critical limit is reached (the use of power first, and of force later, by the upper strata would squeeze wages only when they exceeded that limit).

By way of example, I adduce the following empirical evidence; in Argentina, between 1950 and 1970 global productivity in the industrial sector increased by about 140%; average wages in industry rose by approximately 30%. Such a difference cannot be explained by reference to structural heterogeneity, nor can the importance of trade-union power be underestimated. In addition, therefore, account must be taken of the action of political variables in order to understand not only the changes between the beginning and end years but the changes during subperiods. And the action of political variables would seem to stem not only from the difficulties of the global accumulation process, but also from the acerbity of inter-bourgeois conflicts.

On several occasions, during the period 1959-1972, a disposition to take the offensive must be recognized in certain segments of the upper strata which, in 1959 using all the extra-economic coercion of the State, appropriated the labour value (almost 30%); and which took further steps in the same direction, and with different results, in 1962, 1966 and 1972. It is true that during the period in question trade-union power launched political offensives, but on the economic level it had no other alternative than to try to regain positions.

This offensive attitude on the part of the upper strata is connected with their internal conflicts, and particularly with the characteristics of the industrialization process:

Given the relative inefficiency of the new durable consumer goods industries (comparing the international ratio between production prices and average wages with the corresponding domestic ratio), the lower strata have no access to the markets concerned, which can be expanded only in so far as the surplus is basically appropriated by the upper and middle strata. Once the initial stages of import substitution have been completed in these markets, their subsequent expansion implies the adoption of

decisions that affect the entire surplus, not merely that component which derives from the productivity increment;

Given the relative inefficiency prevailing in the intermediate and capital goods industries, progress in the import substitution process implies comparatively higher costs; hence one and the same rate of monetary saving presupposes lower rates of real accumulation. The aim of keeping wages down and possibly even lowering them still farther is to get rid of the negative effects on real investment resulting from the structural characteristics of the import substitution process.

Hence it may be maintained that neither theoretically nor empirically are wage ceilings as high as is assumed in Prebisch's text, according to which these ceilings are fixed by the rate of increase of productivity. Rather are they related to the periodical redefinition of global accumulation processes. And this perspective requires as its basis a more classical notion of the economic surplus concept.

Why this revisionist interpretation of the concept of surplus in the article on which we are commenting? To account for it we suggest the following two reasons. In this text not much attention is paid to the specific and increasing difficulties in the structure of production resulting from progress in import substitution, and their implications as regards the size of the surplus required to sustain steady rates of economic activity. In addition, a concept of the surplus springing from social production relations is replaced by another springing from technical production relations. The latter, in its turn, stems from an ideological *a priori* according to which it would be the surplus and not the means of production that would have to be socialized in the period of transition or transformation.

3. In chapter II of the study under discussion, in connexion with the surplus other derivations emerge which call for additional comments, in particular, the arguments accounting for the retention of the surplus by the upper strata. In the end it is the surplus retention mechanism that explains why this category is not a temporary phenomenon, destined to disappear in the course of inter-capital compe-

tition, but is a permanent feature of every expanding reproduction process.

Prebisch maintains, in the last analysis, that the surplus is retained because prices rigidly resist a decrease when productivity is increasing. Logically, if prices behave like this, given constant monetary wages (although this assumption is not absolutely necessary), the surplus will be retained in its entirety by the owners of the means of production.

But this price rigidity calls for an explanation in its turn; according to the one offered in the text, demand for capital goods and labour in an expanding reproduction process generates the income that is absorbed by the supply resulting from preceding production circuits. The monetary authority, with its regulatory ability within the spontaneous play of market laws, will furnish the means of payment whereby the demand in question can be made effective.

In barest outline, our critical comments on this explanation are as follows:

(a) The argument relating to the retention of the surplus is equivalent to formulating a theory of prices for a system in process of growth in which, in addition, productivity increments are taking place. In this context, "if prices do not fall in accordance with rising productivity, and in so far as the latter is not correlatively reflected in higher earnings, the reason is to be found in the expansion of demand generated in the circuits that are to increase future production". Which is tantamount to saying that if demand expands in real terms sufficiently to absorb the real increase in supply, productivity increments will be reflected in a rise in the rate of profits. The question to be elucidated is whether the rigidity of prices results from phenomena appearing in the commodities market, or from specific behaviour patterns in the earnings of the factors of production (wages and profits). Unquestionably, for Prebisch the explanation of this price rigidity is to be found in the commodities market, and to support this contention he has to resort to a normative proposition: "The growth of income and the corresponding monetary expansion generate demand which *must be at least sufficient* to absorb the final goods emerging, augmented by the productivity increment, if

this increment is not to be reflected in a fall in prices" (p. 192; the italics are the commentator's).

(b) If Marxist terminology is adopted, the process of expanding reproduction of global capital in the economic system can be expressed as follows:

$$M - C \dots P \dots C'_1 - M' - C'_2 \dots P \dots C''$$

The monetary authority regulates the expansion of the means of payment so that capital in the form of commodities (C') can be converted into capital in the form of money (M'), a conversion which is possible in so far as expanded reproduction of the production process occurs ($C'_2 > C$). And the monetary authority intervenes in that part of the capital circulation process indicated by $C'_1 - M' - C'_2$. But what is C'_1 ? It is the economic units' demand for money at the close of the current production cycle; a demand for money which permits the realization of the surplus value. If the productivity increments were partly transferred to prices, the economic units' demand for money would be less than in the case of productivity increments reflected entirely in profits. Hence the problem of price behaviour in a growing economy cannot be viewed independently of the structure of production (degrees of capitalist concentration and centralization in the production markets), and reduced to a question of global commodity demand and supply. In any expanding reproduction process the monetary authority can regulate the means of payment so as to accommodate the enterprises' policies in respect of prices and utilization of production capacity. But in a structure of production in which various degrees of monopoly exist in the different commodity markets, price policy will have more to do with the plans for utilization of production capacity in the leading enterprises, and with the aim of keeping new enterprises out of the market. Of course the monetary authority can make mistakes in its regulation of the means of payment; if it overestimates, prices will tend to rise; if it underestimates, inventories will tend to pile up, and enterprises will have to revise their price or production policy. But these are questions

relating to the economic cycle and not to a system with a propensity to growth.

Moreover, this approach to the problem of price rigidity, attaching particular weight to the question of demand in commodity markets, is another way of analysing earnings outside the framework of concrete social relations in the sphere of production; a point to which we have already drawn attention in our critique of the 'surplus' category.

4. We will now concentrate on Prebisch's observations on the crisis of capitalism and its "leading dynamic centre". They incorporate a lucid argument as to why the consumer society in the central countries has had a negative effect on environment and has depleted natural resources, in particular petroleum. It is true that the need to remedy those effects on the environment and to resort to new sources of energy will compel the central countries to increase their efforts to overcome the present crisis in both quantitative and qualitative terms, since this crisis cannot be described in terms of economic indicators alone; the investment which those efforts will entail will not have an immediate impact of the productivity of labour, measured in capitalist terms. The necessity of meeting these challenges, however, is superimposed upon the economic crisis of the capitalist system but is not its underlying cause. Petroleum prices were put up by the producer countries in 1974, and it is likewise true that throughout the 1970s an ever-growing body of public opinion has been exerting political pressure for defence of the environment. The first symptoms of the economic crisis to which we shall be referring in greater detail became apparent at the end of the 1960s, and it was officially recognized in the devaluation of the dollar by the Nixon administration in 1971. According to the text under review, there are two indicators of the crisis in the central countries: stagnation and inflation. We will now attempt a further look at them, keeping to the sequence of Prebisch's ideas.

(a) Stagnation results from a decline in the growth rate of average productivity in the system. The factors accounting for this decline would appear to be, firstly, an increasing homogenization of the structure of production which

reduces the possibilities of a marginal increase in productivity when production strata using inferior techniques are superseded; secondly, the fact that while the consumer society implies the development of branches of production to satisfy the consumption of high-income sectors, much of the investment in such branches is aimed at stepping up the efficiency of the goods rather than productivity; lastly, expenditure on armaments, to which should be added expenditure on the space industry. Here Prebisch notes a certain ambiguity in respect of which we share his opinion: it would be a mistake to underestimate the effects on labour productivity resulting from the incorporation of certain technological innovations generated in the munitions and space industries into the processes of production of capital and consumer goods.

Not only is the size of the surplus affected by the aforesaid trend in the average productivity of the system, but it is also subject to pressure deriving from the rise in salaries and wages and in State expenditure.

The term 'pressure' suggests the following comment: in some growth models, like that of Kalecki, the tendency is for the public deficit to sustain the bulk of earnings. How would it be possible to counteract the trend towards capitalist overproduction, given the great development of the forces of production, and how could the surplus value be realized, if no demand additional to that of the capitalists and workers existed? Some items of public expenditure, in particular the public sector's contribution to military outlays and to the space industry, allow some sectors of production, and certain enterprises in particular, to enjoy high rates of profit. Of course the production resources connected with those industries imply a use of the surplus divorced from other productive uses, but these latter do not necessarily correspond to a capitalist concept of rationality.

(b) Inflation is explained in the text by reference to the pressure of trade-union power for wage increases, which are transferred to costs; by the increase in the public deficit; and by the energy crisis and the protection of the environment, factors whose addition to those previously mentioned multiplies the original impetus of the first two.

In this connexion I have a reservation to make with regard to the importance of the first variable, since wage increases would have repercussions on unit costs if they exceeded the increase in labour productivity.

Stagnation and inflation are not the only indicators, since Prebisch suggests that another element in the world crisis consists in the weakness that the United States is displaying as the leading centre of the capitalist system, with its effects on international economic relations. But the inflationary element is brought to the fore again as the chief factor accounting for that weakness, and study of the differential behaviour of the variables underlying stagnation in the central countries is not incorporated into the analysis.

5. In the following paragraphs we are proposing to attempt a historical relativization of the importance of these indicators, both in order to work out a more satisfactory description of the present juncture, and in order to pursue interpretation along another tentative path.

Let us first define the characteristics of the 1930 crisis:

- (i) a sudden crash and overproduction crisis in the United States which were propagated to the rest of the world;
- (ii) extremely high unemployment rates and a fall in prices;
- (iii) immediate defence mechanisms adopted by the central countries: tariff measures, multiple exchange rates, discriminatory trade practices, etc.;
- (iv) crisis in theoretical capacity to resolve the economic crisis;
- (v) serious reduction of prices of raw materials from the peripheral countries.

The characteristics of the present juncture, in relation to 1930, could be outlined as follows:

- (i) less unemployment;
- (ii) international forums (IMF, summit meetings and others) where these problems are discussed;
- (iii) high levels of inflation, with their corresponding psychological and economic costs, but not a price decline;
- (iv) theoretical inadequacies, but not a crisis; it is known in theory what can

and must be done, but there is social and political opposition to its implementation.

Our main hypothesis is that the present crisis is one of hegemony in the world capitalist system and, consequently, one of regulation of the system in question. This crisis of hegemony has a bearing both on the central countries' interrelationships, and on their relations with the peripheral countries. Our argument will be concerned with the former, although admittedly a complete explanation entails dealing with the latter.

In the first place, a few historical references must be cited.

The hegemony of the United States was officially formalized at Bretton Woods. There the rules of the game which were to govern world capitalist expansion in general, and that of the United States in particular, were definitely settled. I speak of the expansion of the capitalist world in general, because even the countries which emerged from the conflict as debtors knew that the enormous credits they received from the United States had to be paid for with exports. There was no other way out, and this one presupposed rapid expansion at the world level and, therefore, the removal of obstacles to trade.

The Bretton Woods arrangements worked especially well for the United States, whose vast production potential needed markets in order to earn profits. This was at the root of the insistence, in the course of the negotiations, on the elimination of discriminatory trade practices, particularly those of the British Commonwealth; of the concern to establish fixed exchange rates in order to prevent unexpected and repeated devaluations from blotting out with a stroke of the monetary pen the real comparative advantages of the hegemonic centre; the imposition of the dollar standard—the dollar being then a currency in short supply—as a means whereby the United States would be able to regulate the world money supply. (No country could take out dollar loans for a sum larger than that of its own contributions, and all the countries in the aggregate could not borrow sums exceeding the United States' contribution, unless certain special credits were con-

certed directly with the United States administration, which would entail certain political and economic concessions.)

During the first few years in which the IMF agreements were in force the currencies of the most important European countries were overvalued. Subsequently, the Fund had to authorize various devaluations in the European countries; in this, of course, were represented not only the interests of the national governments involved, but also those of the rapidly expanding transnational corporations in need of markets, including that of the United States.

This remark is a useful pointer to the tremendous effort which must have been made in Europe and Japan to enable the trade surplus to cover external debt servicing. I am excluding here the inflow of dollars for political reasons (the cold war and the active hostilities in Korea and Vietnam), but at all events the dollar started to become a currency in plentiful supply for structurally economic reasons at the end of the 1960s, when for the first time the trade balance of the United States showed a deficit.

It is important to underline this problem of the growth of differential productivities in order to explain the present situation; and it seems to me useful, because in Prebisch's text the United States' trade deficit is seen as the result of internal inflationary pressures. The alternative interpretation we have outlined does not contradict the text under discussion, but suggests that the relative weight of the two explanations needs investigating somewhat more closely, a study which would necessitate, *inter alia*, working out indicators of productivity, wage increases, public expenditure and other contributory variables. At this point, I adduce the following argument, which is not, to be sure, conclusive proof: a comparative analysis of the current trade balance between the United States and Japan shows the former exporting raw materials and foodstuffs to the latter, and importing from it capital and durable consumer goods. Inflation—a generalized rise in prices—would not account for this reciprocal export and import structure.

Theory tells us what should be done. According to economic theory, countries with a trade-balance surplus and unemployment (as is

the case with Germany and Japan) should re-value their currencies and apply an expansionist fiscal and monetary policy. Prebisch maintains that expansionist policies of this kind are inhibited by fear of inflation, but in saying so he forgets the effects of the exchange rate, adjustment of which in the direction indicated might offset pressure on price levels, including the pressure of the labour force.

What happens is that in a Kaleckian model trade-balance equilibrium always means smaller profits; and the European and Japanese bourgeoisies are as unlikely to put up with this as are the transnational corporations operating in the countries in question. Similarly, trade-balance equilibrium reduces financing for those countries' investments abroad, which compete with United States' investment both for markets and for raw materials.

In theory, a country in the position of the United States ought to devalue its currency and adjust its monetary and fiscal policy so as to

prevent excessive pressure on the labour market. But how could the United States devalue its currency and cause a tremendous redistribution of the wealth (measured in Eurodollars and petrodollars) in the hands of the Central Banks and, what is more, of transnational corporations? It would be tantamount to confiscation. Besides, what strength can a government have which is not capable of taxing the transnational oil corporations' excess profits? Hence it is that the United States, shackled by its monetary orthodoxy, which is largely that of Bretton Woods, resorts to raising the rate of interest and to the application of monetary restrictions. No doubt a higher rate of interest will serve the purpose of tapping capital over the short term (speculation in gold has been to some extent brought under control); but this measure will have inflationary repercussions, and obviously does not attack the causes of the decline in the country's average productivity in relative terms.

Comments by José Ibarra

1. I am in full agreement with Raúl Prebisch both as regards his criticism that the arguments of neoclassical theory were evolved "in the void, outside time and space", which constitutes a very serious limitation of their explanatory force, and with respect to the necessity of taking into account social structures and their historical evolution in economic theories.

2. Since he adopts the position, with which I am likewise in full accord, that real wages are fixed not in accordance with marginal productivities, but by the bargaining power of the labour force in the various 'layers of technology', he could avoid the use of this concept. The basic theoretical —and practical— reason for rejecting the concept of marginal productivity in the mechanized part of the economy is that machines operate efficiently in fixed proportion to labour (perfectly determined by technological considerations), so that over the short term (with given equipment) it is impossible to increase production by increasing the labour input. The marginal productivity of labour is nil and therefore neoclassical rea-

soning and instruments are inapplicable. Hence the failure of policies consisting in lowering real wages in order to step up employment! All that is achieved by this is to reduce the wage earners' demand, with the ensuing decline in production and employment.

Similarly, he misinterprets neoclassical theory with respect to the distribution of the enterprises' operational surplus between 'profits' and entrepreneurial earnings.

If, in accordance with the theory in question process, is to pay the interest on this capital out of the surplus consisting in the 'earnings' sumption is that those who own the capital lend it to the entrepreneur at a specific (long-term) rate of interest, either through bank loans or by the issue of bonds. One of the entrepreneur's first obligations, on completion of the production process, is to pay the interest on this capital out of the surplus consisting in the 'earnings' accruing to him, which can be interpreted as a form of remuneration for his work and entrepreneurial skill; but which are of a contingent character. It is these 'earnings' that would tend

to disappear through competition; on the other hand, the emoluments of the owners of capital (in the shape of interest) would be assured.

In my opinion, Prebisch defines the concept of surplus in different ways in his articles, which leads to confusion. The broadest (and most comprehensive) definition is to be found in the first article: "The surplus comprises the profits of enterprises, the interest paid on capital, and amortization of fixed capital. Through appropriation of the surplus, the owners of the means of production achieve primary appropriation of the fruits of technical progress".¹

I should like, however, to point out the difference between this definition and the Marxist concept of surplus value. An initial difference lies in the fact that 'surplus value' does not include amortization of fixed capital. Secondly, there is a difference between the two concepts as regards the measurement of magnitude: that of 'surplus value' is measured in units of work, in accordance with Marxist 'values', and the surplus by values 'converted into prices'.

At all events, the two explanations are similar in their origin, which lies in a social structure based on the ownership of the means of production and on the power relations between the wage-earners and the owners of the means of production. The way in which the surplus is appropriated is also similar in essence to that described in Marx's theory. It is mechanization that makes it possible to increase both labour productivity and the monetary value of output per worker. In so far as the owners of the means of production can take on workers at wages similar to those they were earning when they were engaged in artisanal production (or using machinery with a lower level of labour productivity), a surplus (or plus-value) is produced, which is appropriated by the owners of capital. The surplus (or plus-value) decreases in so far as the workers are strong enough to obtain increases in real wages, or in so far as competition steps up supply, because new owners of capital adopt more highly mechanized techniques, and that leads to price reductions.

4. Let us now take a look at the problems raised by the generation and the 'persistence' of the surplus in the hands of the owners of capital and its failure to disappear as a result of the fall in prices that should be produced by competition, as Raúl Prebisch explains in his articles.

With regard to the generation of the 'surplus', I agree as to the importance of taking into account in the dynamic analysis the time covered by the production circuit from its primary phase up to the sale of the goods on the market; although I would add that the duration of the production circuit includes the time taken for the investment to mature. I think, however, that once the wage-earners fail to save (or at all events dissave), the investment required for growth must be entirely financed by the owners of capital through the current production process, and, therefore, its cost is transferred to current prices; this is why they do not fall (and even rise), and it is this that constitutes the principal mechanism for the generation of the surplus.

The reduction in wage-earners' demand due to the fact that employment increases less than production, because of the higher labour productivity of the most recent investment—that is already productive—is offset by the equivalent increase in the surplus, which could bring down the prices of the goods primarily consumed by wage-earners and push up those of the goods primarily consumed by the owners of capital.

In my view, prices of wage goods do not fall for several reasons: because of the existence and expansion of the system of sales on credit; because of the highly oligopolical nature of the markets; and because the generalization of the new techniques with higher labour productivity takes too long a time, owing to the rigidity introduced into the combinations of factors by the technologically fixed proportions characterizing the older equipment. The need to maintain margins of profit in accordance with the oldest installed capacity—which is predominant in volume—prevents prices from falling and keeps up the size of the surplus over long periods in new enterprises where labour productivity is higher.

¹"A critique of peripheral capitalism", *CEPAL Review*, First Semester 1976, p. 37, paragraphs 1 and 2.

Comments by Pedro Vuskovic

The articles by Raúl Prebisch constitute a complete and well-knit system of interpretation, designed to remedy two weaknesses existing in earlier versions: they seek to go more deeply into the 'specificities' of dependent capitalism, where this is virgin ground; and they aim at explicitly introducing the *political* dimension of the development process, in its twofold role of conditioning factor and consequence.

A first critical remark I venture to make is that their content is on two formally integrated but in fact dissociated planes. One is the plane of diagnosis, of interpretation, in respect of which there is clear technical substantiation of what is discussed and concluded. Hence the denunciation of the system is derived as an objective conclusion; and for that very reason, with a forcefulness which is not invalidated by certain partial doubts or objections that might be raised. The other plane, touched upon in the analytical study and more fully explored in "Towards a theory of change", is that of propositions. Here there is a difference; these propositions neither derive from the analysis nor are supported by it. It is as if after concluding his diagnosis with a categorical denunciation, the author feels obliged to offer a reply; but this does not stem from the analysis; it is valuational, 'ideological', and, consequently, does not carry the same conviction. Of course he has every right to put forward his propositions, but in this case they are not backed up by the preceding analysis and cannot be discussed in the light of it.

The implication is that, with this reservation, what is pertinent and opportune is to discuss the analytical and interpretative content, independently of the normative propositions which are *added* (not deduced). In this connexion three observations seem relevant:

(a) *On the evaluation of external factors*

The impression is formed that he underestimates the relative weight of external factors, and also that his approach is somewhat unilateral as regards the direction of causality relations; for example:

— he recognizes the "siphoning-off of peripheral income", but at no time suggests its relative importance *vis-à-vis* the 'surplus';

— he acknowledges the weightiness of the part played by the transnational corporations, but asserts that they "could not assume so important a role in the periphery without the privileged-consumer society"; or that they "would not find such fertile soil ... if no such social aberration of peripheral capitalism occurred";

— the responsibility of the centres that he admits is a "responsibility for co-operation" (?);

— he recognizes that "new forms of dependence emerge", but adds that "dependence has its counterpart in financial co-operation";

— he utters a warning that 'dependence' must not be confused with 'periphery'; nor should 'underdevelopment' be attributed to 'dependence'; he describes as 'extravagant' the idea that "the prosperity of the centres is due to the siphoning-off of income from the periphery", and, on the contrary, suggests that greater importance attaches to the "immeasurable scientific, technological and cultural legacy inherited by the periphery".

Although each of these assertions would be sustainable *per se*, taken as a whole they form a line of argument which is dubious at least, and to make matters worse, in the later part of the article these 'external factors' are ultimately left out of the discussion of future options altogether.

(b) *On the dynamic potential which the system is assumed to recover through the use of force*

An explanation is duly given of the role of force when the 'distribution struggle' sweeps the system along to 'critical limits' (a key concept throughout the argument). But it is assumed that through the use of force 'dynamic potential' is automatically restored (irrespective of the 'social costs' involved). The article is indeed sprinkled with assertions such as: "Unquestionably, the re-establishment of the dy-

namics of the system entails a significant social cost, in addition to the huge political cost incurred by the use of force". What is more, according to the degree of severity of the pay squeeze, the suggestion is made that "it may even be possible to succeed in raising the rate of capital accumulation, and therefore the rate of development, above that prevailing before the system's critical limit was passed".

The political implication of such an assertion is at the very least uncomfortable; it would seem to augur significantly dynamic prospects in situations like those imposed in the Southern Zone. Fortunately, it is not only uncomfortable, but also disputable and, of course, not proven in the article! For example, it might be answered with another *hypothetical proposition*: regressive income distribution allows the critical limit to be overstepped, but in such conditions the dynamic prospects encounter a relatively low 'ceiling', — a proposition which at least seems to be in keeping with concrete experiences of recent date. Perhaps it might even be possible to justify a *more hazardous proposition*: approximation to the critical point also meets a requirement of the dynamism of the system; any move away from it, therefore, can be only temporary, and to no great distance. The crisis of the system is more definitive, since the use of force does not re-establish dynamism and only makes it possible to *keep* the system *going* on the very verges of its critical frontiers. And should this be the case, it would have political importance and political implications with respect not only to the economic horizon of régimes of force, but also to alternative options: that is, as regards the viability of the so-called 'liberal' reconstitutions of democracy.

(c) *On the position of the middle strata and their relation to other strata of workers*

Over and over again Raúl Prebisch identifies the increasing capacity of the disadvantaged labour force to share in the fruits of higher productivity with the rise of the 'middle strata', basing his argument on the distribution struggle between these strata and the 'recipients of the surplus'. More than one piece of empirical evidence would raise a query as to

whether those are the exact terms of the problem.

For example, in Chile in 1970, the wealthiest 20% of the population was made up as follows: 6.6% by employers, 21.2% by own-account workers, and 62.4% and 9.8% by white-collar and blue-collar workers, respectively; in turn, that segment comprised 82.9% of the employers, 17.6% of the own-account workers and 45.9% and 3.9% of the white-collar and blue-collar workers, respectively. These are figures which would warrant our thinking in somewhat different terms: for example, putting forward the hypothesis that the rise of the 'middle strata' affects the surplus much less and the income of the lower strata much more.

In such conditions, the rise of the middle strata would be *functional* to the system and its dynamics and *not contradictory* with it (for market expansion reasons); there would be no *struggle*, but complicity between the strata in question and the upper strata. The major problem is posed by the other, the lower 'strata'; it is the power of these that leads to the crisis of the system (in contrast, the author maintains that "the lower strata have very little share... in the participation process"). And if they are 'protagonists of dissidence', as Prebisch calls them, it is precisely because they come to realize the limits of their function as 'political and trade-union protagonists'.

Reasoning of this kind raises at least one point of 'reasonable doubt'. The problem is that if it is well-founded, it cannot but influence the nature of the options identified in the article and underlying the 'theory of change'.

Lastly, our comments relate particularly to Prebisch's theses on the trends of capitalism in the centres.

In his approach to this subject there is a relevant point of departure: on the one hand, he points out that international capitalism is faced with enormous accumulation requirements (the challenge of natural resources and protection of the environment, new advances in technology); and, on the other hand, he notes the existence of a labour which in the centres "has acquired great trade-union and political power" and exerts severe pressure on the sur-

plus. In short, giant requirements and dwarfed capacity to meet them.

Henceforward, however, the subsequent conduct of his argument is not in keeping with what he recognizes to be the dimension of these problems; it stays on a relatively conventional plane, and that is not enough.

Furthermore, doubts are raised by some specific partial aspects of his reasoning: thus, for example, the terms in which he expresses the concept of an organic decline in productivity, which can only be understood to mean "a decline in the rate of increase"; or the fact that he makes no reference whatever to the implications of ever keener inter-capitalist competition.

But most important of all is his key approach, according to which the crisis in the centres, in essence, would have to be resolved *within* the centres themselves; despite which its effects would certainly make themselves felt in the periphery. Over against this proposition, there would at least be room for one hypothesis: the answers to *this* crisis will largely spring

from *a substantive redefinition of relations with the periphery*.

Recent times have seen the emergence of a whole line of analysis and thinking in this direction, of which nothing whatever is said in Prebisch's article, and which points to highly relevant and profound phenomena that might very substantially change the picture of the world capitalist economy and would be destined to have enormous repercussions on the direction of internal change. In point of fact, processes like 'industrial redeployment', the extension of 'industrial free zones' or the expansion of 're-export industries', which suggest new patterns of international-scale accumulation based on more intensive or more direct utilization of the dependent areas 'cheap labour', cannot be ignored or underestimated; apart from the fact that they have already confounded the 'demands of the periphery' with basic interests of international capitalism, and given a decidedly equivocal significance to the propositions relating to the 'new international economic order'.