

# CEPAL

## Review

*Director*  
RAUL PREBISCH

*Technical Secretary*  
ADOLFO GURRIERI

*Deputy Secretary*  
GREGORIO WEINBERG



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## Review

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## The crisis of capitalism and international trade\*

*Raúl Prebisch\*\**

Full understanding of the nature of the present crisis calls for an interpretation which is at once broad enough to cover both the centres and the periphery and deep enough to penetrate beyond the superficial manifestations of the problem to the very heart of its causes.

In his search for such an interpretation, the author begins by analysing the internal structural imbalance of the centres, which consists, ultimately, of the disparity between the growth rate of consumption (both private and social, civil and military) and that of the accumulation of reproductive capital. This disparity lies at the root of inflation and of the fiscal deficit, which help to complicate the situation just as do the monetarist-type measures with which it is sought to combat them.

The author then goes on to deal with the structural imbalance between the periphery and the centres, in respect to which he examines the persistent problems of trade relations between them, and the conjunctural incidence of the crisis on the peripheral countries, in which connection he analyses the main short-term problems facing the countries of Latin America and the policy measures which should be used to tackle them, centered around the idea of reactivation. In the final chapter, on market laws and ideologies, he stresses the importance currently assumed by the ideological crisis, the complex manner in which it mingles with the other aspects of the crisis, and the need to overcome the state of intellectual dependence in which the periphery has lived in recent years.

\*Document submitted to the Secretary-General of UNCTAD.

\*\*Director, CEPAL Review.

## I

### The internal structural imbalance of the centres

#### 1. *The crisis of the system and the crisis of ideas*

We are witnessing the end of an historic stage in the evolution of capitalism. After an enormous accumulation of capital over a prolonged period of time, and after having reached impressive levels of productivity, the latter is flagging and depression and unemployment are advancing upon us, with serious wastage of productive resources all over the world.

It is not a question of the final decadence of a system of enormous growth potential, since the vital elements which gave it great force persist, and the source of the incessant technological innovations is far from having dried up. It must be acknowledged, however, that the system is in crisis: it has strayed from its path and is suffering from structural imbalances which cannot be dealt with by ideas and forms of action that have been overtaken by events. The evolution of technology has brought with it great changes in the structure of society which have been matched by great changes in the structure of power, and no one is as yet certain how to deal with them. It is a crisis of the system and also a crisis of ideas, which have lagged behind the course of events.

All this is reflected in the disturbances in international trade and the persistent inflation, while the crisis has also acquired an institutional nature; GATT is crumbling, and monetary instruments have become ineffective and negative.

#### 2. *The frustrations of GATT*

The concept behind the founding of GATT was based essentially on the free play of the market forces at the international level, but although it is true that GATT has had great importance for the centres, it is now on the verge of a serious setback. The recent meeting has been quite disconcerting: after the Kennedy and Tokyo rounds, where the great liberalization of the

centres' trade had been achieved, it might have been expected that GATT would be given its definitive consolidation. In fact, however, no undertakings whatever have been entered into to combat the drift back towards protectionism. Furthermore, while it is true that low tariffs have been maintained, various non-tariff restrictions have been growing up which seriously prejudice the liberalization achieved after such tenacious efforts.

These restrictions recall those of past times, which were not of course the result of arbitrary, irresponsible actions which spread over the whole world, but were imposed by the serious events set off by the great world depression.

Just as is happening today, the epicentre of this phenomenon was located in the United States, where the violent restriction of credit and the abrupt increase in customs duties did away with the multilateral system of trade and payments in a very short time. It took many years to restore this system, and GATT bore the important responsibility of gradually disentangling the mass of different protectionist measures and avoiding any subsequent backsliding: a responsibility which it has largely fulfilled.

It would seem, however, that GATT is losing its effectiveness for the centres, thus explaining the recent frustration at Geneva. How is this fact to be explained?

In a few words, it may be said that this institution has not been able to do something which it was in any case unreasonable to expect it to accomplish alone, for its effectiveness depends fundamentally on the expansion of the world economy. This is at present suffering a serious recession which is turning into a depression, however, and the spread of unemployment makes it increasingly difficult to struggle against the growing temptation of each country to defend itself from imports and from the consequences of monetary instability. Restrictions on one side provoke similar action on the other, and in this way the crisis is continually aggravated.

There can be no question of finding magic spells against this evil: the most that could be achieved through GATT is some degree of containment of these measures, for the problem is really quite different. It is necessary to go to its very roots, and these are once again to be found

in the United States, whence the economic recession set off by the anti-inflation policy is spreading to the other centres and to the rest of the world, with very serious consequences.

The effectiveness which GATT had for the centres did not extend to the periphery, since the original conception behind its establishment was in line with the interests of the former and did not allow for the systematic industrialization of the latter, although this initial attitude was subsequently adjusted to some extent. Industrialization took place as a result of the crisis of the centres (the two world wars and the great depression which occurred between them).

### 3. *The periphery and trade liberalization*

The periphery has been kept on the sidelines of the liberalization which took place among the centres, just as it had been kept on the sidelines of industrialization. In spite of determined efforts, it has not proved possible to secure any substantial liberalization of the attitude of the central countries to imports from the developing countries, even during the years of great prosperity of the former.

On the contrary, the developed countries maintained or even accentuated their restrictive measures during the period of prosperity which came to an end in the first half of the 1970s. Thus, the export successes of some developing countries were due primarily to the overall growth in demand, rather than to the elimination of restrictions. Be that as it may, the industrialization of the periphery is now causing serious problems for GATT. The centres had previously proclaimed the advantages of the international division of labour, when the periphery was not in a position to enjoy them as regards manufacture because it did not possess industries. Now, however, when the periphery does have industries, the centres are striving to find ways of refusing to recognize these advantages and are resorting to all kinds of restrictions outside the framework of the principles which gave rise to GATT: instead of the free play of the market forces, we now have 'managed trade', to use the very fitting expression coined by the UNCTAD secretariat. What was previously in keeping with the clear interests of the centres

now seems to have ceased to be so in view of the changes which have taken place, thanks to the spread of technology, in the structure of production of the peripheral countries.

The expansion of the world economy in the years after the Second World War created suitable conditions in the centres for the liberalization of their trade. There was a marked tendency in them towards homogeneity of production techniques, as the technical innovations of the United States spread to countries which had previously lagged behind and stimulated in them their own innovations. The transnational corporations played a very important role in this process. This was both a consequence and at the same time a contributing factor of the sustained growth in world demand and trade between the centres. And this trade was increasingly stimulated by the successive technological innovations. No matter how much the peripheral countries had progressed with their industrialization, they were still of course far from the stage at which they could participate actively in this movement. At the same time, however, they were increasingly developing the capacity to export manufactures, in some cases to an impressive extent. The manufactures involved consisted above all of goods which were either technologically less advanced or were produced by processes which had already ceased to be novel in the centres.

The great problem these manufactures have raised has been the need for a progressive reduction of the restrictions which do so much harm to the development of the periphery. There is no sign, however, that this is likely to occur in the present circumstances: on the contrary, serious setbacks are to be observed in this respect. Indeed, the talk is once again of reciprocity: that is to say, in order to secure the reduction of such restrictions on the part of the centres, the peripheral countries would have to make matching concessions. This simply means ignoring the great structural differences between the centre and the periphery which are due to the historic lag in the industrialization of the latter. We shall deal with this point in the following section.

#### 4. *The structural imbalance of the centres*

We referred earlier to the resurgence of protectionism, and this fact must be acknowledged

quite frankly. It will be increasingly difficult to combat this trend if, in order to check inflation, the central countries insist on a restrictive monetary policy, especially through very high interest rates in the main dynamic centre of capitalism. Whichever way one looks at the matter, a reaction policy is called for, but to what extent will it be possible to apply such a policy without sinking into a new wave of inflation? This is the disturbing question which it is impossible to avoid.

What has happened to the capitalism of the centres after such a long period of expansion? In order to answer this question, it is necessary to explain the serious structural imbalance which has occurred in those countries. This imbalance lies at the root of the new type of inflation which has appeared in this historic stage of capitalism. The attempt to tackle it through monetary policies has brought with it the present adverse situation which, as well as upsetting the trade of the centres, is making the external structural imbalance of the periphery even more pronounced.

Let us now try to explain what this structural imbalance consists of.

The considerable increase in productivity previously observed in capitalist development has gradually been slackening. This fact is closely related to the drop in the rate of accumulation of reproductive capital: that is to say, capital which multiplies employment and productivity through technical innovations and thus, in turn, constitutes the primary source of the growth of capital. This is a growth sequence which cannot be neglected without upsetting the functioning of the system.

The accumulation of reproductive capital has been based mainly on the primary appropriation of the fruits of growing productivity, especially by the upper strata of the social structure because of their economic, social and political power. The myth of the progressive spread of the fruits of technical process throughout society thanks to the laws of the market has not materialized, and only a portion of these fruits has been transferred to that part of the labour force which has the ever-higher qualifications demanded by technical progress. The portion which is not transferred remains, in the form of the economic surplus, mainly in the hands of the upper strata who own most of the means of production.

This form of appropriation of the surplus has made possible the process of intensive accumulation observed in the past in capitalist development. However, this process has become increasingly vulnerable in the course of the structural changes in the system and the consequent changes in the power relations.

Thus, the power of appropriation has been offset by growing power to force sharing of the fruits of productivity: on the one hand there has been an increase in the trade union and political power of the labour force, and on the other, in that of the State, in response both to this trade union and political power and to the demands of the growth of the State itself.

A struggle thus takes place which has positive effects until the system nears a certain critical limit, which occurs when the labour force and the State take for themselves such a proportion of the increase in productivity that the rate of appropriation begins to flag and, with it, the rate of reproductive accumulation. The growth of the system thus begins to slacken. Beyond this limit, the system reacts with a rise in prices, and this is followed by a rise in wages when the labour force has sufficient trade union and political power to achieve this. This gives rise to the phenomenon of spiralling inflation, which cannot be checked with monetary instruments without serious negative consequences.

These latter instruments were of proven effectiveness when there was no major counterweight to the dominant economic and political power of the upper strata, but they cease to be effective when the power relations change.

### 5. *Consumption and accumulation*

In order to gain a clearer picture of these phenomena, the struggle to share in the fruits of increased productivity should be viewed from another angle. Appropriation of the fruits of technical progress by the upper strata does not serve only to increase accumulation, but is generally accompanied by an exaggerated increase in consumption. Moreover, the increase in the wages of the labour force tends to expand consumption too as new forms of consumption arise in the upper strata, because of the unceasing diversification of goods and services brought by technological innovations, as well as

the increase in productivity. Social consumption also develops and grows, thanks to the political power of the labour force. This growth in both the private and social consumption of the labour force, however, does not usually take place at the expense of the consumption of the upper strata, but is superimposed on it. The same occurs in the case of the growing civil and military expenditure of the State.

All this reaches its most outstanding expression in the United States, where the image of bountiful prosperity has contributed markedly to this exuberant style of consumption.

It is hardly surprising, then, that this continual superimposition of different forms of consumption, together with the growth of different types of non-reproductive capital, is weakening the rate of accumulation of reproductive capital. The internal logic of the system thus tends towards an imbalance or maladjustment between the rate of consumption and the rate of accumulation of reproductive capital, or, in other words, between consumption and the saving necessary in order for consumption to keep up its rate of expansion.

It is easy to imagine this happening in the development of the periphery. What is hard to conceive, however, is that the internal logic of the system should tend towards this imbalance in the centres. Is it not true that the centres have achieved a considerable capacity for accumulation? And did not Keynes sustain, fifty years or so ago, that the system tended rather towards an excess of saving?

Whichever way we look at it, however, the full restoration of the growth rate of the system calls for the social reorganization of consumption in order to raise the rate of accumulation of reproductive capital sufficiently to increase employment and productivity. I do not wish to give the impression with this that there are not other adverse factors, but it does seem to me that the rate of accumulation of reproductive capital is of fundamental importance. There can be no doubt that successive technological innovations could increase the rate of productivity, but they also require the accumulation of capital.

The rate of accumulation can only be raised by reducing the growth rate or even the absolute level of consumption, depending on

the severity of the imbalance. In reality, however, the smaller amount of consumption on the one hand would be offset by additional consumption on the other, since the increase in the accumulation of reproductive capital makes it possible to increase employment and consumption by those who had previously been without work because of the structural imbalance or because they belong to the underprivileged social strata which had not been able to incorporate themselves into development at rising levels of productivity.

It is hardly necessary to show that changes of this kind in the social composition of consumption would run into formidable political obstacles. Is there any other way of solving this problem, then? The market laws do not solve it, nor does the social struggle to share in the fruits of progress. What is to be done, then?

The considerable fiscal deficit of the United States is an acute manifestation of structural imbalance. It has been acknowledged that consumption must be reduced in order to cover this deficit without causing inflationary effects. To this end, attempts are being made to attract savings from the public by offering extraordinarily high interest rates, which in turn means that bank interest rates on loans must be raised too, thus restricting credit to private activity, since otherwise bank money would be displaced towards the State, with inflationary effects. The depressive consequences of credit restrictions are well known and would be highly negative, since they would increase the deficit and diminish savings. Inflation could be reduced and possibly even eliminated through credit restrictions, but only at a very high social cost and, furthermore, without correcting the structural factors which give rise to it.

There has also been a good deal of discussion in the United States regarding the need to increase supply (i.e., the product) in order to check this phenomenon, in contradiction to the manipulation of demand advocated by the Keynesians. Indeed, if the product could be increased by greater accumulation, this would correct the structural imbalance which upsets the system. In order to achieve this purpose, however, it was maintained until very recently that it is necessary to reduce taxation on the upper strata so that they will accumulate more. Even if

they actually did this instead of increasing consumption which is highly problematical, this would not only mean promoting social inequity but would in its turn increase the fiscal deficit and its inflationary impact: that is to say, it would compress the consumption of the other social strata, and their members would try to make good their losses, thus accentuating the spiral.

It is interesting to note that an idea put forward a few years ago in a report prepared by experts of the United States Treasury Department now seems to have been forgotten. In this report, which was perhaps inspired by Lord Kaldor, it was advocated that there should be a radical modification of the tax system, whereby consumption would be taxed progressively instead of income: thus, that part of income which was not consumed would remain free of tax. Expressed in other terms, this tax on consumption would considerably encourage saving and accumulation. It seems strange to us that this proposal has not been discussed, in view of the tendency to an imbalance between accumulation and consumption. Of course I do not believe that this idea would solve the whole problem, but it would help to solve it if it were accompanied by other measures.

It must be understood, however, that—above all in a country accustomed to the indefinite expansion of consumption—this idea, like others aimed at the same objective, would run into very serious obstacles. Nevertheless, the truth is that there have not been any other proposals which really go to the root of the problem.

We also keep coming back to the suggestion that prices and wages should be controlled, but even if this had some temporary success, it could hardly be kept in effect for very long without serious difficulties.

To sum up, there has not yet been any clear discussion of the structural nature of the matter. The conventional doctrines represent a severe obstacle, which is as powerful as the interests which maintain it and promote it. Must we wait until the crisis gets worse, or until it repeats itself after we had had the illusion of having solved it, in order for new ideas and new forms of action to emerge?

### 6. *United States inflation and the Eurodollar market*

We shall now make special reference to inflation in the United States, not only because of the enormous importance of this country in the world economy but also because in the Bretton Woods agreements the dollar was given the role of an international currency in addition to its national role. Those were times when the dollar enjoyed great prestige, and very few people glimpsed the peril which this decision involved.

United States inflation goes back quite a long way, but it was moderate and tolerable until the social expenditure of President Johnson's 'New Society' and military spending gave rise to an inflationary deficit which subsequently got worse with the rise in petroleum prices in 1974. It may be noted in passing that this rise was not in itself responsible for the inflation, which had been provoked three years earlier by the abandonment of convertibility, but there can be no doubt that it helped to accentuate it.

This domestic inflation brought with it, as always, an external imbalance, but it was possible to cover this with dollars, that is to say, with mere monetary symbols. This meant that the domestic inflationary pressure on the product, together with part of the expenditure and investments abroad, could be covered with the product of the rest of the world.

If the dollar had not been playing this international role, the inflation suffered by the United States after the abandonment of convertibility would rapidly have resulted in devaluation of the currency, but this finally took place only after considerable delay, having finally been imposed by the external imbalance.

In the meantime, the overvaluation of the currency discouraged domestic investment by the transnational corporations, which preferred to make most of their investments abroad, to the detriment of the product of their own country. Thus, although the United States was able to enjoy the product of the rest of the world in exchange for dollars, this eventually adversely affected its own development.

In this way, inflation was spread to the rest of the world, although this does not mean that many countries, including those on the

periphery, were not already suffering from the inflation resulting from the distributive struggle. This inflation had also been developing in them too, but its external effects had been partly concealed, for the time being, through the inflow of US dollars.

This inflow, moreover, gave rise to something which had not been experienced up to then: the creation of the Eurodollar market. The monetary authorities of the other central countries, concerned at the expansive effects of the increase in reserves, viewed with favour the disposal of these resources on the Eurodollar market. In this way, the domestic inflation of credit was avoided or reduced, but only by transferring it to the international level. It was not only transferred but also increased, because for every dollar which entered the market in this way, the recipient banks increased their own creation of credit several times, as occurs with the increase of monetary reserves at the domestic level, but with the difference that within their own countries the monetary authorities had instruments for controlling this expansion of credit. In contrast, the Eurodollar operations were completely free of all regulation, and the consequences of this became very clear with the passage of time.

In this creation of money, no regulatory principle was followed at all, since this increase in the world money supply was the consequence of the domestic inflation of the United States, rather than an attempt to meet the demands of world development.

### 7. *The laws of the market and the IMF*

This was a lamentable setback in the monetary progress which had taken place over so many years. Long experience had established certain rules of domestic regulation deriving from the gold standard, and it had long been recognized that although the profit motive was important, it could not be allowed to determine the degree of expansion of credit without serious inflationary consequences. The dual role of the dollar enabled it to divorce itself completely from these regulatory principles in the Eurodollar market, where the desire of the great international banks for profits led to the creation of ad-



ditional Eurodollars, thus intensifying the original inflation.

The International Monetary Fund could have played a regulatory role, in view of the fact that it is not a profit-making institution, but no provision had been made for such a situation. In any case, it could hardly have done much, both because of the pressure of the banking groups in the centres and that of the debtor countries, which were able in this way to avoid the strict conditions of the IMF, whose attitude was marked by a singular degree of technocratic authoritarianism.

As we said earlier, one of the important conclusions deriving from long experience was that the creation of money could not be left to the dictates of the profit motive, since this would inevitably end in the abuse of credit and inflation, but this experience was not taken into account in the Eurodollar market, and even now, after such adverse results, many circles continue to insist on the prime role of the private international banks. In their view, the role of the IMF should only be to make loans at the last moment to avoid a serious international financial stampede. It should refrain from interfering in the free play of the market laws, only to intervene at the last moment in rescue operations!

At all events, I feel, the IMF should also make use of its own experience in order to play a leading role in the international monetary reform. Could this reform possibly be placed on a solid basis without changing the process of appropriation, accumulation and distribution in order to correct its growing vulnerability? I do not think so for one moment, for reasons which it is not necessary to repeat again here.

A clarification is called for at this point, however, even if only in passing. On more than one occasion, when I referred to the imbalance between consumption and the accumulation of reproductive capital, my opponents argued that the Eurodollar market represented a plentiful source of capital, but the fact is that this attitude represents a serious confusion of genuine capital with inflationary capital. The international loans represented genuine capital to the extent that those who received dollars in payment for exports refrained from consuming and instead made loans, but they did not represent such genuine capital when these loans were made

through the creation of additional credits in dollars in this singular market.

I do not mean to say by this that the Eurocurrency market has not been very useful to the extent that it has enabled certain countries to cover their purchases of petroleum with such credits without sacrificing other imports, at a time when they were not able to increase their exports. It is necessary to draw a distinction, however, between this situation and the easy and plentiful credit to which many countries resorted (especially in the case of Latin America) because of the extreme liberality of the banks operating in this market.

Looking back at events from a distance, it might have been assumed that the IMF and the World Bank would have played a very active role, especially in order to ensure that the financial surpluses from oil were used for genuine capital loans, avoiding the inflationary expansion of credit like that which occurred in the Eurodollar market.

The Fund could have contained these lamentable excesses by promoting the judicious use of the resources available on reasonable terms. This was to some extent prevented, however, by the conditions which this institution has set itself: conditions which—as far as I can remember—were never discussed with the developing countries. It is hardly surprising, then, that the countries wishing to obtain these resources saw an opportunity to get around these conditions by making use of the loans provided so liberally by the international private banking system. The latter, for its part, seems to have been guided by the incentive of making juicy profits rather than by the necessary sense of prudence and foresight.

In the light of past experience, the spreading concern about the reform of the international monetary system is perfectly understandable: I think such reform has to come and that the developing countries should be preparing themselves for taking part in its formulation.

The starting point should be the creation of a true international currency instead of the dollar. The Bretton Woods agreements gave the United States the privilege of providing currency for international transactions: that is to say, the privilege of seigniorage and also the responsibility for it. In the creation of an interna-

tional currency the responsibility should be collective and not given to a single country or a very small group of countries of great influence: it should be extended to all, so that it would thus cease to be a privilege.

Of course there are considerable obstacles to this, not only as regards the substitution of the dollar, for obvious reasons, but also because the proper functioning of a new system would demand the solution of the problem of the huge mass of dollars floating in the Eurodollar market. This would be a very difficult operation, not only because of what it signifies in itself, but also because these dollars represent a large debt on the part of the United States, on which that country does not pay interest.

Beyond all this, there is another consideration of fundamental importance. Could a new system function properly while the countries in the world which will carry most weight in its operation are unable to correct their own inflationary processes? Rising prices will call for the continual expansion of the international money supply, and these countries could agree among themselves to do so, even though this would heighten international inflation. In contrast

with what happened in a system based on the gold standard, where the loss of monetary resources tended to limit domestic monetary expansion, the deliberate creation of international currency would instead be the obvious 'solution' for bringing relief at the international level to important countries which had not been able to contain their domestic inflation.

It may be concluded from this that a good international monetary system could hardly function properly if these countries failed to tackle to the full their problems of structural inflation. If this were not done, then instead of the creation of dollars by the United States we would have the creation of international currency through the influence of countries interested in dealing with the external effects of their own inflation which they had not been able to contain.

A good international monetary system must be based on the transformation of the domestic process of appropriation, accumulation of reproductive capital and redistribution of income: consequently, a great deal must be done and renewed before this goal is reached.<sup>1</sup>

## II

### The structural imbalance between the periphery and the centres

#### 1. *The centres and the periphery*

The centres have always stubbornly refused to recognize their great structural differences from the periphery, which stem from the considerable lag in the latter's development. This lag is itself the consequence of the inherent dynamics of advanced capitalism: a centripetal type of dynamics which has always characterized the latter's development in the past and has not spread spontaneously to the rest of the world. The fruits of the increase in productivity due to their enormous technological progress have remained in the centres and have not spread further through the reduction of prices: a situation which has given great impetus to the ac-

<sup>1</sup>These comments recall to me a significant episode which occurred in the early days of UNCTAD. A committee of independent experts recommended that a link should be established between the creation of Special Drawing Rights and the provision of financial co-operation to the developing countries. It was claimed at that time—in opposition to this idea—that the pressure of the latter countries would involve the risk of provoking international inflation. Finally, the link was not approved, but even so there was inflationary expansion of the dollar at the international level.

In this way, a very important opportunity to co-operate in the development of the periphery, subject to all the safeguards that seemed necessary, was thrown away. This shows once again that generally speaking the centres are not interested in the development of the periphery except to the extent that this serves their own interests.

cumulation of reproductive capital and the unceasing innovations of the centre. For better or for worse, this is how the capitalism of the centres has developed, with the periphery playing only the role of an appendix. This explains the historical lag in the latter's development and its great structural differences with the centres, which are manifested in three main points worth mentioning briefly here: the structural disparities in demand; the economic and technological inferiority of the periphery, which makes protection necessary; and the characteristic division of the periphery into relatively small units, which calls for integration measures.

## 2. *Structural disparities in demand*

With regard to the first point, in order for a country on the periphery to develop it is essential for it to change its structure of production in order to cope with the correlative changes in demand.

These changes can be oriented mainly towards the interior or towards the outside world, and the attitude of the centres has a dominant influence in this. There can be inward-oriented changes involving import substitution, or outward-oriented changes involving the export of manufactures. The latter option has become increasingly necessary because of the relative slowness with which exports of primary commodities generally tend to grow.

The increasing obstacles standing in the way of import substitution beyond certain limits are well known. The limits in question depend on the availability of natural resources and on technological considerations, thus making it necessary to combine import substitution with the export of manufactures.

To what extent can manufactures be exported? Over and above the question of the effort that a peripheral country is willing to make in this direction, this extent depends fundamentally on the receptiveness of the centres, which is influenced in turn by their rate of development and the intensity of their restrictions on imports from the periphery. As a general rule, it could be said that the greater the receptiveness of the centres in the light of these two

elements, the less need there will be to substitute imports on the periphery.

This, however, covers only one aspect of the matter; the other aspect concerns the changes in the composition of demand, which, as noted earlier, go hand in hand with development. In view of the well-known disparities in the income-elasticity of the demand for imports, the demand for the latter, which come primarily from the centres, will tend to grow more quickly than the demand for the exports of the periphery. Such is the effect of the technological innovations of the centres, which increasingly diversify goods and services, in contrast with the technological lag of the periphery. In order for the development of the latter to progress, it is essential that it should develop its exports of manufactures in order thus to correct the tendency towards an external structural imbalance caused by this disparity in elasticities. If it does not manage to do this, it will be forced to engage in import substitution, in view of the rate of development which is proposed to achieve.

## 3. *Import substitution and protection*

Now, import substitution calls for a certain amount of rational and moderate protection. And this is where we encounter a severe obstacle in the form of reciprocity, which is now being put forward once again as a condition for the centres to lower their levels of protection. It is worth going more deeply into this matter.

There is a fundamental difference which should not be overlooked: protection on the periphery is aimed at eliminating the tendency towards structural imbalance, whereas the protection of the centres tends to aggravate this tendency, to the detriment of peripheral development.

We have set forth our reasoning on this matter many times, but apparently we have not been persuasive enough. Reciprocity has been the most important reason why attempts have been made and continue to be made to extend the scope of GATT to the peripheral countries, so that they can participate in the negotiations based on this concept. It is not recognized that there is in fact already implicit reciprocity, since the more the developing countries export to the

centres, the more they will be able to import from the latter.

There is also another consideration which is often forgotten. No rational projection puts imports below the amount that is exported to the centres, taking account of financial remittances and other payments abroad: all that is changed is their composition. The difference is that through protection it is aimed to bring about a deliberate change in the composition of imports in order to promote change in the structure of production in line with the requirements of development. In the absence of such a policy, the composition of imports is determined by the international market forces and the transnational corporations which predominate in them, so that the structure of production is determined from the exterior, and this means that a country cannot develop faster than is permitted by the growth of its exports: that is to say, by the receptiveness of the centres.

Is protection really necessary in order to achieve these changes in the structure of production, however? The original concepts under which GATT was set up, based on the old fashioned scheme of the international division of labour, did not accept this, nor do the economists who still continue to preach the virtues of the free play of the market forces for the periphery. It is true that these economists recommend devaluation of the currency to carry out these changes without breaking these laws, but in order to simplify the argument, let us pass over the fact that devaluation is also a kind of intervention. We are not talking, of course, about devaluation to bring the external value of a currency in line with domestic inflation which is fully justified, but are referring to it as an economic policy expedient.

Applied with this criterion, devaluation has the virtue of making imports more expensive and thus promoting their substitution, and also stimulating the growth of exports through a reduction in their prices. It does this, of course, for the exports which require this stimulus, but it also affects the exports which were already competitive at the international level: that is to say, from their point of view, this type of change in the structure of production brings about a deterioration in the terms of trade when the growth of exports goes beyond certain limits: in

other words, it would be counterproductive from the point of view of development. It is true that a tax on exports is also advocated in order to avoid this, but would not this represent interference by the State with the market laws?

Furthermore, devaluation means altering all prices and costs in order to achieve effects on only a relatively small part of the global product of the economy. This is not all, however. It is well known that when the labour force has sufficient power to gain compensation for price rises it will demand a rise in wages, which will eventually wipe out the effects of the devaluation. Consequently, while protection and the corresponding subsidies seem to us to be inevitable, they must be rational and not arbitrary or excessive, as often happens.

In order to oppose the idea of protection, the old argument continues to be put forward that it is necessary to pay more for import substitution products than imports would cost. This reasoning fails to take account of two points of decisive importance, however.

First of all, there is the low income-elasticity of exports. If their volume is increased, their prices will go down, and after a certain point the periphery would suffer the phenomenon of a deterioration in the terms of trade, thus suffering heavier losses than the higher cost involved in the protection of import substitution activities.

Secondly, these activities make it possible, within certain limits, to achieve a higher growth rate of the global product which more than outweighs the higher cost involved. Protection is thus an economically sound solution, provided it is applied in a rational manner, as it is always necessary to insist.

Of course it is quite true that protection on the part of the periphery has infringed from the very beginning the free play of the international market forces on which the original concept of GATT was based.

#### 4. *Protection in the centres*

All the foregoing concerns the periphery, but it would seem that the most difficult problems lie with the centres. It is hardly surprising that these should resort to restrictions outside the ambit of GATT when they are suffering from

serious unemployment. As already noted, however, they were very reluctant to liberalize their trade even during the years of prolonged prosperity and even in the case of countries suffering from a shortage of labour which threw wide their doors to immigrants. Nothing seems to indicate as yet that in the future, even when the current difficulties are overcome, the centres will be willing to make any really significant changes in their attitude. I think that this is a fundamental problem whose true significance has not been made fully clear. Yet it is essential that this should be done if we are to find solutions capable of reconciling the interests of the centres and the periphery in increasing growth. It is therefore worth going into more detail on this subject.

As already noted, in the past development of the centres the fabulous increase in productivity has not been reflected in a steady decline in prices, but has been retained internally. This is a structural phenomenon which has constituted a very important factor in the accumulation of capital and in the technological innovations made. The periphery has only participated to a marginal extent in this process, except insofar as it produced raw materials which the centres needed. It is doubtful whether capitalism would have been able to develop so vigorously if it had not been for this form of retention of the fruits of technical progress, especially in the upper strata.

The industrialization of the periphery was not a spontaneous consequence of this capitalist expansion, for the centres were only interested in investing in the periphery in order to obtain from it the primary commodities they needed: they had no intention of establishing industries there which could export anything other than primary products. For a number of reasons, they preferred to carry on industrial production in their own part of the world, and consequently the industrialization of the periphery was the result of its own decision in response to the severe crises in the centres already referred to: two great World Wars and a Great Depression between them.

Be that as it may, the periphery, which had first been forced to industrialize through import substitution because of these critical conditions in the centres, gradually learnt afterwards to ex-

port manufactures, thanks to the prosperity reigning in the centres, and through the use of deliberate promotional measures. If this prosperity were to return in a few years, although not necessarily at the same level as before, the question would arise of whether the centres would be willing to follow a liberalization policy such as they have put into effect among themselves. Let us examine this very important aspect for a moment.

Up to now, the exports of manufactures of the periphery have been carried out by a few countries only and have accounted for a relatively small part of its potential. Would the centres be willing to liberalize their imports if this export effort reached large dimensions?

Let us reflect on the following fact. If success was achieved in the export of manufactures, this was because the exporting countries were capable of adopting similar techniques to those of the centres (although corresponding to less advanced phases of the latter's development), to produce goods for which the demand tends to grow less rapidly than the demand for the increasingly technologically advanced goods coming from the innovations made in the centres.

It is hardly surprising, that the possibility of access to less advanced technologies and the lower level of wages have enabled the exporting countries to compete successfully with similar goods produced in the centres.

This fact could signify the beginning of a process of reversal of what has been occurring in the past in the development of the centres. It should be recalled that the fruits of technical progress have not been reflected in a corresponding reduction in prices, and that generally speaking the ability of the centres to open up external markets has not been due so much, to lower prices as to the unceasing diversification of goods deriving from their technological innovations. It would appear, however, that this is not the way in which the exports of the periphery have been competing in the centres: instead, they have been exploiting their lower prices.

Although this reaction of the periphery to this historical process has still not reached sufficient amplitude, in view of the growing export possibilities it is necessary to think seriously

about the possible consequences of the accentuation of this phenomenon which has now begun. What will the centres do in the face of this process? Will they continue to maintain and increase their restrictions, as they have been doing so far outside GATT? Or will they resort to the use of devaluation as an instrument, as the periphery has been recommended to do so many times?

As well as containing imports, devaluation would reduce the external prices of exports even when these were already fully competitive. The reason we mention this is not because we believe that it is likely to occur, but merely in order to emphasize the difficult choice which the centres have to face. On the one hand, they would continue to violate the principles of GATT which they have defended so much, while on the other they would have to resign themselves to losing, through the lower prices of their exports, part of the fruits of their technical progress, with all the great disturbances that that would imply.

#### 5. *The international division of labour*

In the meantime, a comment is called for which is not without importance. The centres have always proclaimed to the periphery the advantages of the international division of labour within the system of market laws. This attitude was completely in line with their interests, although it prejudiced the development of the periphery, but now that the periphery has begun to export, the centres are departing from those principles on which the existence of GATT is based.

To tell the truth, those principles, although they continue to be of great validity in the centres, in spite of the conjunctural phenomena mentioned elsewhere, have not been in keeping with the requirements of peripheral development in the past, and at present they actually militate against such development because they outlaw protection.

On the other hand, it cannot be denied that the centres would be exposed to growing upheavals if, in this new stage of industrialization of the periphery, those principles continued to be fully valid. Let us recall the nature of the accumulation process, whose source lies

in the increase in productivity which is not passed on in the form of reduced prices but is reflected in the displacement of demand to increasingly diversified goods and services. Obviously, increased competition from imports through a reduction in their prices, far from generating investment resources in the enterprises, reduces their surplus to the prejudice of accumulation. This competition thus generates unemployment and weakens accumulation. In contrast, when the unemployment is due to increased productivity, this increase produces an accumulation potential which, if utilized, enables the unemployment to be offset.

This is the serious problem which is causing so much concern and which must be faced immediately if we are to find mutually advantageous solutions.

Clearly, it would suit the periphery much better to be able gradually to take advantage of the market of the centres without the need to resort to an exaggerated reduction of prices at the expense of the fruits of their technical progress, which would not suit the centres either. Up to now, without referring to the exports of the latter, we can say that they have tried to defend themselves through arrangements such as the Multifibres Agreement and the so-called voluntary accords in order to limit exports from the periphery. As well as constituting discriminatory actions—since they affect only the periphery and not the centres—these measures are not in line with the contractual system of GATT and are always subject to the threat of further unilateral decisions by the centres. Of course, fundamentally the principles of GATT are not applicable to these new tensions, which call for a new institutional system, as the UNCTAD Secretariat has suggested.

It is necessary, then, to explore other avenues which suit both the interests of the centres and those of the periphery. New ways of recognizing comparative advantages in practice are called for. There can be no doubt that it is in the interests of the periphery to gain access to the markets of the centres for goods which are in line with their technological capacity, so that they can import the other technologically advanced goods produced by the centres, which it would be very costly for them to substitute at the present stage of their technological develop-

ment. This would also mean clear advantages for the centres, because of the ever wider field thus offered for the exploitation of their technological innovations. In other words, it would suit the centres to export goods with a high technological content in exchange for imports of goods with a lower technological content from the periphery, and this would also be advantageous for the latter.

Of course I am not proposing concrete formulas, but simply stressing the need to explore them: what is needed is to reach formulas which gradually and progressively open up the markets of the centres without the risks of unlimited competition.

Clearly, the formulas needed are not static but eminently dynamic. Exports of manufactures by the countries of the periphery, together with import substitution, will enable their industrialization to be made increasingly efficient and, at the same time, promote their technological development. It will therefore be understood that this advance would make it possible to increase the exports of goods which are at present not technologically accessible to the periphery, as has already happened in the case of countries which, although once peripheral, have finally attained technological homogeneity and become integrated into trade with the centres.

The peripheral countries which are advancing in their industrialization are passing through a transitional period which is more or less prolonged, in line with the big differences existing between them. If this process is continued in a decisive manner, there will be a steady expansion in actual fact, and not just in a formal manner, in the scope of the international division of labour within GATT and the mutually advantageous observance of its principles, including eventually that of reciprocity.

The role of the centres will be of considerable importance during this transitional period: up to what point will they be able to open themselves up substantially to the periphery? In the light of what has been said before, there would appear to be serious doubts about this: there is nothing to indicate that, even in the best of cases, the periphery could dispatch to the centres all the exports it would need to make in

order to acquire there the enormous amounts of goods required for its development.

There is no justification for placing exaggerated emphasis on exports to the centres while failing to give sufficient importance to exports of manufactures within the periphery itself. The main obstacle continues to be the economic division of the periphery, which is a clear manifestation of the way in which the centres, through the very dynamics of their own development, have left the periphery on the sidelines of industrialization.

#### 6. *The division of the periphery*

In the past system of the international division of labour, each peripheral country converged separately towards the centres, with very little intra-peripheral mutual trade. Import substitution used protection in a general manner, without establishing preferences among the developing countries, since on top of the violation of conventional principles represented by protection in itself, such preferences would have added something which the centres would have rejected as open discrimination. Thus, import substitution was carried out in watertight compartments and not much progress has been made in the arrangements arrived at over the course of time in order to try to gradually do away with these compartments.

One of the main reasons (although not the only one) why this division has lasted was the illusion, during the long years of prosperity of the centres, that the indefinite expansion of exports of manufactures made it unnecessary to continue with an active import substitution policy combined with mutual exports within the periphery. Furthermore, the centres either actively opposed measures aimed at correcting the division of the periphery or, even in the best of circumstances, were indifferent to them and failed to give them the support which would have been of great significance in this respect. This was yet another of the consequences of the centripetal growth pattern which first of all set aside the periphery from industrialization and subsequently kept it on the sidelines of trade in industrial products.

It is worth repeating once again that this centripetal growth pattern was a primary factor

in the centres' lack of any real interest in the development of the periphery, except inasmuch as it is of importance to their own development. I refer to the development of the periphery in all its social depth, that is to say, the process whereby the advantages of technical progress are spread throughout the structure of society and are not limited to a relatively small part of the labour force.

This assertion may seem surprising in view of the active role which the transnational corporations have played in the industrialization of the periphery in recent decades. At first, the centres opposed this development, but once the process was well under way and appeared to be irreversible, they stimulated the participation of these transnationals, which thus took advantage of import substitution after having previously opposed it. It was claimed that the transnationals would be agents of the internationalization of production, but their most important role has been to internationalize forms of consumption rather than those of production, since they have been an important factor in opening up the markets for the centres. In other words, without ignoring their technological contribution, the transnational corporations have nevertheless

taken advantage of the industrialization of the periphery without making any serious contribution towards offering it international horizons.

Very important changes are taking place in the world economy. Thus, we are at present witnessing, among other events which cause profound concern, the decline of productivity in the centres. The increase in productivity seems to have ceased to be a process which occurs automatically in the capitalist growth pattern. It must now be the result of a deliberate policy, in both the domestic and the international fields. It is therefore to be expected that new criteria should now be adopted in tackling the problem of relations with the periphery, including the question of comparative trade advantages. This problem must be approached, however, not in the previous ways, but in response to a situation which is very different from that which existed when the periphery began its industrialization. There is now no longer any doubt about its increasing capacity to achieve this, and it must therefore be allowed to participate in the sustained and growing process of comparative advantages, where it could make a notable contribution to increased productivity in the world economy.

### III

## The conjunctural effects of the crisis on the peripheral countries

### 1. *The recovery of the centres*

The consequences of the recession in the centres—which is tending to become an outright depression—are increasingly serious both in the centres themselves and in the rest of the world. We have already referred to the negative effects of monetary policy, which is largely responsible for this recession. The truth is, however, that inflation had been developing for some time past, and the rise in oil prices helped to intensify it. This is the structural phenomenon which it was attempted to tackle with this

policy. But how are we to set about the recovery of economic activity now?

The pressing need for recovery is acknowledged in all circles, and perhaps the most important factor which is holding up the essential expansion of credit is the fear of a new wave of inflation. This fear, in view of the vicissitudes which have taken place in recent times, is indeed not without foundation.

The fact is that some increase in prices would appear to be inevitable, in spite of the idle capacity of the economies. Indeed, it is necessary to increase the amount of profits in order



for enterprises to have the incentive and resources to increase their capital investment.

Herein lies the risk of a new inflationary spiral, and the possibility of avoiding this risk depends fundamentally on the ability to moderate the pressure of wages, especially when they have suffered some deterioration. There can be no doubt that if this pressure exceeds certain limits, the resulting rise in costs would lead to a rise in prices, and this in turn would bring about new demands for wage increases.

The danger does not lie only in this, however. The recession has brought about or aggravated a fiscal deficit, and the reluctance to take corrective measures which would intensify the recession is therefore understandable. If these measures are not taken, however, in proportion as the economy recovers there would at the same time be serious inflationary effects.

On the other hand, simply leaving the situation unchanged without taking any recovery measures is an attitude which is not acceptable from any point of view either. We are therefore faced with an unavoidable dilemma. Today, as in other eras, the consequences of a restrictive monetary policy fall on the labour force. From the point of view of recovery, it is no longer possible to recreate the times when the growth in accumulation was achieved largely at the expense of the labour force. What can we do, then, to reconcile this need for accumulation with the very understandable aspirations of the labour force to share in the fruits of the recovery?

Everything indicates that it will be impossible to avoid a new surge of inflation unless we face up to three requirements: the need for equity in distribution, the need for accumulation, and the need to correct the fiscal deficit as the recovery progresses.

This is not the place, of course, to go more deeply into these aspects regarding the centres. It is necessary, however, to emphasize their structural nature. We must not forget the vulnerability of the process of accumulation of reproductive capital as the struggle to share in the benefits progresses. We have not yet made sufficient progress in the interpretation of these phenomena, without which we cannot hope to change this process. This does not mean, how-

ever, that we cannot take a few initial steps in the light of a more integrated concept of incomes policy.

## 2. *The recovery of the periphery and the external imbalance*

Let us now go on to examine the case of the peripheral countries in very general terms. These countries have to face up to the consequences of the slow growth of the centres in the present decade and their protectionist practices, the consequences of these factors being aggravated by the deterioration in the terms of trade.

What does this deterioration signify? Quite simply, the answer is that the periphery is having to bear a substantial part of the heavy burden of the economic and social cost of the recession. This is recognized in a recent report by the Organization for Economic Co-operation and Development (OECD) in which it is stated that one third or more of the cost of bringing down inflation in the centres has fallen on commodity prices.<sup>2</sup>

These and other adverse consequences make it clear that the peripheral countries cannot simply remain inactive, waiting for the centres to recover: they must set about organizing their own recovery policy, and this task will be all the more difficult the longer it is delayed.

Despite the big differences between the countries of the periphery and their different levels of development, they have common problems of prime importance, without overlooking the special case of the oil-exporting countries. They suffer, above all, from an external imbalance. How is this problem to be tackled? In order to eliminate the imbalance it is essential to reduce imports and other external payments as long as the adverse external circumstances make it impossible to secure any substantial increase in exports or to procure a net contribution of financial resources from the exterior. There are

<sup>2</sup> "... a third or more of the decline in the inflation may be attributed to the weakness of primary product prices, which could be expected to recover in the event of a pick-up of activity", *OECD Economic Outlook* No. 32, Paris, 17 December 1982.

two ways of compressing imports, however: by bringing about a contraction in domestic activity until equilibrium is achieved, or by putting into practice a selective policy. The first of these approaches is in line with the conventional recommendation against any intervention of the State in order to regulate imports, but the economic and social cost of such a so-called 'spontaneous readjustment of the economy in line with the market laws' can be enormous. In spite of the fact that recommendations of this nature often come from the loftiest spheres, even in the times we are living in, it is simply not acceptable to follow this path towards the restoration of external equilibrium. It is therefore important to adopt a selective policy, and there is no reason to have any doctrinaire scruples in this respect when these stem from a mistaken and negative concept.

A selective import policy of a rational nature should aim to reduce or eliminate non-essential or unnecessary imports in order to use the countries' external payments capacity for those imports which are associated with economic activity and the well-being of the population. As the immediate objective of restoring equilibrium is achieved, there promptly arises another: to avoid a new imbalance brought about by the recovery policy itself.

This policy must be based on the cautious expansion of credit to stimulate demand and the utilization of the idle capacity of the economy. It may be noted in passing that the very high interest rates currently prevailing are a severe obstacle to the achievement of this objective. It is quite true that although a sharp reduction in them is advisable, this will stimulate the outflow of funds to the exterior, and this in turn could make it necessary to impose control measures which would also have to cover remittances of profits. At all events, moreover, no matter how prudent the reactivation policy is, it will bring with it an increased demand for imports beyond the countries' external payments capacity. The selective policy must therefore be applied with sufficient vigour to prevent new imbalances. This will by no means be an easy matter, especially in those countries — of which there are many — where margin for reducing imports has already been reduced to a relatively narrow one.

### 3. *Selectivity of imports and mutual trade*

This aspect constitutes one of the most significant differences compared with the Great Depression of the 1930s. Then, as now, it was necessary to adjust imports to the countries' external payments capacity. Unfortunately, at that time the restrictive measures were applied not only to the imports from the centres, where the main source of the imbalance lay, but also to the relatively small imports from other developing countries. In this way, the pressure of circumstances caused the possibility of promoting mutual trade, especially at the regional level, to be thrown away.

Nowadays, the situation is different, because this mutual trade has already developed and has great growth potential: it would therefore be extremely regrettable if the selective policy were to go astray once again. It will be no easy matter to avoid this, especially when the size of the imbalance is very substantial and there are also domestic considerations which might lead to such deviations from the right path. The need to promote the utilization of idle capacity and to increase employment, for example, could lead to a decision to do without imports from other peripheral countries, thus sacrificing the possibility of making exports in return.

Unfortunately, we find ourselves once again without suitable machinery for balancing trade at the regional level (or subregional, as appropriate) or beyond these levels. Little has been done in this respect, and we must therefore tackle new initiatives aimed at securing multilateral trade compensation.

This is not just a question of compensation machinery, but also of recognizing certain requirements for reciprocity, so that the more advanced countries, which take more advantage than the others of the trade in their respective areas, will have the responsibility for making or promoting investments in the weaker parts of the system, in order that the latter may also enjoy the advantages of reciprocity.

The absence or inadequacy of such machinery could lead, in some cases, to bilateral arrangements, as in earlier times. This is of course a very makeshift approach, but it would be preferable to completely sacrificing mutual

trade: it is therefore quite acceptable, provided that the need to eventually arrive at multilateral forms of trade compensation is borne in mind.

It may be recalled that the long years of prosperity of the centres not only discouraged import substitution on the basis of mutual trade, but also the development of machinery for such trade.

In this case, as in others, conjunctural measures must seek to pave the way for longer-term solutions. Thus, once the external imbalances of a conjunctural nature have been overcome, greater prominence will be assumed by the factors of structural imbalance to which so much significance has been attached in this study. The problem is how to overcome the structural tendency towards an external bottleneck. In view of the very slow rate of development of the centres and their protectionist practices, it will be essential, especially at the regional level, to tackle the substitution of imports of capital goods, intermediate goods and consumer durables originating from the technological innovations of the centres.

The structural nature of this substitution should not make us lose sight of certain immediate possibilities for contributing to the correction of the conjunctural imbalance by importing some of these goods from other countries of the periphery. As usually happens, some immediate drawbacks will be encountered in this. A country which imports essential goods from other developing countries instead of doing so from the centres will frequently have to pay higher prices, and as long as there is no reciprocity in the form of the export of other goods this will represent a drawback which could discourage similar operations. A country interested in making such exports within the periphery, however, could consider granting subsidies to bring their prices into line with those prevailing at the world level. This is a suggestion which is worth examining with a view to the development of mutual trade. Of course the centres will continue to oppose export subsidies, but I do not believe that this should induce the countries of the periphery to refrain from using this means of promotion, provided it is applied in line with suitable rules.

This remark applies equally, and perhaps even more so, to policies aimed at the substitu-

tion of essential goods, towards which development policy should necessarily strive. This is not a question of conjunctural emergency measures, but of structural adjustments. In proportion as vigorous efforts are made to increase exports of manufactures, as well as those of primary commodities, it will be necessary to initiate without delay investment plans for these products. It is essential to do this in order to gradually overcome the serious limitations imposed on development by the slow growth of the centres and their protectionist practices.

The reasons in favour of a policy of compensation or integration in the production of essential goods are well known. Instead of general formulas of scanty effectiveness, it is necessary to arrive at agreements between two or more countries for joint production and the promotion of mutual trade. These individual arrangements should of course be made within a general framework of incentives covering subsidies, preferential duties and financing, in line with the real requirements. It is also necessary to consider the desirability of multilateral compensation machinery, which, in this case, would have to be in keeping with structural requirements.

As regards financing, financial co-operation from abroad will be essential, especially while the developing countries are trying to correct the external imbalance and are still suffering from the limitations of domestic resources. The World Bank, and also the IMF, have finally recognized the need to participate in operations aimed at correcting external imbalances of a structural nature. Their financing of these operations, together with that provided by other bodies such as the regional banks, could make a very effective contribution to enable the private or public enterprises of our countries to take part in these joint production arrangements. Quite apart from its inherent importance, this financing will help to strengthen the bargaining power of such enterprises when there is a justification for the participation of foreign interests in financing and in providing technology.

It would be highly desirable for the centres to give their clear and explicit support to this policy of joint production and mutual trade among developing countries. Up to now they have been reluctant to do so because they have felt that this would unfavourably affect their ex-

port opportunities, but this is a mistake, because ultimately the intensity of the substitution policy depends on the degree of receptiveness of the centres to exports from the periphery. As already noted elsewhere, the more receptive the centres are, the more limited the scope of the substitution policy will be. If this policy is carried out on a rational basis, it could hardly include among its objectives that of reducing imports below the payments capacity of a country, but will be aimed rather at changing the domestic productive structure in the manner and to the extent needed to achieve a satisfactory rate of development.

In this substitution policy, high priority must be given to the needs for the supply of energy, either through oil production or through the development of other sources, and the stimulation of food production, without which the need to resort to imports from certain central countries would eventually assume unmanageable proportions.

So far, we have placed emphasis on substitution policy with respect to the centres, and this is indeed of prime importance. This in no way signifies, however, that other forms of integrated substitution should be overlooked. It must be acknowledged that in this respect the actual facts have lagged behind aspirations. In brief: although the substitution on a combined basis of certain basic goods is absolutely essential in view of the tendency towards imbalance with the centres, the substitution of other goods, although not so vital, is nevertheless extremely desirable from the point of view of the international division of labour. The experience accumulated so far gives grounds for both positive and negative conclusions which must be borne in mind when designing new policies in this respect. At all events, however, a rational order of priorities must be established.

#### 4. *Recovery and inflation*

Let us now consider the possible inflationary consequences of a recovery policy. Here, observations similar to those made in the case of the centres are called for. After a short while, a structural imbalance will arise between the growth rate of consumption and the need to increase the accumulation of reproductive capital

in proportion as the idle capacity of the economy begins to be used up.

When discussing consumption, it is necessary to exercise caution regarding certain conclusions on the significance of the concept of austerity. Austerity to combat inflation may be economically and socially unacceptable. On the other hand, it is an essential element for containing inflationary tendencies in a recovery policy. It is not a question of restricting the total amount of consumption: on the contrary, an increase in consumption is indispensable for recovery. What is really called for is to change the social composition of consumption in the light of considerations of equity. While it is true that the rate of consumption of certain social groups must be limited in order to raise the rate of accumulation of reproductive capital, it is equally true that the greater accumulation will promote increased employment and hence increased consumption on the part of the social groups which are favoured in this way.

The increase in consumption by the labour force will have positive effects on recovery, above all when wages have suffered serious deterioration. Past experience must always be borne in mind, however. In general terms, it is not possible to improve the standard of living through wage rises, which, by raising the cost of production, inevitably result in a rise in prices followed by new wage rises, thus bringing about an inflationary spiral. Expansion will naturally bring about some rise in prices, and if wages are then increased, the spiral will become uncontrollable. We must therefore frankly ask ourselves a question which is usually left out of the reckoning. A rise in prices is essential in order to increase the profits of enterprises and hence their capacity for accumulation. The assertion of this need, however, does not mean that we should necessarily recognize the need to contain wage rises, either through a social compact or by authoritarian measures: this would mean making the social cost of the economic reactivation fall on the shoulders of the labour force. Consequently, both equity in distribution and the need to avoid the inflationary spiral make it desirable to find suitable ways of allowing the labour force to share in the fruits of the recovery in proportion as the financial gains of the enterprises increase, after taking account of the

accumulation requirements. We may also conceive the possibility of the labour force participating in the process of accumulation. This is not the place to go into details of the necessary machinery for this, but merely to stress this aspect of great importance. It could really be the forerunner of a policy of macroeconomic regulation of the rate of consumption and the rate of accumulation. In other words, we see once again that conjunctural measures should never lose sight of long-term considerations but should link up with them in advance without going against their significance.

### 5. *Financial adjustments*

In some countries of the periphery, and especially those of Latin America, the burden of external indebtedness has seriously aggravated the external imbalance. The action taken by the IMF is holding off a dangerous stampede that would adversely affect the interests of all, but the emergency arrangements arrived at are far from having solved the fundamental problem. It is necessary to speak out very clearly in this respect. It is inconceivable that the debtor countries should continue contracting more and more debts indefinitely in order to face up to the payments of interest, nor should they have to resort to extreme compression of their essential imports for the same purpose, to the serious prejudice of their domestic activity and their precarious employment situation.

It would therefore appear to be a matter of elementary prudence and foresight to arrive at credit arrangements for suitably extending the payment of debt service and reduce interest rates, which continue to be high in spite of their recent reduction, although it is doubtful whether this can be maintained if there is a new bout of inflation in the centres.

At the same time, it is worth recalling the opportunities which now exist for the creation of Special Drawing Rights. The present tightness of international liquidity seems to clearly point to the need for such monetary relief. This would be the right moment to insist on a link between this and development finance. The dimensions of this operation must be determined, however, in line with the demands of world

trade and not those of financing, since the latter would only be a by-product of the former.

In addition to the above-mentioned adjustment operations, a net increase is needed in the transfer of financial resources from the exterior, especially until such time as the centres once again attain a satisfactory growth rate, although this is unlikely to be as high as that achieved in their time of prosperity. Be that as it may, the reproductive investment of such resources would help the recovery of the centres too. Difficult though it may be in the present circumstances to comply with the recommendations made in this respect in the United Nations, it is reasonable to expect that at least a plan for the gradual attainment of this objective in the next years could be arrived at.

As regards resources of a conjunctural nature, it would appear that some degree of consensus has been arrived at regarding the expansion of the IMF quotas and also the transfer of resources from other sources, especially the big central banks.

This would also be the right moment to change the conditions imposed by the IMF in the light of experience, with the technical collaboration of suitable experts from the developing countries.

### 6. *The Sixth Session of UNCTAD*

While progress is made in the consideration of the international monetary reform, in which the periphery should play an active role, the Sixth Session of UNCTAD (June 1983) offers a favourable opportunity for considering the recovery policy advocated in the present article. There is a good deal of pessimism about the possibility of progressing in the consideration of the New International Economic Order, but such pessimism should not hold up the debates. On the contrary, this recession (or depression) which affects both the centres and the peripheral and socialist countries should be a suitable setting for considering the urgent and pressing problem of world recovery.

It is necessary to assert with the greatest vigour and confidence the genuine possibilities which exist for initiating and promoting this process for the benefit of all. There is no doubt at all that the foundations for this are already in

being, but the stubborn persistence in sticking to conventional ideas and forms of action is smothering these possibilities. Ideas in this field have lagged behind the enormous scientific progress made in other disciplines: it is therefore necessary to make innovations also in economic matters too, since the present forms of action prejudice the entire world economy. Much of what was achieved after the Second World War is now crumbling.

The time has come to launch new ideas and put forward new forms of action in line with the extraordinary consensus of interests demanding a recovery policy which must be begun without further anxiety-fraught delay. Our countries, together with the rest of the periphery, must make their voice heard: a voice which is increasingly powerful in the centres themselves.

Only the recovery of the developed countries will make it possible to overcome protectionism and the imminent risk that they too will become economically divided, with corresponding aggravation of the conflicts. Such a recovery will also reduce the great obstacles impeding the recovery policies of the periphery, which has been so seriously affected by the protectionism

of the centres. As the recovery of the latter progresses, it will be possible to avoid new measures standing in the way of imports from the periphery and to set off along the road towards structural liberalization measures. Progress in the recovery of the centres will also relieve the deterioration in the terms of trade of the peripheral countries. At the same time, financial co-operation will acquire great significance for both sides, since the greater external payments capacity of our countries and of the rest of the developing countries will make it possible to satisfy the huge import needs inherent in the recovery of the periphery (and its subsequent development), and this could make a notable contribution to the recovery of the centres themselves.

All in all, it is evident that there is a clear network of mutual interests which should be emphasized at the Sixth Session of UNCTAD. As a result, it would be possible to arrive eventually at consideration of the new world economic order, which by its very nature presupposes great structural changes. Nevertheless, conjunctural matters deserve high priority and should be dealt with first so as to open the way to large-scale structural measures.

## IV

### The market laws and ideologies

#### 1. *The ideological crisis*

The impressive progress of technology has been accompanied by great changes in the structure of society and the power relations which take place within it. New and difficult problems have arisen, and the situation today is very different from that of yesterday, but there is something which has remained unchanged in all this: the ideologies followed and the forms of action deriving from them. They were effective in other phases of the development of society, when they were in keeping with the interests and aspirations of the dominant social groups in both the centres and the countries of the periphery. Now, however, as well as having become ineffec-

tive to deal with the new problems, they have actually become a negative factor because of the great damage which their application causes.

Not only have there been changes in the internal power relations, but also in the world structure, where moreover different ideas and forms of action from those prevailing in the past are gaining ground.

There is thus an ideological crisis which is further perturbing the crisis in real activities. As we said earlier in this article, we do not believe that we are witnessing the decline of capitalism, but this will become inevitable if we do not soon achieve a thoroughgoing renewal of conventional ways of thinking and also ways of acting in response to events, with a view to encompassing

certain rational objectives motivated by an ethical sense which cannot be absent from these new ways of thinking.

## 2. *The market and its structures*

In recent years there has once again been a tendency to proclaim the great virtues of the market laws, the 'magic of the market'. In the theories on which this concept is based there was indeed an underlying ethic, since it was held that if these laws were allowed to operate in an unrestricted manner, the system would tend towards a state of equilibrium in which income distribution was equitable and there were neither centres nor periphery. One must not deny the importance of the play of the market laws, but no matter how effective they may be economically, they lack social and ecological effectiveness.

Let us repeat once again: in reality, it is not just a question of the market, but of the structures which lie behind it and the great differences of power which stem from them. These considerations must no longer be left out of the reckoning if it is desired to understand the problems now facing us and clear the way towards solving them.

I fully acknowledge the great value of individual enterprise and the profit motive in economic activity, as well as in the promotion of technological innovations, but these are not enough to ensure the effectiveness of the market laws. This is a matter of great importance, and if we do not clarify it we cannot correctly interpret the present crisis of capitalism in the centres and the peripheral countries, as well as in the relations between them.

Some final reflections are therefore called for in the light of what was said earlier in this article. In order to avoid errors of interpretation, I wish to reaffirm that I assign great importance to the market not only in the economic but also in the political sphere. What is the reason, then, for the great faults in its operation?

## 3. *The market laws and distribution*

In my view, the main origin of these faults lies in the appropriation of the fruits of technical progress. According to theories which continue

to form the background for conventional thinking, the tendency is for the enterprises, guided by the profit motive, to distribute these fruits socially through the play of competition, either through the reduction of prices or through increased wages.

Well, I maintain that this is not so, because these fruits are largely retained by the upper strata by virtue of their economic, technological and political power. Within the growth pattern of the system, this is necessary in order for the accumulation of capital to increase, and this corresponds to a certain stage in the evolution of capitalism, since the changes in the structure of society open the way to the possibility of sharing in these fruits by the labour force and the State. This possibility runs counter to the power of appropriation, and as time goes on, it leads the system to an inflationary crisis. The accumulation process thus becomes increasingly vulnerable. According to conventional theory, this crisis is a consequence of the violation of the market laws by this power of sharing, but they conveniently forget, of course, the power of appropriation.

The system can operate quite smoothly as long as this power of appropriation prevails unchallenged, that is to say, when the power of sharing does not exist or is very weak. When the latter power develops and gains force, however, a crisis arises because of the structural imbalance between the rate of consumption and the rate of reproductive accumulation of the surplus, due to the inherent logic of the system.

There is an obvious contradiction in all this, for while the power of sharing is rejected on the grounds that it violates the market laws, no criticism is levelled at the original violation of these laws represented by the power of appropriation.

## 4. *The equivocality of technology*

In the free play of the market laws, the profit motive has stimulated technological research and its application to production, as is perfectly fit and proper. At the same time, however, because of the equivocality of technology, this same incentive has brought with it the irresponsible exploitation of non-renewable natural resources. Thus, oil prices went down while at the same time there was a spurious increase in pro-

ductivity. Such was the power of the dominant groups in the centres and the projection of their domination at the international level that this situation continued until, at a suitable historical moment, their power was offset by that of the producer countries and there was a rise in the price of this non-renewable resource with the consequent aggravation of inflation.

But this was not all. The decline in prices brought about by the play of the market forces (not without some manipulation on the part of the transnational corporations) brought with it very important consequences as regards technological research, which paid little attention to other sources of energy or to the use of renewable natural resources. Furthermore, this situation led technological research towards the abuse of energy through the exaggerated diversification of goods and services.

#### 5. *The structural imbalance with the centres*

This imbalance is also observed in the relations of the periphery with the centres. Here again it is a question of power relations. In the past development of capitalism, the fruits of technical progress were concentrated and multiplied in the centres and the periphery was left on the sidelines of industrialization in the international play of the market laws. It was when the periphery began to industrialize that the tendency to the structural imbalance arose. The periphery tried to correct this first of all through import substitution and afterwards through the export of manufactures on the basis of the economic and technological power which it was acquiring. Weak though this power was, it began to have adverse effects on employment and to offset the process of accumulation. In other words, the market laws, which in other eras reflected the interests of the centres (in conjunction with the predominant groups of the periphery), are now causing problems for them. Their supremacy in the world, however, has enabled them to take unilateral measures to counteract these laws. As a result, both the centres and the periphery are losing the comparative advantages of trade which the central countries had so insistently proclaimed when the periphery was still excluded from industrialization.

How clearly all this shows the virtues of the market laws as regards the proper allocation of productive resources!

The economic incentive, once it has passed certain limits, has thus caused the deterioration of the environment thanks to the play of the market laws: yet another spurious element in the increase in productivity.

#### 6. *The role of industrialization*

One of the manifestations of the dominant power of the centres over the periphery has been the ideologies imposed. Though they were previously effective in promoting the economic (and also the political) interests of the centres, the market laws at the international level no longer serve their purpose as well as before, and the centres are gradually diverging from them.

These ideologies also give rise to very serious contradictions. While the centres, because of the growth pattern inherent in their capitalist development, retained and continue to retain the fruits of their technical progress, the periphery has been forced, because of its structural lag, to transfer part of its increased productivity to the centres.

This is where the role of industrialization comes in. In spite of its great significance for the promotion of the development of the periphery, recent versions of the ideology of the free play of market forces, in an unexpected turnaround, have again rejected protection and advocate devaluation instead of it. If it follows this path, the periphery will once again be made to transfer to the exterior the fruits of the technical progress already achieved in its competitive exports.

Those in the centres who profess conventional theories and denounce measures aimed at containing the decline in agricultural prices in the European Economic Community and the United States because of increased productivity are taking a perfectly coherent approach. The only trouble is that governments respect but do not follow their urgings!

#### 7. *The indifference of the centres*

The technologies of mass communication and transport also have a profound cultural influ-



ence on the periphery. They shorten distances and internationalize the awareness of development and of cultural identity, but the centres never take any serious and continued action to end the peripheral nature of the periphery with the passage of time. They continue to be indifferent to the final fate of its development. The periphery, for its part, has no power to overcome the indifference of the centres, but it does have power to cause problems. This is a contradiction which can have serious consequences for the centres. The truth is that the latter do not have a long-term perspective of their relations with the periphery.

The centres themselves will increasingly suffer on both the economic and political levels the absence of this long-term perspective. They did once have it when they had to tackle the rehabilitation of Europe after the war. For the periphery, however, they have lacked such a perspective except when it came to advocating birth control, and even then this was not as an element of a great policy of international co-operation, but rather by way of a substitute for this.

During the long years of prosperity of the centres, they did not bother with the periphery either, which was always exposed to the eventual return of obsolete ideologies. Now, however, the crisis of development and change has arrived at the centres themselves, and they too are victims of their own ideologies.

Both the centres and the periphery must learn from the lessons of their own experience. It is possible that this crisis may have the virtue of breaking the outworn moulds within which it was sought to confine a system which must inevitably be changed if it is to recover and increase its powerful growth potential.

#### 8. *Differences and common denominators with the centres*

It is an interesting point that the vulnerability of the process of accumulation of reproductive capital, which is mainly responsible for this crisis of capitalism, is observed both in the centres and in the most advanced countries of the periphery, in spite of their considerable structural disparities. This is because there is a com-

mon denominator between these countries, namely, the tendency towards a structural imbalance between the rates of the different forms of consumption and the rate of accumulation of reproductive capital.

This common denominator conceals some fundamental differences, however. In the centres technological evolution constantly diversifies the consumption of goods and services, under the impulse of the powerful impetus of the system. This is a reflection of technical progress which, on the one hand, increases productivity and, on the other, encourages the use of that productivity for the diversified multiplication of consumption. In the imitative capitalism of the periphery, in contrast, we allow ourselves to be seduced by these forms of consumption without having reached the accumulation capacity needed to solve our grave problems of social inequity.

This propensity to imitate those forms of consumption has always existed. The urge to copy them was especially strong, however, during the long years of prosperity of the centres, when there was an increase not only in private consumption but also in social consumption as an integral part of the sharing process. In addition, of course, there was the imitation—very strong in some cases—of military consumption, which is a serious element in that structural imbalance.

Important countries of the periphery were precursors of the inflationary crisis of capitalism, and now, along with others, they are suffering the consequences of that same crisis of the centres and the extremely grave adverse effects of the policy with which it is sought, especially in the main dynamic centre, to check inflation. The consequences are equally grave for both the centres and the periphery.

Those long years of prosperity dazzled many countries of the latter, and in addition to being seduced by the attractions of consumption, they slackened or completely abandoned their substitution policy, which should have been combined with the export of manufactures and their efforts to promote mutual trade. The whole of the periphery, despite the great differences in its level of development, should pay great attention to this new and promising development horizon.

Countries which have been the birthplace of great technological innovations with enormous potential for increasing human well-being—limited at present to only a small part of the world's population—have not been capable of finding innovations in the theories of development, and hence in its practice too. Perhaps this

is because the prevailing interests promoted such technical innovations but seem to have dampened intellectual creation. It is not too bold, however, to think that the present crisis may encourage the birth of new ideas and also of new men capable of bringing these ideas to reality through political action.