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The ideas of Prebisch

*Ronald V. A. Sprout**

This paper reviews the evolution of Prebisch's thought from his early focus on the centre-periphery dynamics to his latest writings on the crisis in peripheral capitalism. An analysis of some of Prebisch's fundamental ideas follows. Evidence is provided which supports Prebisch's core ideas, as well as bearing out the observation that he changed with the times, though probably not enough. The author argues that while Prebisch's ideas can help restore some balance to the current debates regarding the merits of free markets, his analysis of what the State is capable of doing was insufficient.

An effort is then made to assess how Prebisch would respond to the extraordinary world changes taking place today. It is argued that he would identify some very encouraging trends in economic policy and attitudinal changes both within the periphery and the centres—in particular, as regards the relationship between markets and government, as well as between the internal and external influences on development. However, Prebisch would contend that the nature of State intervention must change in the periphery; efforts to ensure adequate growth and distribution of the surplus are needed to overcome the crisis. He would also contend that there still remains an unacceptable degree of asymmetry between centre and periphery as regards the burden of adjustment to global economic problems.

The article ends with some assessments of Prebisch's basic contribution to our understanding of the development process, including his multifaceted methodology of deciphering reality, the perspective which emerges from this method, and the policy prescriptions deriving from that perspective and aimed at a fairer distribution of the gains and losses generated by the capitalist system.

*Economic Commission for Latin America and the Caribbean, Washington Office. This paper is part of a larger effort undertaken by David Pollock and Ed Dosman, who are researching a biography of Prebisch. Many thanks for their help.

Introduction

Raul Prebisch held enormous sway over the evolution of ideas and policy in development economics during his lifetime. Yet the ideas and prescriptions for which he is best known—the declining terms of trade thesis and “export pessimism,” import substitution industrialization (ISI) and active State intervention—contrast widely with the prevailing free market, free trade winds which predominate today throughout most of the world, including Latin America. At an Inter-American Development Bank (IDB) lunch attended by several distinguished colleagues of Prebisch, I asked how he is presently being received in Latin America. Don Raul was a product of his times, it was suggested, and times have changed; he is currently respected in Latin America, yet at the same time rejected.

Are these characterizations fair? Which of his ideas have retained their relevancy? Which ones need revision? How did Prebisch's ideas evolve over his lifetime? Did his perception of reality adapt to changing times? And how would he react to today's events? These questions I attempt to address below, closing with some assessments of Prebisch's basic contributions to our understanding of the development process.

I

The evolution of Prebisch's thought

There are several fundamental observations to be made regarding Prebisch's evolution of thought. First, the early years of his career were characterized by a gradual yet dramatic shift in outlook from the prevailing orthodoxy of neoclassicism to the heterodoxy of structuralism. Once the transformation was complete, there was no going back. The principal themes first espoused by Prebisch in the 1940s and 1950s remained important components in his repertoire of ideas until his death in 1986.

As a structuralist, Prebisch's thinking on development evolved through a series of stages; “each phase (achieving) new dimensions without ever losing sight of their guiding threads” (Pinto, 1986, p. 9). The evolution of these stages (five by Prebisch's count; see Prebisch, 1984b) were the result of both new personal experiences and a changing reality.

Ultimately, Prebisch's intellectual pursuits led to an expansion of both method and subject matter. His theoretical framework expanded beyond the constraints of purely economic theory into political economy issues. In addition, while retaining an interest in the periphery's external relationship with the centres, increasingly Prebisch expanded the scope of his focus to include internal dynamics of the periphery.

1. *Prebisch's early years and the "ECLAC Manifesto."*

When Prebisch started his career as an economist and professor in the 1920s, he was an ardent supporter of neoclassical theories. The 1930s depression, "the first great crisis of capitalism," was primarily responsible for Prebisch's conversion. The harmonious and self-equilibrating market system depicted by the neoclassical paradigm, felt Prebisch, had little to do with economic reality, particularly in Latin America. Keynes' attack on the neoclassical orthodoxy, and his advocacy of active State intervention to redress the economic ills stemming from free markets in particular, no doubt significantly influenced Prebisch during this time as well. In fact, in 1947 Prebisch wrote an *Introduction to Keynes* in Spanish, which provided the first exposure of Keynes' ideas to many in Latin America.

It was Prebisch's 1949 document, *The Economic Development of Latin America and its Principal Problems*, written while he was Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), that first formally provided the essentials of Prebisch's structuralist framework. After his forced resignation as Director-General of Argentina's Central Bank in 1943 (presumably for failing to toe the free-spending populist line pursued by Peron), Prebisch had several years to formulate his response to the neoclassical orthodoxy. The 1949 study (the "ECLAC Manifesto") represented a crystallization of these ideas, which, by his own account, were now attaining maturity (1984b, p. 176). Here Prebisch unfolded his centre-periphery conception of the world and presented several themes which followed from this perspective and which were to be frequently drawn upon throughout his career.

The centre-periphery concept sought to identify three elements of reality as Prebisch saw it. First, unity: all the nation-States and territories are linked in one global economy. Second, diversity: there are two distinct types of nation-State economies –the periphery (Third World) and the centres (the industrial nations). Third, asymmetry: the economic gains from the interaction between the two are unevenly distributed. The periphery remains on the fringe of capitalism's central dynamics, receiving less than its fair share of the fruits of technological progress.

Foreign trade plays a crucial role in the dissemination of the gains from technological progress. While trade is an absolute necessity for peripheral development, the tendency for the periphery to incur declining terms of trade with the centres has helped perpetuate unequal international exchange.

The policy prescriptions espoused by Prebisch in 1949 logically followed from the problems he diagnosed, and were to become familiar Prebisch recommendations. They included the importance of ISI, of regional cooperation in trade and development, and of foreign capital as a means of supplementing the inadequate rate of domestic saving.

2. *Early criticism by Prebisch and the UNCTAD years.*

During the late 1950s and early 1960s, Prebisch turned his attention towards evaluation of the policy implemented in Latin America. As early as 1961, Prebisch was writing of the "very serious flaws" of ISI as then carried out (1961, pp. 2-3). Tariffs were excessive and had been "applied in a discriminatory way, without promoting a corresponding expansion in exports." Regional import substitution (a Latin American Common Market) was needed so that more sophisticated manufactured goods requiring relatively large markets could be produced. In fact, with the reconstructed international economy back on its feet and Latin American infrastructure and capability in place, it was time to promote manufactured exports to the centres.

During this time, Prebisch also gave greater attention to the growing social disparities within the periphery and the role of inflation in this process. In retrospect, however, Prebisch speculated that

remnants of his former neoclassicism may have surfaced on these issues (1984b, pp. 181-182). He reasoned that his relative neglect of income distributional concerns until the 1960s may have been due to an assumption that the free play of market forces would eventually correct the inequalities. Further, he tagged his solutions at this juncture as "conventional explanations."

Greater study and understanding of these matters, however, was not to come until some time later. Prebisch's next stage, from 1964 to 1969, was devoted to the international civil service rather than theoretical pursuits. During this period, as Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), Prebisch drew on his existing stock of ideas to formulate policies designed fundamentally to level the playing field between the periphery and the centres: to tackle the problems of international cooperation in trade, finance, and technology. The policies are familiar and include international commodity agreements to alleviate adverse price changes, preferential tariff treatment to facilitate greater access of Southern manufactured exports, greater foreign aid from the OECD countries (1% of GNP), and more favourable terms for the periphery regarding foreign direct investment by firms from the industrial nations.

Prebisch confessed his failure in these endeavours and attributed it to shortcomings on both sides of the North-South dialogue: the North was not willing to listen, and the South was not willing to follow through with the needed complementary internal structural reforms (1984b, p. 174).

3. *A period of transition and the IDB report.*

After the frustrating UNCTAD years, Prebisch went back to the drawing board to begin a more comprehensive probe. A series of lectures at Columbia University in 1969 provided the initial means to look anew. Of greater significance, however, was his research commissioned by the IDB which produced *Change and Development: Latin America's Great Task* (1971). This study was viewed by Prebisch in subsequent years as an imperfect, yet nevertheless significant step forward. It was a transitional document, linking his old ideas with emerging ones, many of which were to be refined over the remainder of his life.

It is in this document that Prebisch more systematically expands his method of understanding

reality to include social and political considerations alongside the economic. It is here that Prebisch starts to analyse more explicitly the internal determinants of peripheral development alongside the external factors, seeing the constraints on Latin American development as a function of the interaction between the two. "The time has come" (wrote Prebisch (1971, pp. 8-9)) "to shake off the all too common habit of attributing the inadequacy of Latin America's rate of development to external factors alone, as though there were no major internal stumbling blocks in the way. . . In this present report, the accent is placed on the internal factors of development."

Prebisch now began to focus more on the social disparities within Latin America; the exclusive nature of development, the growing impoverishment of the underprivileged masses. Development, he said, must be accelerated to incorporate these people. This is not only important for social and political reasons, but is also an economic necessity. Bringing the masses into the development process broadens the domestic market for industrial goods and perpetuates the process.

International cooperation and external financing on proper terms have a significant role to play. But much must be done within the periphery as well. "Development discipline," currently lacking, must be achieved. Otherwise development can only occur by compulsion.

Capital formation must increase, and hence so must domestic saving. This means that consumption on the part of the high and middle income strata needs to be restrained. Wrote Prebisch: "It is true that the burden of remittances abroad, together with the effects of the deterioration in the terms of trade, has seriously limited the capacity to mobilize domestic resources. But it is equally undeniable that consumption has frequently overstepped the bounds within which it should have been contained in order to ensure that such outflows of resources did not preponderantly affect investment" (1971, p. 76).

The lack of dynamism hence can be attributed in part to the changing "power structure" within the Latin American economies and the consequent tendency for "redistributional immediatism." The groups which have traditionally wielded influence—landowners and businessmen—are being joined by new elements, primarily from the middle strata through public administration and the growing influence of trade unions. Mounting redistributional

tensions are relieved in part through wage increases or public spending and ultimately inflation. Yet, "however genuine its underlying concern for social equity, and however much it may do to alleviate social tension in the short term, this redistributive immediatism does not solve the basic problems" (1971, p. 196).

Technology plays a critical role in the development process. It is a two-edged instrument: it can be used for good or ill.

First the good news.

"The opportunities for fullness of life are now broadening out to an extent inconceivable before. And for the first time in history this is happening without recourse to the sacrifice, the exploitation, of other human beings. What is now coming into play is the exploitation of technology, the ability to control the forces it unleashes and to take advantage of the tremendous possibilities it is continually opening up for the human race: the exploitation of technology by man, not the subjection of man to technology" (1971, p. 220).

Yet, the application of advanced technology in the periphery has brought serious deleterious side effects. While the possibilities exist for bridging the centre-periphery gap (partly thanks to technology's potential), the actual effects of technology have helped create distortions: that is to say, current development conditions for the Third World which diverge from the more favourable environment enjoyed in years past by the now developed countries. Hence, the "ambivalence of technology."

Science and technology's success in significantly bringing down the death rate in the Third World, for example, has contributed to a population growth rate which is outstripping the Third World's ability to support such growth; a rate much higher than that experienced by the central countries during a comparable development stage. In addition, the capital-intensive technology of production has contributed to a distortion in the labour force: the agricultural labour force has declined, as happened in the industrial countries, but an inordinate percentage of workers have pursued relatively unproductive work in the services sector rather than in industry, where jobs are few.

Distortions due to technology have occurred in consumption as well. The technology of communication –the power of advertising– has

contributed to an excessive consumption mentality. Latin Americans see how their Northern counterparts live and want to imitate that lifestyle. Such consumption is premature; the economies cannot support such activity.

The consumption exacerbates the periphery's tendency towards external bottlenecks. The demand for nonessential imports is forever growing. In addition, the growth of exports is adversely affected. The capability to produce for export is diminished; the opportunity cost of extravagant consumption is less saving and capital formation. Furthermore, the demand for primary commodities has decreased due to technical change in the centres. Directly, this has occurred because of the creation of synthetic substitutes; indirectly, it has been a result of the centres' low income elasticity of demand for peripheral products.

Technology unfettered by State regulation has also led to large-scale pollution of water and atmosphere, systematic destruction of the natural environment, and urban congestion.

An active role for the State is needed to help resolve the contradictions arising from science and technology. In fact, "the farther science and technology progress, the more unavoidably necessary it becomes to influence the spontaneous movements of the economic forces" (1971, p. 198). State action is needed to encourage greater capital formation by promoting private and public saving and by investing in the economic infrastructure. State action (at the Latin American and international level) is needed to bring about structural changes in foreign trade; to direct the nature and growth of the periphery's imports; to promote Third World manufactured exports to the centres. The State must also redress the social inequities since the spontaneous play of market forces will not; its investment in the social infrastructure is imperative in order to smooth out social and geographic disparities.

It is interesting to place Prebisch's thinking in the context of the existing macroeconomic performances of the Latin American economies. By his calculations, Latin America had experienced an economic growth rate of 5.2% over the previous two decades. By his acknowledgment, this was an historically impressive rate; greater than the growth rates of the industrial countries during the same period, and greater than that which occurred in either the centres

or periphery for any sustained period of time prior to this period. Yet Prebisch argued that Latin American development needed to be stepped up to a growth rate of 8%.

Why such impatience? "Time is no panacea." International disparities and disparities within the periphery will only mount, if decisions are left to the spontaneous play of market forces.

4. *The political economy ideas of Prebisch.*

Prebisch's final stage of thought roughly coincided with his directorship of *CEPAL Review* from 1976 to his death in 1986. Prebisch described this period as one in which he was "free from executive responsibilities for the first time in many years, (and hence) able to revise and advance systematically in (his) thinking" (1984b, p. 175). It was a prolific period. Prebisch wrote *Capitalismo Periferico: Crisis y Transformacion* in 1981 as well as frequent articles in *CEPAL Review* throughout this period.

Prebisch's broadening of both his approach and subject matter during this period represented an extension and refinement of the 1971 IDB report. Confronted with what Prebisch perceived to be the second great crisis of capitalism (1984b, p. 175), it was a period of searching for new answers to mounting problems. Why do growing disparities of income and wealth accompany the development process? Why does the periphery continue to lag behind the centres? Why is economic crisis so pronounced in the periphery? (1984b, p. 175).

At the core of Prebisch's analysis regarding the internal workings of peripheral capitalism is the dynamic importance of the economic surplus: the gains in productivity which are not transferred to the labour force. As the primary source of capital accumulation, the surplus has a critical role to play in the system's development. Yet, the surplus becomes increasingly vulnerable. Less is created and much of what remains tends to be unproductively used.

This manifests itself in economic crisis whereby the rate of expenditure exceeds the rate of accumulation of "reproductive" capital (capital which increases labour productivity). The forces that threaten the surplus are largely internal, though external conditions exacerbate the trends and influence the internal determinants.

Paradoxically, the crisis is fundamentally a consequence of the vigour of capitalism. There is an

innate "impetus to democratization and to the progressive evolution of individual liberties" in capitalism (1985a, p. 66). From this impetus arises a redistributive struggle between the different social strata that saps much of the system's potential to expand.

Excessive consumption and a premature diversification of demand play a central role. "Whatever degree of austerity may have been practised in the historical development of capitalism" (wrote Prebisch (1984a, p. 161)), "it must be acknowledged that this is not a characteristic of peripheral capitalism."

The overconsumption in turn is attributed in part to the periphery's propensity to imitate the consumption habits of the centres. Consumption patterns in fact are not the only thing that is replicated in "imitative capitalism." The Third World adopts the same technology as the "innovative capitalism" of the centres, imitates the centres' lifestyles, and copies their institutions. The centres' cultural manifestations, ideas and ideologies are constantly gaining ground in the periphery (1976, p. 11).

Yet the periphery is unable to replicate the centres' productive capability. And this contributes to a basic imbalance as imitation on the demand side is not matched by that on the supply side. "Productivity is lower in the periphery because of its historical time-lag. But there is no such time-lag in the imitation of consumption which tends to spill from the upper strata downward, but with enormous disparities" (1984a, p. 173).

Prebisch attributes the overconsumption to three guilty parties. The upper income strata lead the way. Increasingly, however, the middle strata have followed suit, their ability to do so being a function of their growing political power stemming from growing unionization and the encroachment of the State—the third contributor to such excessive consumption. The bloated State is a reflection of changing power relations; of the redistributive struggle.

The increased consumption by labour and the State, however, tends to impinge on that portion of the surplus otherwise allocated for capital accumulation. The upper strata's profligate ways continue unabated. While the redistributive struggle contributes to contraction of the surplus, then, it tends not to decrease the inequalities (1982a, p. 8).

The capital accumulation process slows not only because there is less surplus to draw from, but also because of the way the remaining surplus is used. In

addition to the wasteful spending of the upper strata, much is employed for "non-reproductive accumulation" (investment in innovations which provoke an increase in demand exceeding their contribution to output). Other portions must be used to redress environmental costs created by earlier technology.

External forces exacerbate the crisis. A "trend towards external dynamic disequilibrium is superimposed on the effects of the internal disequilibrium of the periphery, thus reducing the speed of its development" (1985a, p. 65).

Fundamentally, the external disequilibrium derives from the centripetal nature of global capitalism, which in turn is manifested in three major structural characteristics: i) demand disparities between the periphery and the centres; ii) economic and technological inferiority of the periphery; and iii) the fragmentation of the periphery into relatively small units. These features have perpetuated the considerable lag in the periphery's development, largely by contributing to the long-run deterioration of the periphery's terms of trade.

While much of the surplus is siphoned off to the centres through trade, other portions escape in the form of debt repayments. Some of the growth of the surplus is stunted by the protectionist policies of the North. Foreign multinational companies have also aggravated the crisis by proving more adept at internationalizing consumption than production. In addition, the periphery has been adversely affected by fiscal and financial irresponsibilities of the North—from the United States, and from the unregulated Eurodollars market in particular. By fuelling worldwide inflationary pressures, both have contributed to tight monetary policy and historically high real interest rates.

The crisis is manifested largely in a new type of structural or social inflation which results from the redistributive struggle. This new inflation is characterized by a relative immunity to conventional economic policies. In fact, conventional policies are typically further handicapped by the tendency for social inflation to coexist with fiscal inflation; the latter resulting from chronic budget deficits, ultimately stemming from social inflation. Both types of inflation tend to feed on each other. Tight monetary policy, for example, will aggravate fiscal inflation by exacerbating the fiscal deficit. The only effective means to address the fiscal deficit is by increasing taxes or decreasing State spending. Yet, tax increases

can ultimately spur social inflation if labour demands compensation to recoup its losses from the higher taxes.

This inflation's relative immunity to conventional economic policies increases the likelihood of the use of force by the State as the dominant means to protect the surplus. Hence, the compatibility of economic and political liberalism may be shortlived as the "democratic process tends to devour itself" in response to economic crisis (1985b, p. 28).

Prebisch felt the market had considerable economic and political importance. At the same time, he argued that "the market must not be confused with the (structural) factors that push it from behind, nor should it be expected to do more than it can. The market cannot modify the social structure whence emanate the power relations that largely determine income distribution, nor can it establish the necessary rate of accumulation" (1979, p. 174). The market, hence, cannot be expected to properly address problems of equity ("social efficiency"). Nor can we depend on the market to make rational long-term development decisions. The market lacks an adequate time horizon. Furthermore, as initially set forth by Prebisch in the 1971 IDB report, contradictions due to technology occur in an unregulated market environment.

His policy prescriptions hence centered on means to keep the economic incentives and dynamism of the market intact, while ensuring adequate growth and distribution of the surplus. The latter must entail consensus between all the major economic players in the economy, according to Prebisch; ultimately some form of market socialism may be necessary whereby economic liberalism can remain compatible with political liberalism.

Many of the familiar prescriptions espoused by the "early" Prebisch continued to be recommended by him to the end. Import substitution industrialization (ISI), under certain circumstances and correctly applied, remains part of a sensible policy mix. Economic integration of the periphery (regional ISI) should continue to be pursued despite failures in the past. In addition, Prebisch continued to call for policies in the North aimed at addressing development concerns in the South. His pitch was not to appeal to the centres' sense of moral obligation, but rather to their enlightened self-interest. Enactment of such policies, Prebisch felt, was in the interest of all.

Prebisch's pessimistic prognosis of the Third World's prospects was based in part on his gloomy forecast for global capitalism. He argued that the worldwide downturn in the early 1980s was part of a structural decline in the centres, representing the end of an historic stage of prolonged growth. He wrote of the crisis in 1982 as more "profound, complex and difficult" than the 1930s depression which he charac-

terized as "conjunctural, albeit of extraordinary severity. . . a cyclical decline (which) turned into an intense economic contraction" due in large part to a policy of restrictive credit and sharp increases in import duties (Prebisch, 1982b, p. 150). In this same 1982 article, Prebisch argued that "there are no grounds for expecting a lasting improvement in the economies of the centres" (1982b, p. 148).

II

Some reactions to Prebisch's thought

Was Prebisch primarily a product of earlier years and economic conditions at odds with today's economic realities? Did he change with the times?

Clearly the core of Prebisch's ideas was moulded by his experiences during the Great Depression and its aftermath. How has this core—the "guiding threads"—withstood the test of time?

On the broadest level, quite well. In particular, Prebisch's centre-periphery conception of the world, whereby the most advanced economies tend to reap the lion's share of technological progress, remains very relevant. To put it another way, there seems to be some basis for Prebisch's conception of centripetal capitalism.

On a theoretical level, one finds some intriguing support for these ideas from David Landes (1990 and 1989), for example, who has argued that while relative backwardness may have had its advantages in times past, it is today on balance a liability. Some of his ideas parallel those of Prebisch and include: i) growing disillusionment within the periphery due to the large centre-periphery gap and communications technologies which are facilitating a demonstration effect more powerful than ever before; ii) higher threshold costs to bridge the gap, the fundamental constraint now being the more elusive know-how rather than capital; iii) the adverse effect of technology on primary products, which are now more substitutable: "staples ain't what they used to be"; iv) misdiagnosis bred by historical circumstances: theories blaming underdevelopment primarily on external factors have proven to be self-defeating; and v) vested cultural values in the Third World are growing and becoming self-reinforcing agents for resistance to change and development.

Clearly, there are credible counter-arguments that could be put forward. Prebisch acknowledged as much in his assessment of the ambivalence of technology: it is a two-edged instrument with an enormous potential for good. However, what is the evidence on centripetal capitalism? Is the centre-periphery gap growing?

Results given in the seminal work of Paul Bairoch indicate a steadily widening gap in per capita income between the less developed countries and the developed countries over the past century. According to Bairoch, the divergence between per capita income or product was 1:5 in 1860, 1:6 in 1900, 1:7 in 1929, 1:8.5 in 1953, and 1:13 in 1970 (Bairoch, 1975, p. 192).

What story is told by more recent and more accurate data? Our efforts to measure the global income gap using purchasing power parity-based estimates of national income for 97% of the world's population over roughly the past three decades show results which vary widely according to how the gap is measured and the level of aggregation used (Sprout and Weaver, *in the press*).

On the one hand, the calculations show a narrowing of the centre-periphery income gap from 1960 to 1987. The periphery's share of global income increased from 34% in 1960 to 44% in 1987. Even on a per capita basis, the periphery experienced greater economic growth than did the centres over that 27 year period: 3.2% vs. 2.9%.

Yet, the aggregate picture is deceptive. The East Asian periphery—and China in particular—has been significantly pulling up the overall economic performance of the Third World. In fact, East Asia has been the only Third World region (out of five) that has

been closing the per capita income gap with the centres. In most areas of the periphery, the average person's living standard is deteriorating relative to his or her counterpart in the centres.

If capitalism can indeed be deemed centripetal, is it for the primary reason contended by Prebisch? There is evidence to support his argument. The gains from trade do seem to be asymmetrically distributed between the centres and the periphery as predicted by Prebisch, though it remains unclear as to what role the terms of trade have played in this matter.

Both sides of the terms of trade debate have some validity. While Prebisch's theoretical arguments—which focus on market power and structural disparities in demand and supply—are credible, so are the opposing arguments. Jacob Viner, for example, an early critic of Prebisch, argued that there are offsetting forces at work which would tend to increase the price of primary products (diminishing returns) and decrease the price of manufactured goods (greater gains in productivity).

Do the facts fit the theory? It depends on the choice of facts analysed. One finds a dismaying contradiction of results and conclusions among the many efforts made to test the thesis. Diakosavvas and Scandizzo (1991) provide an exhaustive survey of the terms of trade controversy, including a bibliographic appendix that covers four pages of books and articles on the debate. The authors observe that “out of the most important studies selected, about a third confirm the Prebisch hypothesis and about a fourth disprove it”, and they conclude from the literature that “although it is an open question whether there was much or little deterioration, the statistical evidence (on balance) is consistent with the view that there was some” (Diakosavvas and Scandizzo, 1991, pp. 236-237).

In an important sense, the debate is somewhat irrelevant. Specifically, Prebisch's conclusions regarding the asymmetric distribution of gains from centre-periphery trade do not hinge on the deterioration in the periphery's terms of trade. Prebisch's stress on industrialization and the need for peripheral economies to undergo a transition from primary goods production to manufactures, ultimately for export, is well-founded irrespective of whether the terms of trade are declining. What was once a controversial development objective is now widely accepted.

And there is a credible theory—apart from Prebisch's—supported by much evidence, which argues that manufactured exports provide greater economic returns than do primary exports. There are, for example, two groups of scholars who have produced cross-country econometric studies which find common ground on this topic despite widely differing theoretical perspectives in general. Within both major North American groups—one of economists testing neoclassical theory; the other of sociologists examining dependency theory—one finds support for the contention that manufactured exports have a greater positive impact on economic growth than primary exports. Furthermore, both concur that the explanation centres to a large extent on the relative absence of beneficial externalities among primary product exports.¹

To the extent that economic reality has changed since Prebisch first outlined his basic theoretical framework, did Prebisch change with it? Yes, though probably not far enough. In this vein are some criticisms which, while insightful, have been inappropriately levelled at Prebisch.

This may be due in part to a commonplace failure to distinguish between the ideas of an influential thinker and the schools of thought which emerge from his or her theories. Typically, the latter tend to be more doctrinaire than the former: the ideas of Keynes vs. Keynesians; Marx vs. Marxians, for example. Such a tendency seems to hold true with Prebisch and the schools of thought that followed from his ideas: in particular, structuralism and dependency theory.

Two examples of this may be cited. Firstly, some have criticized Prebisch for focusing primarily if not exclusively on the external determinants of development, to the neglect of internal causes. This critique is certainly appropriate for some versions of dependency theory, and probably for the early ideas of Prebisch and structuralism as well. It is not germane to the ideas of Prebisch in his later years, however.

¹ Among the sociological studies, those which specifically examine the differing effects of export composition on economic growth include Stokes and Jaffee (1982), Chase-Dunn (1975), and Ragin and Delacroix (1979). The economic studies include Balassa (1985, 1978) and Syron and Walsh (1968). A review of these studies and further empirical support for the relative gains from manufactured exports can be found in Sprout and Weaver (1991).

Secondly, Prebisch has often been inappropriately criticized for allegedly advocating exclusively an inward-looking strategy. Prebisch envisioned ISI as part of a sensible policy mix. While not a first-best option, it was nevertheless viewed by Prebisch as a viable option during times when central countries are particularly unreceptive to Third World exports – and when, partly as a result, primary exports from the periphery are declining in price. Prebisch advocated flexibility in the periphery's trade strategy. He felt that ISI and the export of manufactures should not be and need not be mutually exclusive.

Nevertheless, there does seem to be a legitimate problem with Prebisch's export pessimism perspective, however well-grounded in reality it may be. In particular, it is an attitude conducive to a passive trade strategy. Those peripheral States that more aggressively pursue penetration of industrial country markets will succeed in obtaining a greater market share. Those that translate a pessimistic outlook into a passive strategy may find the predictions self-fulfilling.

What of Prebisch's continued advocacy of ISI? Prebisch argued that ISI was a better industrialization strategy than laissez-faire and some conventional policy tools (devaluation in particular). While he was probably correct, it may also be true that there may be better ways to go. Conventional economics, for example, tells us that in a world where externalities are widespread (in a "second-best" world), a tariff to promote industrialization may be less effective than a subsidy applied directly to industry. The rationale for State intervention favoring ISI was never articulated by Prebisch in a completely satisfactory manner.

Furthermore, there is a more fundamental problem with Prebisch's theoretical justification for ISI which embodies an important criticism of his overall framework. It is essentially a criticism that he did not go far enough.

In particular, Prebisch failed to incorporate an adequate theory of the State. He very capably laid

out the limitations of the market. Yet, as experience has shown, there is nothing to guarantee that State deficiencies will not exceed market deficiencies in certain matters. His strategies implicitly reflected excessive faith that the State can do what the market cannot do. Yet he provided scant analysis as to what is feasible.

It has been noted elsewhere that ECLAC has lacked a theory of the State (Rosales, 1988, p. 26 and Cypher, 1990, pp. 48-51). The State has been conceived as a benevolent agent of development, somehow above the fray of the sociopolitical environment that has created it. While Prebisch did attempt to endogenize some political dynamics in his model of peripheral capitalism, these criticisms can be applied to his thinking as well.

Finally, what is to be made of Prebisch's pessimistic forecasts: of capitalism in secular decline; of inherent tendencies towards economic crisis and political rule by force in the periphery?

Certainly some of this pessimism is well-founded. Prebisch's insight in uncovering many root –and historical– causes of the economic crises in much of the periphery, for example, go far towards exposing the fallacy of the assertion by Clive Crook of *The Economist* that the "setbacks which the developing countries ... encountered in the 1980s –high interest rates, debt-servicing difficulties, falling export prices– (were) an aberration" (Crook, 1989, p. 4).

On the other hand, tendencies can be averted. Albert Fishlow observed that "one can accept the reality and the force of tensions (Prebisch) describes without concluding that a self-destructive crisis is the only possible outcome" (Fishlow, 1984, p. 186). Prebisch himself, in fact, did not accept the inevitability of crisis. He strongly believed in the potential of man and in the great possibilities of technology properly channeled, and often concluded his writings on such a note.

III

What might Prebisch say today?

How would Prebisch react to today's events? Below is my interpretation (interspersed with Prebisch

quotes in italics) as to what Prebisch might say if he were alive today:

We live in times unprecedented, with great promise and unequalled opportunities. Yet the challenges are likewise enormous. The recent gains in the political sphere, while of historic significance, remain fragile, always susceptible to setbacks. The democratic movements in fact are not sustainable in stagnating economies. The very existence of such reforms makes vigorous economic development all the more imperative.

Clearly there are some encouraging trends in economic policy and attitude both within the periphery and the centres. Yet the economic and social crises in the world economy continue, and in some respects and in some regions are deepening. The 1980s was a decade of devastating setbacks for the Latin American and African periphery in particular. For those who have begun to witness new-found political freedoms, the economic gains continue to lag far behind the political. Economic and social disparities within societies and between economies continue to widen.

Hence, a substantial renovation of ideas is imperative; creative and innovative solutions to persistent problems are vitally necessary. The task is ambitious, though ultimately feasible.

We in the periphery have come to a stage in our relations with the centres at which there are great possibilities that a convergence of interests may be reached (1988, p. 204). The growing consensus regarding the development process found in the centres and periphery alike no doubt stems in part from this movement towards convergence, and this in itself is very encouraging. Nevertheless, while there is much in this consensus which merits attention, the policy prescriptions are incomplete and, in some instances, misdirected.

Many of the development topics currently addressed by scholars and policymakers who make up this consensus revolve around two fundamental issues: i) the interaction between the market and the State in fostering development; and ii) the relationship between the external and internal forces of development. I likewise frame my thoughts below in this context.

1. *The role of the market versus the State.*

Barber Conable referred to the popular notion of this as a "market-friendly approach in which governments allow markets to function well, and in which

governments concentrate their interventions on areas in which markets prove inadequate" (World Bank, 1991, p. iii).

I too subscribe to such a "market-friendly" approach to development as thus defined. The markets should be allowed to do what they do well. Governments should intervene where markets fail: they should complement the markets, not supplant them. Where I differ with the World Bank is where I feel that the dividing line should occur. Specifically, markets fail in more ways than those envisioned by the Bank (with its underlying neoclassical perspective).

The growing reliance on the market to achieve economic efficiency is certainly well-founded. *Recognition of the great importance of entrepreneurial initiative in the market and of economic incentive to stimulate it, as well as of the role of this incentive in the efficiency of the labour force, is helping to exalt the significance of the neoclassical theories. I fully share this recognition (which socialism in practice can no longer escape)* (1985a, pp. 76-77).

In the same vein, some of the now widely supported orthodox prescriptions regarding the State's role make sense. Fiscal discipline is imperative. So is finding a means to reverse the State's excessive growth. *What is happening to the State is really paradoxical. It is tending towards hypertrophy, with manifold responsibilities militating against its own efficacy; and with a proliferation of interventions which undermine the economic freedom of enterprises and individuals and increasingly incapacitate the State itself from fulfilling the role of supreme regulator that the market fails to perform* (1985a, p. 83).

It is often argued by those in the orthodox fold that a reordering of State expenditure priorities is needed. I too am of this opinion. Let the markets have a greater say in price determination by phasing out those subsidies which have contributed to gross inefficiencies in resource allocation. Have governments focus more on public goods: on human infrastructure (education and health expenditures) and physical infrastructure. Minimize the State's role in the production of private goods: privatization of some sectors where markets have a comparative advantage makes sense.

Yet there must also be a role for the State not envisioned by the current orthodoxy. This is particularly the case in the Latin American periphery. The nature of State intervention there must change. This

need not mean further encroachment of the State, however.

The division of labour between markets and governments as prescribed by the current orthodoxy ultimately results in economic and social crises in the Latin American periphery. This stems in part from the unique nature of peripheral capitalism; from the redistributive struggle between the social strata in economies with a structural bias towards excessive consumption relative to productive capacities.

If the markets are given the primary responsibility to determine the growth and usage of the economic surplus, the accumulation of reproductive capital will be inadequate. Nor will the distribution of income and wealth be equitable and conducive to broad-based and sustained development.

The State must play the role of an intermediary: a go-between to help create a consensus between the major economic players in the economy so as to ensure adequate growth of the surplus as well as equitable distribution of it. The surplus must somehow be managed; its ownership cannot be left solely to the upper strata.

Similarly, the nature of State intervention must change with regard to stabilization policies. *Faced with the impotence of the State and the erosion of political power, the system inevitably develops a trend towards exacerbation of the inflation spiral. And the attempts to contain it are short-lived as well as being counterproductive. For the only instrument remaining to the State is anachronistic, depressive and regressive: i.e., the monetary instrument* (1985a, p. 83).

Inflation needs to be addressed at the source: at the redistributive struggle. Means must be devised to temper the expenditures of the upper and middle strata as well as the State. Labour's demand for wage increases which serve to slow the dynamism of the system must be mitigated; such demands are ultimately counterproductive for everyone.

2. Internal versus external influences on development.

Finding the formula whereby the markets and the State can optimally interact is indeed an ambitious undertaking. It requires among other things a radical change of attitudes among the major economic players in the economy: consensus rather than confrontation and restraint rather than indulgence.

There may be evidence that such a drastic change in attitudes is feasible, to judge from a fundamental attitudinal shift of a different nature, albeit of equal importance, that has taken place in Latin America. Specifically, there has been a growing recognition that many of our economic and social problems are largely internally induced; that we in the periphery need to take greater responsibility for our own problems. This is a healthy development.

Clearly the pendulum swung too far in the past as regards our perceptions of the role that external factors play in influencing our internal problems, and laying the blame elsewhere in this way proved counterproductive. We cannot rely on others to solve our problems.

The recognition that we in the periphery have much to gain from greater interaction in the world economy is likewise healthy. In our efforts to achieve relative self-sufficiency and structural change, we went too far; our economies became much too isolated. The trends towards greater trade and capital flows as well as dialogue between the periphery and the centres should be welcomed.

I am also heartened by certain attitudinal changes in the centres, though they remain insufficient. Many of the ideological rigidities of the development institutions in the centres that we in the periphery faced in the past seem to be less prevalent. In particular, there seems to be a greater sensitivity in the North to the unique external problems confronting the periphery as well as to the periphery's greater vulnerability to common problems. The former stems from the recognition that not all comparative advantages are equal. The latter stems from the recognition of the implications of the periphery's fragmentation into relatively small units.

Furthermore, there appears to be a more explicit acknowledgement in the centres that there are often two sides to global issues which necessitate a sharing of responsibility. This is evident in the proposed solutions emanating from the North regarding the debt crisis, which for most of its duration has represented *a convergence of irresponsibilities on both sides* (1988, p. 203). *The Baker Plan signified an acknowledgement of the political character of the problem* (1988, p. 203); the debt crisis cannot be resolved through market solutions only. The Brady Plan recognized in part that those who share the blame should also share the costs.

It is also encouraging to note a growing acceptance that the restructuring of Third World economies (and resolution of the debt crisis) must take place in the context of expansionary forces rather than contraction. Long-term solutions require that adjustments and conditionalities be compatible with economic growth. This too implies a certain sharing of responsibility between the North and South, as access to Northern markets is essential to Southern growth.

Yet much more is needed. Enlightened thinking does not automatically translate into enlightened policies. There is still *unacceptable asymmetry* as regards the burden of adjustment to global economic problems.

Remedies lie in part in greater dialogue. *As far as I know, for example, conditionality has never been discussed with Latin American economists, but has been decreed by the North. An efficacious cooperation policy calls for a significant change* (1986, p. 211).

Furthermore, a double standard of judgement is by no means uncommon (1988, p. 202). We in the periphery are told to exercise fiscal restraint to qualify for resources, yet the main centre is unable to temper its fiscal indiscipline. This inability in turn has contributed to excessively high real interest rates—which have proved inordinately detrimental to development efforts in the periphery.

We in the periphery are preached at by the North that we must liberalize our imports and reduce our trade deficits. Yet how is this possible as long as we are faced with the myriad of trading barriers in Northern markets? In recent years, the world's trading system has become markedly less liberal. As always, it is the weakest elements in the system which must bear the brunt of the costs.

The modest gains so far achieved in the Uruguay Round of the GATT talks are in danger of unraveling due to agricultural policy rigidities in the centres. *Historically, the periphery has been kept on the sidelines of the liberalization which took place among the centres* in the various GATT rounds (1983, p. 52); the reductions in trade restrictions accrued mainly to products from the centres. The latest talks, in contrast, hold out promise in that the periphery, for the first time, is directly engaged in the negotiations.

Much is currently at stake for all participants. The demise of GATT would further catalyze the formation of vertical preferences, with potentially grave

consequences. In our own hemisphere, there is much anticipation regarding the Enterprise for the Americas initiative. While there are grounds for optimism and enthusiasm on this matter, we must likewise be clear as to the possible dangers.

I have long been an advocate of regional integration formulas. Many of the stated goals of such formulas could be realized in the Bush initiative, with the sizable bonus of greater access to markets in the United States as well.

Yet we must be careful on two fronts—as regards relations within the region and with countries beyond. *The crux of the matter always has been and still is the trend towards an imbalance with the centres which must necessarily lead us to substitute domestic production for imports from the central countries* (1986, p. 208). We in the Latin American periphery must not allow ourselves to be confronted with a division of production with the United States which is contrary to our long-term development interests.

Common market efforts have failed in the past largely because of the inability to devise an equitable arrangement between countries at different levels of industrial development. *The countries whose industrial development is farthest advanced are in a position to export capital goods or intermediate goods to the relatively less or least advanced countries while the latter cannot participate to the same extent in trade of this kind.*

It is on their shoulders, however, that the cost of such operations tends to fall, since they are made to pay higher prices than are quoted on the international market for the capital goods and inputs (1986, p. 208). *Special corrective measures* are hence warranted, and this of course is applicable to the Bush initiative as well. *One of these would be for the countries benefiting most by the trade in question to share with those that gained least the investment required to possibilitate a satisfactorily balanced trade not bilateral but multilateral among all the participant countries* (1986a, p. 208).

My second major concern regards the danger of creating intra-regional trade to the detriment of the growth in world trade. We must not allow trade liberalization within the region to translate into higher trade barriers beyond the region. This would further push the world economy into vertical preference arrangements with obvious deleterious consequences.

At any rate, should the Uruguay Round collapse, the likelihood that regional arrangements will focus inward increases dramatically.

In the course of my long life I have witnessed in person and sometimes had to take action against the adverse effects of the vicissitudes of the centres: the Great Depression, the Second World War and the postwar period, the inflationary euphoria and its international spill-over; more recently, against the consequences of the anti-inflationary policy of the main dynamic centre.

I have also witnessed the great achievements of this centre: the Marshall Plan, the support for the European Payments Union, for the European Economic Community and also for the Alliance for Progress, which came to grief soon after its birth. Great vision and creative inspiration, such as are needed in these days likewise. They are needed also

by the periphery to grapple with its serious problems. Vision and creative inspiration, which is slow in coming everywhere (1985a, p. 88).

I contended earlier that there are great possibilities –for the first time in capitalist development, I now stress– that a convergence of interests between the centres and the periphery may be reached. *For I am convinced that, once their industrialization has been achieved, the developing countries could play a meaningful dynamic role in the development of the economies of the Northern Hemisphere* (1986b, p. 37). Let us not waste a great opportunity to build new relationships with a long-term perspective. We should not repeat the errors of the past; mistakes which have been made on both sides. An objective appraisal has to be made, but time is getting short. Let us begin a frank discussion right now (1985c, p. 54).

IV

Prebisch's contribution to our understanding of development

Prebisch provided us with more than ideas, of course. Many of his efforts involved the implementation of these thoughts in the form of institution building –in particular, his three United Nations creations: ECLAC, ILPES, and UNCTAD. He cloaked his ideas in institutional form, and used these institutions to provide the means by which his ideas could be translated into policy.² Prebisch was not a great thinker. He was an influential thinker. And, as impressive as Prebisch's other sides were, no doubt his legacy will stem primarily from his ideas.

Specifically, Prebisch has enriched our understanding of the world in a number of ways. First and foremost, he has provided us with a method of deciphering reality which consists of three links: spatial, temporal, and interdisciplinary. The first two links formed the basis of his early writings. His political economy stage represented a widening of focus to include all three.

Certainly one of Prebisch's greatest contributions stems from his framework linking the prospects and problems of the periphery with the economies of the centres, and similarly, looking at the individual parts as they are connected with the whole –the spatial connection. The temporal connection refers to Prebisch's historical approach– his proclivity to search for clues from yesterday's events to explain today's trends. The third link in his approach was the efforts to better understand the interaction between economic and political issues –his interdisciplinary methodology.

Such a holistic approach has borne much fruit, and compares quite favourably with the often sterile techniques and conclusions of mainstream economics –a body of theory which in some senses is "twice removed" from the realities of the Third World, reflecting the "doctrines developed for other countries in response to earlier events" (Seers, 1980, p. 6).

For starters, Prebisch's approach has spawned multiple offshoots. His writings have provided the backbone of the Latin American structuralist school. The dependency theorists have drawn liberally from

²From a conversation with David Pollock. See also Pollock (1988, p. 128).

Prebisch. And recently we have witnessed a flourishing of "neostructuralist" studies - mathematical models largely from North American scholars who have incorporated much of Prebisch's view of the world into their basic assumptions and predictions.³

It is through these neostructuralist studies that Prebisch's ideas may find a revitalization in the economics profession. The great appeal of this literature is at least twofold. First, the studies provide the means to merge Prebisch's global perspective with a more rigorous methodology, hence facilitating empirical verification. Secondly, they represent a bridge between Prebisch's ideas and other numerous economic perspectives (including neoclassical, Keynesian, Marxian, Kaleckian, Kaldorian, and neo-Ricardian) (Jameson, 1986).

Perhaps of equal significance to Prebisch's methodology, is the perspective that emerges from the method. From his spatial and temporal approaches evolve the notions of asymmetry and imbalance. The gains and losses that accrue in the world economy tend to be unequally distributed, favouring the more powerful entities. The poorer elements receive fewer of the benefits and incur a disproportionate share of the costs - what Landes (1989, p. 27), in "one of (his) favourite cynicisms," refers to as the privatization of gains and the socialization of losses. This is true domestically, where the poorer strata must typically bear the brunt of monetary contractions and yet remain largely excluded from the fruits of technological advances, and it is also true in the international realm - between the centres and the periphery, regarding trade and debt issues in particular.

The neoclassical theory of international trade, in contrast, tells us that trade is a positive-sum gain; that all countries engaged in trade stand to benefit. This perspective, while probably true, is at the same time incomplete. It takes an approach such as Prebisch's, which examines the relative

gains, to bring out the fact that some entities gain more than others from such interaction.

The same is true of his insight that domestic peripheral problems can be better understood in the context of historical external relations. The periphery's development lag is not caused by external forces, but it is certainly tempered by them.

From Prebisch's temporal and interdisciplinary approaches emerges the insight that economic behaviour and economic systems change. Capitalism is different today from what it was in the past. So is economic backwardness. And on a more concrete level, no doubt inflation is a different animal in Latin America today than in bygone days: an inflation subject to different dynamics which require new and largely political remedies.

Finally, Prebisch's interdisciplinary approach provides a better understanding of the multifaceted nature of development, of the limitations of the market and the structural forces which constrain market outcomes, and of the political and cultural nature of many of our economic problems which often, as a consequence, defy easy solutions.

Prebisch of course did not shy away from seeking solutions to intractable problems. His pursuits in this realm constitute yet another substantive contribution. Not content to better understand the world, Prebisch was continually prescribing means to improve it.

Just as his perspectives were moulded by his methods, his policy prescriptions derived from his perspectives. The common denominator in all his policy suggestions was an attempt to level the playing field; to devise means to more fairly distribute the gains and losses from the capitalist system. Prebisch felt, for example, that when creditors and debtors share the blame for a debt crisis, they should also share the costs, or that when trading partners experience structural imbalances, the solution should be based on addressing this imbalance from both sides.

But there was more than ethics to these policy prescriptions. Prebisch reminded us, with his characteristic long-term vision, that ultimately the fairest solutions coincide with the most effective ones.

³ Ocampo (1986) surveys many of these North-South models. Other contributors to the literature include Bacha (1978), Chichilnisky (1981), Darity (1987), Dutt (1988), McIntosh (1986), Sarkar (1989) and Taylor (1981).

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