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Director

RAUL PREBISCH

Technical Editor

ADOLFO GURRIERI

Editor

GREGORIO WEINBERG



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Note: The Spanish edition of CEPAL Review No. 13 contained, in addition to the above articles, an article by Mr. Sidney Dell. This was of a preliminary character, however, and it is planned to publish an abridged new version of it in English in the near future.

The Latin American periphery in the global system of capitalism*

Raúl Prebisch**

In a series of articles, appearing above all in this *Review*, the author has gradually been giving form to his mature view of the economic, social and political structure and transformations of Latin America. In this process of further perfecting his ideas by giving them greater depth and coherence, the present article represents a major step, being a concise summary of the main lines of thought which he is developing in three closely interrelated spheres.

To begin with, he returns to his long-standing concern for the relationship between the centres and the periphery, which he analyses in the light of a number of salient features of the contemporary scene. In his opinion, the topic is of the utmost importance, in that the nature of those relations conditions, limits and orients the Latin American countries' forms and possibilities of development. Secondly, he broaches the question of the internal dynamics of peripheral capitalism in order to throw light upon its main components, contradictions and trends. Thus, he asserts that peripheral capitalism is driven by its internal contradictions towards structural crises which it can overcome only by turning to authoritarian political régimes. This thesis has a corollary which is the starting point for his third line of thought: a stable and democratic solution to those structural crises calls for a profound change in the bases of peripheral capitalism, and particularly of its predominant forms of appropriation and use of the surplus. As a contribution to thinking on this controversial topic, he outlines his theory of change, guided by the hope of finding a synthesis of liberal and socialist ideals.

*This article was especially prepared for the Seminar on Latin American Development Policies held between September 1980 and May 1981 by the Development Training Centre (CECADE) of the Ministry of Planning and the Budget of the Mexican Government.

**Director of the *CEPAL Review*.

I

The dynamics of the centres

Peripheral development is an integral part of the world system of capitalism, but the conditions in which it takes place are different from those in the centres, whence the specificity of peripheral capitalism.

Technology plays a fundamental role in this: its development in the centres is accompanied by continuous changes in their social structure, and this is also true of the peripheral countries when the same technology penetrates them much later. The relations between the two correspondingly alter.

In the course of these continuous changes, some highly important constants are to be found. We shall mention the main ones.

While exerting considerable influence on peripheral development, the dynamics of the centres is limited in scope, on account of the centripetal nature of capitalism. Thus it fosters peripheral development only to the extent that concerns the interests of the dominant groups in the centres.

The centripetal nature of capitalism is constantly manifested in the relations between the centres and the periphery. It is in the former that technical progress originates and that the benefits of the concomitant rise in productivity tend to be concentrated. Thanks to the higher demand which accompanies the rise in productivity, industrialization is likewise concentrated there, spurred on by ceaseless technological innovation which diversifies the production of goods and services to an ever greater extent.

Thus, in the spontaneous course of development the periphery tends to be left on the margin of this industrialization process in the historical evolution of capitalism.

Rather than deliberate, this exclusion is the consequence of the play of market laws at the international level.

At a later stage, when becoming industrialized as a result of international crises the periphery again tends to be shut off from the major trade flows in manufactures of the centres. The periphery has had to learn to export, and it is doing so primarily through its

own efforts, as the transnationals have contributed far more to the internationalization of forms of consumption than to the internationalization of production through trade with the centres.

This largely explains the inherent tendency towards external disequilibrium in past and present peripheral development: an attempt has been made to correct this tendency first through import substitution and subsequently through the export of manufactures.

The centres have by no means encouraged this process through changes in their production structure; and by failing to open their doors to manufacturing imports from the periphery, they force the latter to continue with import substitution. Substitution is not the result of any doctrinaire preference, but rather something imposed by the centripetal nature of capitalism. However, it has been taking place within narrow national compartments, at the expense of economic efficiency and of vigorous development.

The economic interest of the dominant groups of the centres form a cluster with strategic, ideological and political interests in the centres, giving rise to stubborn forms of dependence in centre-periphery relations.

In those relations, the economic interests of the dominant groups of the centres are articulated with those of the peripheral countries, and in the play of these power relations the technical and economic superiority of the former weighs heavily. The structural changes which accompany the development and spread of technology are highly important. In the periphery, besides their significance for its development these changes eventually give

rise to disruptive pressures when the internal conflictive tendencies characteristic of development spill over towards the centres, where they arouse an adverse reaction from the power cluster. This is a clear manifestation of the above-mentioned dependence.

The economic interest of the dominant groups continues to prevail in the centres as in the periphery. Its efficiency in the market, at the national and international level, cannot be denied. But the market, despite its enormous economic and political importance, neither is nor can be the supreme regulator of the development of the periphery and of its relations with the centres.

This is patently clear in the present crisis of those relations. The market has not been able to cope with the ambivalence of technology, which has had an incalculable effect on material wellbeing, but has also brought irresponsible exploitation of non-renewable natural resources and a striking deterioration of the biosphere, not to mention other serious consequences.

Nor have the laws of the market remedied the major flaws in centre-periphery relations, nor still less the exclusive and conflictive tendencies in peripheral development.

Individual decisions in the market-place must be combined with collective decisions outside it which override the interest of the dominant groups. All this, however, calls for a great vision, a vision of change, both in peripheral development and in relations with the centres; a vision based on far-reaching projects combining farsighted economic, social and political considerations.

II

The internal dynamics of peripheral capitalism

The dynamics of the centres does not tend to penetrate deeply the social structure of the periphery; it is essentially limited.

In contrast, the centres propagate and spread in the periphery their technology, forms of consumption and lifestyles, institutions,

ideas and ideologies. Peripheral capitalism increasingly draws its inspiration from the centres and tends to develop in their image and likeness.

This imitative development takes place belatedly in a social structure which differs in

major respects from the developed structures of the centres.

The penetration of technology takes place through capital accumulation, in terms both of physical means and of the training of human beings. As the process develops, changes continuously take place in the social structure, which embraces a series of partial structures linked together by close relations of interdependence; the technical, production and employment structures, the power structure and the distribution structure. These changes must be analysed to throw light on the complex internal dynamics of peripheral capitalism.

1. *Structural changes, surplus and accumulation*

The penetration of technology gradually creates successive layers of rising productivity and efficiency which are superimposed upon less productive and efficient technical layers, while at the base of this technological structure precapitalist or semicapitalist layers usually persist. These changes in the technical structure are accompanied by changes in the employment structure, as labour is continuously shifting from the less to the more productive layers. However, the income structure does not develop in line with the changes in technology and occupation. Thus, the mass of the labour force does not increase its earnings correlatively with the growth of productivity in the play of market forces.

This is explained by the regressive competition of the new manpower in the technical layers of low productivity, or else unemployed, which is seeking to enter productive activity. Only a part of the fruits of technical progress are transferred to a limited fraction of the labour force which, above all through its social power, has been able to acquire the ever greater skills required by technology.

The part of the fruits of higher productivity which is not transferred constitutes the surplus, which is appropriated primarily by the upper social strata, where most physical capital as well as land ownership are concentrated.

The surplus does not tend to disappear through a fall in prices resulting from competition among enterprises—even if this were un-

restricted—but rather is retained and circulates among them. This is a structural and dynamic phenomenon. The growth of the production of final goods, thanks to the continuous accumulation of capital, means that there must be a preceding growth of production in process which will later give rise to the final goods. For this purpose, enterprises pay higher incomes, giving rise to the greater demand which absorbs the final supply increased by the growth of productivity, without prices falling.

In fact, the incomes thus paid in the successive stages of the process (including the surplus) through the creation of money are much greater than would be necessary to prevent prices from falling. The reason for this is that only part of those incomes immediately becomes demand for final goods. Another part is diverted towards demand for services, in the market and the State spheres, where it circulates and gradually returns to demand for goods. In addition to the incomes paid to factors of production, enterprises purchase imported goods, and thus the exporting countries recover the incomes they paid in producing them as well as the corresponding surplus. The opposite occurs in the case of exports.

There is no strict correspondence between demand for goods and supply, but the necessary adjustments are made spontaneously or through the precautionary corrective intervention of the monetary authority when the capacity for sharing out the surplus has not yet developed.

The unequal distribution of income in favour of the upper strata encourages them to imitate the forms of consumption of the centres, an imitation which tends to spread to the middle strata. The privileged-consumer society which thus develops represents a considerable waste of capital accumulation potential.

This waste concerns not merely the amount but also the composition of capital. Closely linked with the technology which increases productivity and income, use is made of technology which constantly diversifies production of goods and services. As this change occurs in the production structure, together with other forms of investment, the proportion of non-reproductive capital in-

creases without any growth of productivity or multiplication of employment, to the detriment of the reproductive capital necessary for fostering development.

These trends inherent in the internal logic of capitalism in the centres appear prematurely in the periphery on account of the great inequality in distribution.

In addition to all this, again at the expense of accumulation, there is the exorbitant siphoning-off of income by the centres, especially through the transnationals, as a result of their technical and economic superiority and hegemonic power.

This insufficient, stunted accumulation of reproductive capital, aggravated by the trend towards hypertrophy of the State and the extraordinary growth of the population, is the main reason why the system cannot intensively absorb the lower strata of the social structure and cope with other manifestations of redundancy of labour. This is the system's exclusive tendency.

These lower strata abound in agriculture, and as the demand for agricultural goods scarcely becomes diversified, labour tends to shift towards other activities. However, given the system's inadequate capacity to absorb labour, a serious redundancy arises which explains the relative deterioration of labour income in agriculture.

As long as this insufficient capacity to absorb labour lasts, technical progress in agriculture will not raise those incomes and correct their relative decline. Instead, it tends to harm relative prices when production outstrips demand. This is usually true of agricultural exports in particular, and has the effect of checking their growth to the detriment of development.

2. Changes in the power structure and crisis of the system

As technology penetrates the social structure, changes take place which are reflected in the power structure. The middle strata expand, and as the process of democratization advances their trade-union and political power develops and increasingly forms a counterweight to the economic power of those, especially in the

upper strata, in whose hands most of the means of production are concentrated. It is therefore in these strata that the labour force possessing social power is mainly found. These power relations between upper and middle strata exist both in the market and in the State spheres. In this way ever-increasing pressure develops for sharing out the fruits of the growth of productivity.

This twofold pressure is largely manifested through a rise in the remuneration of the labour force, either to increase its share in the fruits of productivity or to offset the unfavourable effects of certain factors, above all the tax burden which it bears directly or indirectly and through which the State copes with the trend towards its own hypertrophy.

Bureaucratic power and military power have their own dynamics in the State apparatus, supported by the political power of the middle strata in particular, as a result of which State activities develop beyond considerations of economic efficiency, both as concerns the amount and diversification of State services and in terms of the spurious absorption of labour.

In this way, through the growth of employment and social services the State seeks to correct the system's insufficient absorption of labour and its distributive unfairness; and this is a major factor in its hypertrophy.

To express the foregoing in a nutshell: the distribution of the fruits of the system's rising productivity is fundamentally the result of the changing play of power relations, in addition, of course, to individual differences in ability and dynamism.

As the labour force's sharing capacity increases and it acquires the ability to recoup its tax burden and compensate for the effects of other factors, the rise in remuneration tends to overtake the drop in the costs of enterprises resulting from successive rises in productivity. The excess then tends to be transferred to prices, and this is followed by fresh rises in remuneration in the familiar inflationary spiral.

In these circumstances, for it to be possible to absorb supply, increased by higher costs, it is essential that demand, and the incomes underpinning it, should increase in a correlative manner.

If the monetary authority resists the necessary creation of money in order to avoid or check the spiral, the growth of demand will be insufficient to meet the growth of final production, leading to economic recession which will continue until the authority changes its attitude and prices can rise in line with the higher costs. The rise in prices means that the surplus may once again increase through new rises in productivity, but only temporarily since it is once again compressed by the subsequent rise in remuneration. Thus accumulation declines with adverse consequences for development, besides the disturbances which accompany the heightening of the distributive quarrel.

It should be noted, however, that these phenomena occur when, thanks to the process of democratization, the labour force's trade-union and political power becomes ever greater in both the market and the State spheres, and the latter's expenditure steadily expands through its own dynamics.

In these circumstances, the spiral becomes inherent in peripheral development; and the conventional rules of the monetary game are powerless to avert or suppress it.

These rules are highly valid when distributive power (for sharing out and recouping) is non-existent or very incipient. This is the case when the democratization process is very weak or obstructed or manipulated by the dominant groups: democracy in appearance but not in substance.

Such, then, is the crisis of the system when the arbitrary play of power relations becomes very strong, which is what occurs in the advanced stage of peripheral development. The crisis of the system may be postponed for some time, particularly when plentiful resources are available from the exploitation of non-renewable natural wealth.

The political power of the upper strata, apparently on the wane with the advance of democracy, surges up again when the disturbances brought about by the inflationary crisis give rise to economic disorder and social disintegration. At that point the use of force is introduced, which makes it possible to break the trade-union and political power of the disadvantaged strata.

If the holders of military power are not necessarily under the sway of the economic and political power of the upper strata, one is tempted to ask why they intervene to serve the privileged-consumer society. Here undoubtedly a complex set of factors comes into play. The fundamental explanation, however, is that since the upper strata hold the dynamic key of the system, i.e., the capacity for capital accumulation, they must be left to get on with it from a desire to restore smooth development; but the social cost is tremendous, not to mention the political cost.

What in fact happens is that democratic liberalism breaks down, while the ideas of economic liberalism flourish: a fake liberalism which, far from leading to the dissemination of the benefits of development, flagrantly consolidates social inequity.

Democratic liberalism has not yet managed to become firmly rooted in the Latin American periphery. We are all too familiar with its vicissitudes, its promising advances and painful setbacks. But the past cannot account for everything: new, complex elements spring up as changes occur in the social structure. And the significance of the use of force is not what it was in the past: the creation of that total split between democratic liberalism and economic liberalism, despite the fact that both sprang from the same philosophical source.

3. *The great paradox of the surplus*

The foregoing considerations lead to very important conclusions, perhaps the most important in our interpretation of peripheral capitalism.

The surplus is subject to two contrary movements. On the one hand, it grows through successive increases in productivity. On the other, it shrinks through the pressure for sharing which stems from the market and from the State. The system functions smoothly as long as the surplus grows continuously as a result of those two movements.

Consequently, the upper strata, in whose hands most of the means of production are concentrated, can increase capital accumulation

and at the same time their privileged consumption: they possess the dynamic key of the system.

This essential condition is satisfied so long as the sharing out of the surplus, both in the market and the State spheres through the play of power relations, occurs at the expense of successive rises in productivity. The surplus will continue to expand, although at a dwindling rate. However, the sharing out cannot go beyond the threshold at which the surplus would begin to shrink.

At that limit, however, the surplus will have become proportionately greatest in relation to the total product. Why is it impossible to continue improving the sharing, when there would be plenty of room for doing so by reducing the surplus? This is the weak point of the system of distribution and accumulation, because if the pressure for sharing outstrips the increase in productivity, the rise in the cost of goods will cause enterprises to raise prices.

The total surplus would undoubtedly allow much more sharing out at the expense of size, but there is nothing in the system to make this happen. It is conceivable that enterprises might take part of the surplus and transfer it to the labour force without raising costs; this would be direct participation in the surplus. But the system does not work like that. Any rise in remuneration over the increment in productivity raises costs, with the consequences described above.

Not all the pressure for sharing, however, takes the form of higher remuneration. As was pointed out earlier, in order to share out the surplus the State resorts to taxes falling on the labour force, which the latter seeks to recoup through higher remuneration; but the State also has the possibility of directly taxing the surplus or the incomes of the social groups in the upper strata who have no capacity for recouping such taxes. These taxes are not transferred to costs, but if their amount squeezes the surplus the rate of accumulation and of growth is weakened, thus accentuating the exclusive and conflictive tendencies.

Whatever the angle from which it is approached, there is no solution to the problem within the system, so long as the capacity for redistribution is strengthened in the advanced

stage of the democratization process. Either the result is the inflationary spiral, if sharing leads to higher production costs—which, in addition to the upheaval caused by the spiral, undermines the dynamics of the surplus—or else some of the surplus is taken directly, again with adverse consequences for its dynamics, which sooner or later must be resolved using inflationary means.

However much thought one devotes to the question, it appears that the rules of the game of peripheral capitalism do not allow for an attack on its two major flaws: its exclusive tendency, which may only be remedied by a more intense accumulation of capital at the expense of the privileged strata and of the income transferred to the centres; and its conflictive tendency, unrelentingly heightened in the unrestricted play of power relations.

There is a great paradox in all this. When the surplus grows so far as to reach its ceiling and the pressure for sharing continues, the system reacts by seeking to achieve continued growth of the surplus. In order to attain this objective, it resorts to the use of force. However, the use of force is not a solution; the only solution is to change the system.

4. Crisis of the system and the use of force

Given the nature of the system, at the advanced stage of peripheral development and of the democratization process it is impossible to avert the tendency towards crisis. In the system's internal logic there is no lasting way of ensuring that the pressure for sharing does not jeopardize the dynamic role of the surplus and lead inevitably to the inflationary spiral.

The attempt to restore the dynamics of the system through the use of force entails the risk of serious disruption, usually involving a combination of theoretical inconsistency and practical incongruity.

If the system is handled skillfully, however, particularly in favourable external conditions, high rates of accumulation and of development may be achieved with striking prosperity for the privileged social strata, but at the cost of severe compression of the income of a considerable part of the labour force.

This solution, however, by no means strikes at the roots of the system's exclusive and conflictive nature. When the democratization process is resumed sooner or later, the pressure for sharing will tend to lead the system into a

new political cycle, aggravated by the deformation which has taken place in the production structure to satisfy the exaltation of the privileged-consumer society.

III

Towards a theory of change

1. *The two options for a change*

The system of accumulation and distribution of the benefits of technical progress is not subject to any regulating principle from the standpoint of the collective interest. If appropriation is arbitrary when market laws prevail, so is redistribution when political and trade-union power becomes a counterweight to those laws.

It is therefore essential for the State to regulate the social use of the surplus, in order to step up the rate of accumulation and progressively correct distributive disparities of a structural nature, which are quite distinct from functional disparities.

At bottom, there are only two ways in which the State can undertake this regulatory activity: by taking into its own hands the ownership and management of the means of production which give rise to the surplus; or by using the surplus in a spirit of collective rationality without concentrating ownership in its own hands.

The political and economic significance of these two options is essentially different. I lean towards the second on account of two fundamental considerations. In the first place, because the major flaws of the system do not lie in private property itself but rather in the private appropriation of the surplus and the harmful consequences of the concentration of the means of production. Secondly, because the first option is incompatible with the paramount concept of democracy and the human rights inherent in it, while in the second that concept becomes fully compatible, both in theory and in practice, with vigorous development and distributive equity.

2. *The dissemination of capital and self-management*

The transformation of the system necessarily calls for raising the rate of accumulation of reproductive capital, particularly at the expense of the consumption of the upper strata. The social use of the surplus enables this to be done by disseminating ownership of capital among the labour force thanks to the surplus of the large enterprises in whose hands most of the means of production are concentrated.

In the remaining enterprises, greater accumulation would be undertaken by the owners themselves, but as they rose in the capital scale an increasingly proportion would have to go to the labour force in order to avoid concentration.

The change in the social composition of capital thus occurring in the large enterprises would have to be accompanied by gradual participation in capital until reaching self-management. Some principles of this type of management could also be followed in State enterprises, in special conditions which justified doing so.

These guidelines refer to countries which have attained advanced stages in their development; at less advanced stages, the social use of the surplus could take different forms. In any event, in either case it would be necessary to establish suitable incentives so that the transformations could take place without major upheavals.

This latter concern could lead to intermediate solutions, one of which might be to encourage greater accumulation, even in the large enterprises, in the same hands as at

present, together with measures for the redistribution of some of the surplus.

3. *The market and planning*

In the new system all enterprises, whatever their nature, could develop freely in the market, in conformity with some basic, impersonal conditions established by the regulatory action of the State concerning both the social use of the surplus and other responsibilities pertaining to the State.

This regulatory activity has to fulfil objectives which the market itself cannot attain, but which would enable it to achieve great economic, social and ecological efficiency.

The criteria guiding the State's regulatory activity should be established through democratic planning. Planning means collective rationality, and that rationality requires that the surplus should be devoted to accumulation and redistribution, as well as to State expenditure and investment. Accumulation and redistribution are closely linked, since productivity and income should gradually rise as the labour force in the lower strata, as well as the labour employed spuriously by the system, are absorbed more and more productively. This is a dynamic redistribution, accompanied by other direct forms of social advancement responding to pressing needs.

Planning involves technical work of the utmost importance, which cannot be undertaken without a high degree of functional independence; it is, however, a technical and not a technocratic task, as it must be subordinated to democratically-adopted political decisions.

All this requires constitutional changes in the State machinery and new rules of the game ensuring both stability in the social use of the surplus and flexibility in responding to major changes in prevailing circumstances.

4. *Synthesis of socialism and liberalism and power structure*

The option for change outlined here represents a synthesis of socialism and liberalism. Socialism in that the State democratically regulates

accumulation and distribution; liberalism in that it enshrines the essence of economic freedom, closely linked to political freedom in its original philosophical version.

This option calls for very important changes in the structure of political power, as does the option of concentrating ownership and regulatory activity in the hands of the State. In the course of the alterations of the social structure, the power of the upper strata is counterbalanced by the redistributive power of the middle and, possibly, lower strata. The latter, however, eventually shatters itself against the former in the dynamics of the system. Nevertheless, the crisis of the system opens the way for changing it, as it opens the possibility of reducing the power of the upper strata.

These changes in the power structure would perforce be confined to the periphery, as the power relations between the periphery and the centres, under the hegemony of the latter, especially the leading dynamic centre of capitalism, could not be radically changed by the action of the periphery alone. The power of the centres is considerable, and furthermore it lacks a sense of foresight, as is evidenced by its serious disruptions of the biosphere. This crisis may perhaps have the virtue—as has often been true of major crises in the past—of making the centres aware of the need for great foresight in their relations with the periphery and for containing their own power. I am inclined to think that if the main dynamic centre of capitalism had had this awareness, the breakdown of the international monetary system might have been avoided.

The myth of the worldwide expansion of capitalism has been exploded, as has that of the development of the periphery in the image and likeness of the centres. The myth of the regulatory virtue of market laws is also being dispelled.

Major changes are needed; but it is necessary to know why, how and for whom the changes are made. A theory of change is also needed; these pages, called forth by the pressing need for debate and enlightenment, seek to contribute to the formulation of such a theory.