

# CEPAL

## Review

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UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA  
SANTIAGO, CHILE / SECOND HALF OF 1977

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UNITED NATIONS PUBLICATION

Sales N°: E.77.II.G.5

Price: US\$ 3.00 (or equivalent in other currencies)

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lems include the following: inward-directed or outward-directed development; institutions, legislation, machinery for regulating the economy within the market-economy system under the conditions prevailing in developing countries; possibilities and means of resolving social development problems; rights and obligations in international economic relations and in the economic integration process; formulation of theoretical suggestions and practical projects for promoting and mobilizing domestic capital accumulation and channelling investment; utilization of foreign capital and transnational corporations in line with the national interest; export promotion; content and special features of the mentality of the Latin American entrepre-

neur; conduct and manageability of the economy in the Latin American countries. Clearly there are other problems, and those brought up here for discussion are only a selection.

Dr. Prebisch's new study on peripheral capitalism opens up wide possibilities for analysing the Latin American development problems referred to above, and other questions that represent the cornerstone of the thinking built up in Latin America —the peripheral economy theory. In working out new approaches to Latin America's development and designing institutions, instruments and mechanisms for resolving those problems on the basis of the peripheral capitalism theory, the CEPAL doctrine is consonant with the requirements of today.

### *Comments by Octavio Rodríguez\**

#### *Introduction*

1. Careful study of the article by Raúl Prebisch shows that it represents an endeavour to synthesize the basic ideas worked out by CEPAL in the early 1950s, together with others which subsequently germinated within CEPAL and outside it, on such topics as dependency, marginality, income concentration, patterns of consumption, the role of internal social groups, etc. Its primary objective is also clear: to achieve a global and integrated interpretation of the backward countries' development process, i.e., an interpretation covering not only

the economic phenomena and the changes in the structure of production peculiar to this process, but also the socio-political phenomena and the changes in the social and power structures which accompany and are inherent in it.

2. The ideas that had their origin in CEPAL were formulated gradually in the course of time, taking shape in various contributions in the field of economic theory and policy. Essentially, the orderly articulation of the comprehensive and complex reasoning embodied in the theoretical propositions pivots upon the analysis of three trends held to be characteristic of the long-term economic evolution of the periphery during the phase of import-substituting industrial-

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ization: namely, the deterioration of the terms of trade (which in its turn relates the differences in average labour productivity between periphery and centre with the disparities in average real income), external disequilibrium and structural unemployment.<sup>1</sup>

The factors that help to account for the first of these trends include the disparity of the income-elasticities of demand for the exports and for the imports of the periphery, the disparity in respect of technological density between the several sectors composing this type of economy and between them and the corresponding sectors in the central economies, and the superabundance of labour. The second trend is also explained in relation to the disparity of elasticities, inasmuch as this is reflected in slow growth of the primary exports of the periphery and a rapid increase in demand for imports necessarily stemming from the installation and development of an industrial sector on the basis of primary-exporter specialization conditions. Lastly, the unemployment trend is imputed to such factors as the type of technology that has to be adopted, the slow pace of capital accumulation, the enormous growth of the labour force, and the displacement of manpower from technologically backward sectors whose relative productivity is very low.

<sup>1</sup>It should be emphasized that while these three trends are, as stated in the text, the pivot of the reasoning contained in the various CEPAL contributions to economic theory, they must be distinguished from the contributions themselves, each of which uses different instruments of analysis, interconnected in complex fashion. The theoretical contributions which may be deemed of basic importance comprise the whole body of original ideas, or the conception of the centre-periphery system; the theory of the deterioration of the terms of trade (compounded, strictly speaking, of three

So condensed a summary as the foregoing indubitably runs the risk of inaccuracy. It is presented, however, with the limited aim of making clearer and more acceptable a point of view according to which the ideas generated by CEPAL and their subsequent analytical formulation are basically intended to bring under consideration an area of social life which might be designated, by virtue of the trends it is sought to explain and above all of the factors which play a part in that explanation, 'the sphere of production'. For, as can be seen, the factors in question include the changes that take place in the structure of demand, and more particularly in the structures of production and employment, during the industrialization of the periphery.

3. The "Critique of peripheral capitalism" gives priority, on the other hand, to what by contrast might be called "the sphere of distribution", i.e., it places the accent on the examination of trends in income distribution, approached with a view to linking up the CEPAL ideas and arguments and the types of analysis usually regarded as of a socio-political character. In other words, in the new attempt at a 'more than economic' interpretation of underdevelopment, the phenomena proper to the sphere of income

analytically distinct versions); and the interpretation of the industrialization process (made up of several partial theories, including one intended to explain external disequilibrium and another dealing with structural unemployment). These and other components of CEPAL thinking are briefly described in O. Rodríguez, "On the conception of the centre-periphery system", *CEPAL Review*, N° 3, first half of 1977. Some of them are examined in greater detail in O. Rodríguez, "Sobre el pensamiento de la CEPAL", ILPES, mimeographed text, Santiago, 1977.

distribution have been made the very hub of the analytical formulation, in order to elucidate, on the one hand, the existing interconnexions between such phenomena and the penetration of technique, the improvement of labour productivity, the level of employment, etc.; and, on the other hand, their interrelationships with changes in the social and power structures.

4. The following comments refer only to two major questions:

(i) How far the reasoning contained in the article integrates or coherently expounds the basic CEPAL contributions relating to the sphere of production. The paragraphs or groups of paragraphs corresponding to this first question are those numbered 5 to 10, in which we have emphasized employment problems, in an endeavour to show that, in our opinion, the discussion of them does not satisfactorily incorporate ideas which are of key importance in the original conception, in particular, the recognition of the structural heterogeneity peculiar to the peripheral condition;

(ii) How far the article's analysis of the sphere of distribution enriches CEPAL's contributions to the theory of underdevelopment, and especially how it furthers a global understanding of the phenomenon in question. This second aspect is dealt with in the paragraphs and groups of paragraphs numbered 11 to 18, in which we maintain that progress in the direction indicated is hindered, if not prevented, by flaws and limitations in the analysis of the sphere of production.

Similarly, and in so far as it helps to clarify our argument, we refer to the categories used in the study in the analysis of the two spheres, i.e., the

concepts of insufficient dynamism and of the surplus.

#### *Sphere of production*

5. The concept of insufficient dynamism used in the article constitutes in reality a variant, or more properly a 'complexification', of another similar concept existing in earlier documents. In the original version the aim was to define the sectoral and overall rates of capital accumulation – together with the technological penetration conditions implicit in them – required to provide employment for the labour supply (hypothetically homogeneous in quality) generated by the natural growth of the population, and, in addition, to reabsorb, at normal productivity levels, the manpower employed in sectors with low relative productivity. If such rates were attained, the structural heterogeneity peculiar to the periphery would then be gradually reduced, and eliminated altogether within a time horizon which would vary but would be definable in each case, so that in the long run productivity increments could be reflected in steady increases in real wages.

In the context of CEPAL thinking, employment problems were traditionally studied against a standard of reference of this type, i.e., by investigating the reasons why in the development of the periphery the conditions of 'sufficiency of dynamism' just summed up are not attained.<sup>2</sup>

The new concept too is defined by contrast with certain conditions of 'sufficiency of dynamism', which are now

<sup>2</sup> These conditions are described, for example, in R. Prebisch, *Towards a dynamic development policy for Latin America*, United Nations publication, Sales N°: 64.II.G.4, pp. 23-43.

associated with the sectoral and overall rates of capital accumulation required to ensure that, as technical progress produced its effects and penetrates into production, the labour force is gradually displaced and re-employed in successive higher-productivity 'layers of technology', in each of which a higher level of skill is required and higher wages are earned.<sup>3</sup> This concept is more complex than the preceding idea, since it dismisses the assumption of homogeneity of the labour force and eliminates the over-simplified dichotomy between normal modern-productivity sectors and sectors where productivity is low, primitive or backward. But in our opinion, although the concept is more complex, it is less precise than the original version, since the links between the generation of new higher-productivity layers of technology and the variations in the skills of the labour force which are required and produced *pari passu* are established only in very general descriptive terms. Furthermore, this lack of precision means that the conditions required to do away with the heterogeneity of the peripheral structure of production have not been clearly defined; whereas they did appear in broad outline in the original concept.

6. The list of factors accounting for the insufficiency of dynamism includes the tempo of capital accumulation, the unsuitability of technology generated in the centres to the special conditions prevailing in the periphery, the growth rate of the labour force, the patterns of

<sup>3</sup>See "A critique of peripheral capitalism" (hereinafter referred to as "Critique"), chapter II, section 4, and in particular paragraphs 1-6. The numbering of the paragraphs corresponds in this and other footnotes to the normal order of reading.

consumption associated with the concentration of income, the forms taken by investment (for example, its distribution between directly productive assets and construction) and, lastly, the distortions and inefficiency apparent in the training of the labour force.<sup>4</sup>

In the analysis proper, capital accumulation, technological change and the growth of the population and/or of the labour force are examined in connexion with one another,<sup>5</sup> and the influence of the other factors on employment is then considered separately.<sup>6</sup>

7. The basic argument of the above-mentioned analysis can be summed up as follows. In the periphery full employment of the labour force demands a tremendous accumulation effort, very difficult to achieve, not only because the active population grows exceedingly fast, but also because of the capital-intensive character of the technology generated in the centres; for the greater the rate of increase of labour productivity which this type of technical progress brings in its train, the higher is the investment coefficient required in order to absorb the whole of the labour force.

The connexions between accumulation, technology and growth of the labour force are illustrated by the brief example to be found in the footnote on page 9, where it is assumed, on the one

<sup>4</sup>"Critique", p. 27, paragraphs 1 and 3.

<sup>5</sup>"Critique", chapter II, section 5, paragraphs 3-5, and section 6, paragraphs 1-11. The analysis mentioned refers to the rate of capital accumulation and/or to the investment coefficient 'necessary' or 'required' for full dynamic absorption of the labour supply. Hereinafter the rate and/or coefficient are indiscriminately termed 'accumulation effort'.

<sup>6</sup>"Critique", chapter II, sections 5-9.

hand, that labour productivity increases at a high rate, or that the rate itself rises, and on the other hand, that the productivity of capital remains constant. If the latter stands at 1:3, and the former shows an annual increase of 5 per cent, to absorb a labour force that is growing at a rate of 2.5 per cent per period considered, an investment coefficient of about 22.5 per cent is required. If labour productivity were to rise by 6 instead of 5 per cent, the necessary investment would be still heavier: about 25.5 per cent of the product.

Thus, the analysis of insufficient dynamism contained in the article lays particular stress on demographic factors and inappropriateness of technology –taken as implying an inappropriate degree of capital density, and reflected in the high growth rate of labour productivity, i.e., 5 or 6 per cent–, as elements explanatory of the great accumulation effort ‘necessary’ or ‘required’ for full absorption.

8. We shall endeavour to show that these are not the only factors that should be taken into account in the analysis, and to suggest that they may well not be those of decisive importance in employment problems, or, to put it better, those that determine the immensity of the accumulation effort required.

If certain hypotheses accepted by CEPAL itself in its early documents are taken up again, it will make a significant difference to the results given in the foregoing example. According to these hypotheses, technical progress involves a gradual increase in the productivity of resources, but that of labour rises more than that of capital, so that capital density becomes progressively higher. If, then, the productivity of labour increases by 5 per cent, and that of capital,

instead of remaining constant, rises by 2 per cent, the investment coefficient required to ensure full absorption will not be 22.5 per cent, as in the example given in the article, but, in the initial period, when the productivity of capital is 1:3, only 16.5 per cent. Moreover, this coefficient will little by little decrease in the ensuing period.<sup>7</sup> If labour productivity were to increase by 6 per cent, *ceteris paribus*, the necessary coefficient in the first period would be 19.5, not 25.5 per cent.

From this change in the results it can be seen that the investment coefficient is not linked only to the growth rates of the labour force and of labour productivity; besides being connected with other factors to be mentioned later, it is also related to the difference between the rates of increase of labour productivity and productivity of capital. The coefficient may therefore be greater or smaller, depending upon this difference; and for any given level of disparity, it will gradually be reduced through time, the pace increasing as the growth rate of productivity of capital rises.

The aim of the foregoing considerations is not to place the premises of the article in opposition to others considered more realistic, but merely to point out that the inappropriateness of the degree of capital density is not thoroughly examined in the “Critique”.<sup>8</sup> Furthermore, however, the analysis of insuffi-

<sup>7</sup>The gradual decrease in the investment coefficient is illustrated by the example given in the appended table, part III, column 2. The description of the table will appear later.

<sup>8</sup>From a more general standpoint, it might be said that in the article the negative effect on employment produced by an increase in labour productivity is taken into account, but the positive impact that an improvement in the productivity of resources might have on accu-



cient dynamism overlooks the possible incompatibility between the scale on which the techniques are introduced and the dimensions of the peripheral markets: an incompatibility that reduces the productivity of capital in the proportion in which the capital stands idle. Nor does it take into account the structural heterogeneity characteristic of the periphery, which means that employment must be provided at normal productivity levels for the labour force coming from low-productivity sectors, both that generated by the natural growth of the population employed in them, and that displaced from them in consequence of the penetration of new techniques. If the concept of heterogeneity is by-passed, it becomes difficult to work into the analysis these peculiar and specific factors of the 'peripheral condition', whose incidence on employment problems seems to be of great importance.

9. Of the factors superimposed on the basic analysis in order to complete the explanation of insufficient dynamism, we will refer only to patterns of consumption.<sup>9</sup> These are linked to the foregoing train of reasoning through the argument relating to the sphere of distribution, which is considered later on; but the general connexion between the two is clear enough. It is alleged that income is concentrated in social strata whose propensity to consumption is very high and which tend to imitate the consump-

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mulation, and through this on employment, is disregarded. Although in very embryonic form, in the document "Sobre el pensamiento de la CEPAL", *op. cit.*, pp. 57-80, an attempt is made to reformulate the traditional CEPAL arguments on this subject.

<sup>9</sup>"Critique", chapter II, section 5, paragraphs 6 *et seq.*, and section 6, paragraphs 12-15.

tion patterns of the centres, to the detriment of capital accumulation. The high propensity is prejudicial to accumulation for obvious reasons; and the patterns of consumption undermine it because they increasingly include more efficient goods, whose production entails a higher capital density.

Everything seems to suggest that neither of these two questions can be satisfactorily cleared up without linking it more precisely to those which relate to the sphere of production. We will refer only to the second. (i) It is not evident that what are called in the article 'more efficient' goods always require a higher capital density, in comparison with other types of goods such as those for mass consumption (for example, some branches of the electronic industry, over against certain branches of the textile industry which are totally automatized). (ii) Nor is it clear that higher-density investment options are necessarily conducive to a lower level of employment, since some of them may correspond to activities where there are no problems of scale and/or to branches of industry whose installation does not give rise to displacements of manpower previously employed in low-productivity conditions. (iii) Even if it is assumed for present purposes that the composition of consumption and production which as a whole defines what has come to be called the 'consumer society' has a negative influence on employment, owing to the high capital density it implies, there are no signs that this influence is of real significance for absorption problems, in comparison with others which in practice carry much more weight and which are not discussed: for instance, that of the changes brought about in the production of simpler goods, and particularly in agricultural production.

10. The foregoing criticisms may be summed up in the statement that, in our opinion, the article under discussion does not contain a sufficiently comprehensive and rigorous analysis of the relations between accumulation, technology and employment. In particular, it does not incorporate into the analysis of the unemployment trend the concept of structural heterogeneity, which is an important, if not a decisive, factor in the specific employment problems of the peripheral economies. In turn, these shortcomings prevent the establishment of a satisfactory logical nexus between the basic analysis of employment and the arguments relating to patterns of consumption which are designed to complement it.

With regard to the other trends of which an explanation is attempted in several of CEPAL's theoretical contributions in the sphere of production –for example, the deterioration of the terms of trade and external disequilibrium–, the article includes only general references, which in virtue of their very nature are not clearly and coherently linked up with the analyses of employment and income distribution. The character of the present notes itself makes it needless to dwell on them in detail here.

### *Sphere of distribution*

11. With respect to the sphere of distribution, we have attempted to convey the basic aspects of the reasoning contained in the article<sup>10</sup> through a simple example, which is summarized in the appended table. In the said table it is

<sup>10</sup> "Critique", chapter II, sections 1 and 2 and chapter III.

assumed that the production function of a hypothetical economy is linear and based on two factors, labour (T) and capital (K); that the supply of the first of these increases at a rate of 2.5 per cent; and that the respective productivity growth rates (t) and (k) are 5 and 2 per cent. These assumptions fix the growth rate of the social product (P) at 7.625 per cent, a figure which in turn requires that capital should increase at an approximate rate of 5.5 per cent. Given the magnitude of these variables in an initial period, the above technical relations make it possible to calculate the values which will correspond to them in later periods, and which are noted in part I of the table.

Let it be assumed that real wages (s) remain constant.<sup>11</sup> As the example postulates full absorption of manpower, aggregate wages (S) will obviously increase at the same rate as the labour force ( $\Delta S/S = 2.5$  per cent) and, since the rate of increase of the product is more rapid, the global growth rate of the income remaining –i.e., of the surplus (E)– will be higher than that of wages. This likewise implies that the wages/product ratio (S/P) will tend to decrease, and that the surplus/product ratio (E/P) will follow an upward trend, as can be seen in part II of the table.

12. The foregoing example illustrates a precise definition of the surplus –the *ex post* size of income from property<sup>12</sup> –

<sup>11</sup> For the sake of simplicity, in the example real wages are taken as equivalent to one unit of product.

<sup>12</sup> This definition is virtually equivalent to the following extract from the article under review: "The surplus comprises the profits of enterprises, the interest paid on capital, and amortization of fixed capital" ("Critique", p. 37, paragraph 1).

and also sheds light on the connexion between that concept and the expression 'appropriation of the fruits of technological progress', or the equivalent term 'appropriation of the fruits of higher productivity', a connexion which in the article is somewhat obscured by terminological inexactitudes.<sup>13</sup> As shown in the appended table, the increase in the whole body of wages and in the real output which constitutes this is concomitant with and, broadly speaking, attributable to the increment in the labour force. On the other hand, the increase in the product that can be ascribed, although not quite accurately, to the increment in labour productivity may be said to take the form of the surplus, or, if preferred, to be appropriated in that guise. To look at the same argument from another angle, the constancy of average real wages is an indication that the increases in labour productivity and in the supply and productivity of other resources are converted solely into income from property.

The example discussed is an extreme case, since obviously technical progress may bring about increases in production compatible with a simultaneous rise in real wages and other income. Hence the inference is that the surplus is not equivalent to the fruits of technological progress and/or to increments in productivity, as is sometimes suggested by the terminological inexactitudes referred to above, but is formed inasmuch and in so far as these factors allow income from property to be increased. Another point needing to be made clear is that in each production period the surplus should be regarded as constituted by *the whole* of

this income, and not only by the *increase* in it.

13. The article places a great deal of emphasis on the non-existence of any economic law governing the functional distribution of income, after the fashion of those formulated in classical and neoclassical economics. Only personal distribution is discussed, on the basis of a definition of three income strata, and it is assumed that there is a general tendency towards concentration, which may take place to a greater or lesser extent, depending upon the interplay of economic, social and political factors. At the same time, however, it is recognized that an economic mechanism does exist which makes it possible to appropriate the fruits of technological progress through the increase in the surplus, or, in other words, which allows increases in productivity to be converted into income from property.

With respect to this mechanism, the central idea seems to be that the continuing increase in the money supply, to which recourse is had as a means of financing the costs of an expanding production which is undertaken for sale in the future, with a certain time-lag, generates a demand that is excessive in relation to the smaller output produced in the past, which also enters the market with a similar time-lag. The consequent rise in prices makes it possible in principle for the increases in productivity which accompany those in production to be wholly or partly converted into increments in income from property. If, for example, production in period 2 in the appended table were to be effected with an amount of money exceeding the figure for the preceding period by  $115.8/117.6 - 1 = 7.6$  per cent, the overall level of prices in period 1 could be

<sup>13</sup> For an example of these inexactitudes, see "Critique", p. 13, paragraph 5; p. 36, paragraph 1; p. 37, paragraph 2.

raised by an equivalent percentage; and that in turn would enable the distribution of income to be altered in such a way as to reduce the proportion absorbed by wages from one-half to 47.6 per cent, and correlatively increase the share of the surplus.

The present comments do not cover this argument since it seems to us incomplete. What is important to stress is that when it is examined in the article, the reader is led to confuse the surplus demand to which reference has just been made with the concept of the surplus previously defined.<sup>14</sup>

14. The same example may serve to indicate the type of relation that is established between income concentration and patterns of consumption. Part III of the appended table shows that the whole body of wages, which hypothetically is spent entirely on the purchase of simple goods, constitutes a decreasing proportion of the product. As the rate of investment (I) follows a downward trend, and therefore the percentage of the product represented by total consumption (C) rises, the consumption of those who receive income from property (C<sub>E</sub>) will necessarily form an increasing proportion of the product, and also of total consumption. The fulfilment of this condition probably means that the consumption patterns paid for out of the surplus must be gradually diversified and made more complex, so as to prevent an insufficiency of demand from hindering the continuity of growth.

In this way, although again somewhat over-simplified, the idea emerges that the tendency towards income con-

centration will be accompanied by the imitation of the consumption patterns of the great centres, which in its turn is based on the inequity of income distribution.

15. In the foregoing comments we have attempted to demarcate three aspects of the argument relating to the sphere of distribution: the analytical category used in this reasoning, i.e., the concept of the surplus; the analysis proper, or in other words, the ideal representation of the economic mechanism whereby a part of the fruits of technological progress is appropriated in the form of a surplus; and the long-term phenomenon which it is sought to explain, that is, the tendency to income concentration, together with the associated trend in the sphere of consumption. Even without having paused to examine the second of these aspects in detail, it may feasibly be asked how far the general line of reasoning—the preeminence given to phenomena in the sphere of distribution, and the emphasis placed on the need for a more than merely economic approach to explain them—constitutes a satisfactory road towards enrichment of the theory of under-development. The remaining comments refer to this question.

16. The first reservation to be made with respect to an orientation of this type concerns the universality attributed to the above-mentioned phenomena. Particularly well suited to clarify our point of view is a passage by Celso Furtado in which he says that the existence of a ruling class which imitated the consumption patterns of countries with a much higher level of capital accumulation, and which was impregnated with a culture whose motive force was constituted by technical progress,

<sup>14</sup>See, for example, "Critique", p. 36, paragraph 6 and p. 39, paragraph 2.

thus became a basic factor in the evolution of the peripheral countries. . . . He then points out how the fact to which he alludes —and of which it would not be difficult to find historical testimony— plainly shows that in the study of under-development there are no grounds for giving priority to the analysis at the level of production, and relegating circulation problems to a secondary level. . . . To grasp the nature of under-development, as from its historical origins, it is indispensable to focus attention simultaneously on the production process (re-allocation of resources which give rise to an additional surplus, and the way in which this surplus is appropriated) and the circulation process (use of the surplus linked to the adoption of new consumption patterns copied from countries where the level of capital accumulation is much higher), which in conjunction engender the cultural dependence that underlies the process of reproduction of the corresponding social structures.<sup>15</sup>

In the passage referred to above, as in the article under discussion, a point of view that has gained currency in recent years is adopted: the idea that the consumption patterns (and the appropriation of the surplus which sustains them) are general characteristics of under-development, and a basic condition of the evolution of economies of this type, in the same way and with the same significance as those trends in the sphere of production to which special importance is attached in the original CEPAL conception.

This view, which has also been winning adherents, may possibly be a

generalization from the recent experience of some Latin American economies, whose great dynamism has been associated with what would seem to be an increasingly inequitable distribution. At all events, there does not appear to be evidence of such trends in all cases of underdevelopment, at all times and everywhere, or even in all the industrialization experiences of underdeveloped economies. It is worth while to recall, for example, the differences between the distribution and consumption patterns which accompanied industrialization in Argentina in the decade following the Second World War, and those prevailing during the past decade in the major economies of the Latin American region.

17. Unquestionably, the analysis of a specific economy from the standpoint of distribution and consumption may be of great value for elucidating the overall characteristics of its operation and of its long-term evolution, as well as for the formulation of economic policy in these two spheres, or even for the designing of development policy. Similarly, the analysis of distribution is not relevant only for applied economics or for economic policy; it is also pertinent to theoretical economics, since in broadening the field covered and bringing into prominence aspects of social life which would otherwise remain out of sight, it relates them more precisely to the rest, with beneficial effects on the degree of coherence of the theory as a whole.

With this proviso, we would make a second reservation, with reference to the priority accorded and the paramount importance attached to the analysis of the distribution sphere. The procedure which seems to us inappropriate, and which is also becoming habitual of late, consists basically in drawing up certain

<sup>15</sup> C. Furtado, *O Mito do Desenvolvimento Econômico*, Rio de Janeiro, Ed. Paz e Terra, 1974, p. 80.

hypotheses, with a semblance of generality, on the patterns of personal income distribution and of consumption, and then seeking to discover their causes, by examining the contradictions and incongruities manifested in the sphere of production. In other words, the aim pursued is to restructure the overall analysis of underdevelopment, including the various partial analyses concerned with the sphere of production, by articulating them in relation to the analysis of distribution, which in its turn is grounded on specific hypotheses of dubious general validity.

Setting aside the validity of the hypotheses, and also the methodological problems which such a proceeding involves, to follow it leads in practice, in our opinion, to an obstacle hard to overcome, namely, the incompleteness of the analysis of the sphere of production itself. In this context, the basic CEPAL contributions include several theoretical studies which seek to give an account of the trend towards a deterioration in the terms of trade and of its significance, and an interpretation of the industrialization process which explains the tendencies towards external disequilibrium and structural unemployment, by means of two partial theories. These different theoretical contributions are linked together only at the level of general concepts, that is, on the plane of the most abstract ideas relating to the characteristics of the centre-periphery system. Hence their precise logical articulation would appear to be a prerequisite for connecting them up with the analysis of the sphere of distribution, and maintaining the coherence of the whole.

18. The third reservation relates to the possibility of achieving a more than

merely economic interpretation of the development process through the analysis of the sphere of distribution. We would venture to imply it by contrast with the purely embryonic view outlined below, which also concerns the method of approximating to this type of approach.

In CEPAL's various theoretical propositions relating to peripheral industrialization, the three trends referred to above are explained, in the last analysis, by disproportions occurring between the amounts and/or growth rates of production, and/or of the utilization of resources from the various internal and/or external sectors (peripheral and/or central). Although this generalization cannot be demonstrated here, it can at least be clarified a little, to which end it may be briefly exemplified in the explanation of the trend towards external disequilibrium.

CEPAL analyses this trend in tacit contrast with a theoretical standard of reference, which establishes the conditions that should be met in order to keep the trade balance stabilized during the import-substituting industrialization process. Given certain assumptions as to the growth of the centres and of the primary-exporter sector of the periphery, it is supposed that the expansion of the sectors producing for the domestic market can be effected in such a way that complementarity between their products, combined with a change in the composition of imports—the opportune reduction of some of them so that the import requirements of the branches in process of expansion can be met—, permits the maintenance of external equilibrium. The trend towards disequilibrium is explained by contrast with this standard of reference. It is alleged that import-substituting industry itself, as its

production gradually evolves from simpler to more complex goods, generates huge import requirements, which tend to exceed the limits imposed by the slow growth of exports and by exhaustion of the possibilities of restricting non-essential imports. In other words, the changes in the structure of production by which industrialization is characterized, and the changes in the composition of imports by which it is accompanied, do not in practice occur in accordance with the conditions of proportionality necessary to preserve equilibrium. Disequilibrium is ultimately traceable, therefore, to *disproportions* between the growth rates of the various peripheral sectors and/or between them and the growth rates of the centres.

It was asserted above that the logical articulation of CEPAL's various theoretical contributions has not yet been satisfactorily achieved. Perhaps these previous assertions contain the germ of an idea as to how an improvement may be attempted: by endeavouring to establish the sectoral growth rates that should be attained if the "laws of proportionality" formulated in the said contributions by means of partial analyses are to be complied with simultaneously and in relation to one another. Thus, for example, although serious analytical difficulties might perhaps be involved, it is possible in principle to define the conditions and/or sectoral growth rates required on the one hand to ensure the preservation of external equilibrium, and on the other to eliminate structural heterogeneity, i.e., to achieve the gradual reabsorption of the entire labour force in branches and at levels of normal productivity, within a definite period of time.

Very broadly speaking, then, it may be affirmed that the rearticulation of CEPAL's basic analyses would call for

the establishment of an ideal standard of overall and sectoral growth, so designed as to prevent the emergence of the trends characterizing peripheral development –deterioration of the terms of trade, external disequilibrium, unemployment–; and such that the conditions of disproportionality underlying those trends could be judged by contrast with it. But clearly, in addition its description of the growth of production of goods would be so complex that a prerequisite for establishing it on coherent lines is to define the sectoral and global conditions in respect of capital accumulation and penetration of technology that would guarantee proportional growth, and would thus preclude the appearance of the aforesaid disequilibria and undesirable trends. To attain this end, however, it is sufficient to determine the accumulation conditions 'necessary' or 'required' for the several proportionality relations to be simultaneously produced; and these conditions do not constitute a replica of the spontaneous accumulation process, that is, of the accumulation process as it conceivably may derive from the behaviour of specific economic agents upon whose decisions it depends.

Let us again resort to an illustrative example. We may imagine an inter-sectoral distribution of investment, associated with certain technological options, whereby unemployment becomes avoidable within a given length of time, and labour productivity gradually climbs to the levels prevailing in the central countries: a distribution which likewise contemplates simultaneous increases in installed capacity in the exporter sector and in each and all of the sectors producing for the home market, as well as changes in the composition of imports capable in the aggregate of preventing external disequilibrium. But

this ideal model of 'required' accumulation will not afford an explanation of why in practice accumulation has occurred at specific rates in the economy as a whole or in the different sectors; in other words, such a paradigm does not disclose the reasons for which actually a pattern of accumulation was followed that gave rise to unemployment and external disequilibrium.

It would seem essential, in order to attain an overall vision of underdevelopment, not only to rearticulate CEPAL's analyses of the trends that characterize it, but also to try to detect the basic causes of these trends, by attempting an analysis of the driving forces behind accumulation, and of the way in which they determine its rate and patterns. What are the grounds for this opinion? The CEPAL analyses deal with the sphere of production, but in essence they establish relations of proportionality only between the sectors of physical production; their rearticulation would entail elucidating and defining the conditions of accumulation 'required' to ensure that the several proportionality relations were simultaneously fulfilled. On the other hand, to attempt a representation of the spontaneous accumulation process, while at the same time seeking the causes underlying the sectoral disproportions in growth, implies investigating the social relations that are established in the sphere of production, i.e., the basic economic relationships evolving in connexion with the generation, appropriation and utilization of the economic surplus. A point worth clarifying is that these relations are not only internal, but external too, and that the latter comprise not only those formed through commerce and expressed in the deterioration of the terms of trade, but also all those involving foreign capital, in the broadest sense of the words.

Lastly, we come to consider the limitations of the analysis of the sphere of distribution as regards achieving a more than merely economic interpretation of underdevelopment. At first sight, it might seem that such an analysis is simply the reverse of the one just expounded, and that the path it offers is easier and quicker, inasmuch as personal income distribution is visibly influenced, and continually altered, by non-economic social relations, and in particular by redefinitions in respect of power relations. There are reasons for thinking, however, that the theoretical speculations which follow this road, although they may achieve significant partial results, are not conducive to the desired type of global approach.

The most important of these reasons consists in the lack of an adequate analysis of basic economic relations, which are the most general and the most permanent, and form the framework that conditions the more particular and contingent relations established in the sphere of distribution. It is not hard to see that this consideration implicitly underlies the reservations stated in the two preceding paragraphs. For precisely owing to that lack, when the sphere of distribution is taken as at once the starting-point and the axis of the intended global analysis of underdevelopment, in the face of marked variations in distribution, and/or very striking developments in the socio-political sphere, there is a tendency to place the accent on a set of new hypotheses, of dubious universality and constancy. Similarly, again because of the same lack, these hypotheses are commonly articulated by means of a socio-political analysis, which is not integrated with the economic analysis, but is super-added to separate parts of it, introduced *ad hoc* as the argument develops.



## ANNEX

*I. Technical relations*

<i>Variables</i> <i>Periods</i>	t	T	k	K	P
0	2	50	0.333	300	100
1	2.1	51.25	0.34	316.5	107.6
2	2.205	52.53	0.347	334.0	115.8
3				352.4	

*II. Distribution*

<i>Variables</i> <i>Periods</i>	s	S	$\frac{\Delta S/S}{x 100}$	E	$\frac{\Delta E/E}{x 100}$	S/P x 100	E/P x 100
0	1	50	—	50	—	50	50
1	1	51.25	2.5	56.38	12.75	47.62	52.38
2	1	52.53	2.5	63.30	12.28	45.35	54.65

*III. Investment and consumption*

<i>Variables</i> <i>Periods</i>	I/P x 100	C/P x 100	C <sub>E</sub> /P x 100	C <sub>E</sub> /C x 100
0	16.54	—	—	—
1	16.22	83.78	36.16	30.30
2	15.90	84.10	38.75	32.59

*Notes:* The variables are defined in the text. It is tacitly assumed that gross investment is equal to net investment, and that it matures with a time-lag of one period.