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On the Article by Raúl Prebisch "Towards a Theory of Change"

*Comments by Gert Rosenthal**

Introduction

In Latin America there is nothing new about the debate between those who advocate the optimal allocation of economic resources through the market mechanism and those who prescribe different degrees of State intervention to remedy alleged shortcomings in that allocating mechanism: "the invisible hand" versus "State control". In recent years, the discussion has become fiercer and more polarized, perhaps owing to the ineffectiveness of several moderately reformist programmes tried out during the 1960s in the favourable conditions created by the so-called "Alliance for Progress".

On the one hand, no doubt influenced by the achievements of the Cuban revolution, at least in the sense of having created an egalitarian society in less than a generation, there is a growing number of those who favour transferring the means of production to the State and planning the economy in the light of specific objectives. On the other hand, the number of adepts of economic liberalism is likewise swelling, so much so that in recent years certain circles have apparently rediscovered the neo-classical theories and have applied them most enthusiastically in some countries. Of course, these proponents of economic liberalism represent quite a broad spectrum, with variations in the degree of freedom with which the market mechanism is supposed to function. Thus, in almost all countries there are now influential persons who attach so much importance to that mechanism that they almost regard it as an object of veneration.

These two opposing economic viewpoints have their counterparts in political theory, and this has greatly exacerbated the argument. In all the confusion and mutual recrimination, more moderate economic approaches have been overshadowed, and sometimes altogether

silenced. These cover a range of intermediate options, and certainly include the set of reformist approaches put forward by the CEPAL secretariat, with shifts in emphasis over time and for each particular case in Latin America.

The supporters of these three approaches—liberalism, reformism and the centrally-planned economy—all argue that they have the best answer for speeding up economic and social development. Which of them is right? It is difficult to reply, because unfortunately the social sciences—including those concerned with economic and social development—unlike the natural sciences do not provide precise formulae. It may be that there are different ways of achieving the development of the same country, or that an approach which is acceptable for a country with a given set of characteristics is not suitable for another. In any event, the adherents of these three approaches have shown extraordinary intolerance towards one another, in the conviction that theirs is the best solution, and this has certainly hindered constructive dialogue.

Worst of all, each group is so sure of being right that it does not even take the trouble to analyse critically the other approaches, perhaps in the belief that its own convictions are based on theories so self-evident that the others are not even worthy of comment. This is at least the impression given by the relative silence of the CEPAL secretariat on the increasing popularity of neo-classical approaches. Thus the application of such approaches in some Latin American countries has unleashed emotional, not to say visceral, reactions on the part of several staff members of the CEPAL secretariat.¹

¹ Anibal Pinto is the staff member who has dealt with this topic at greatest length, and he has done so with considerable eloquence. See, for example, his article "False dilemmas and real options in current Latin American debate" (*CEPAL Review*, No. 6, second half of 1978, p. 31), in which he views the "resurrection" of neo-classical thought as a "return to the theories of the past, which some advocates curiously describe as a step forward to the future ...

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but beyond asserting in various articles that economic liberalism has neither a social horizon nor a time horizon,² they have not yet undertaken a serious critique of those approaches: a situation which it is a matter of urgency to remedy.

1. *The articles by Dr. Prebisch on a new theory of change*

It is therefore a source of satisfaction that in his recent studies pointing towards a new theory of change,³ Raúl Prebisch directly tackles this issue.⁴ His critique of the neoclassical theories applied to the development of the capitalist countries of the Latin American region of the periphery falls very much within his interpretation of that development in recent decades, in which he describes the essentially imitative nature of peripheral capitalism (in contrast with the innovative capitalism of the centres) and the unequal way in which the fruits of increasing productivity are appropriated, pointing out how all this contributes to the persistence of a privileged-consumer society and the wastage of the potential for accumulation of the surplus. Prebisch's criticism of the neoclassical approach largely depends on acceptance of his interpretation of the way in which the fruits of rising productivity are converted into extravagant consumption and the consequent insufficient accumulation causes large sectors of the population to be marginalized or only spuriously employed.

The following reflections suggest that the main points of criticism put forward by Prebisch with regard to the neoclassical approach are valid even when divorced from his interpretation of the development of peripheral capitalism in Latin American countries.

reminiscent of a movement observable in the history of European culture, especially at the end of the last century, when the exhaustion of artistic creativity led to a new vogue for the Graeco-Roman heritage as a source of inspiration".

² See the articles by Raúl Prebisch and Aníbal Pinto in *CEPAL Review*, No. 1, first half of 1976, and the above-mentioned article by Aníbal Pinto.

³ See the articles by Raúl Prebisch and Aníbal Pinto in *CEPAL Review*, No. 1 (first half of 1976), No. 6 (second half of 1978) and No. 7 (April 1979).

⁴ See Raúl Prebisch, "The neoclassical theories of economic liberalism", in *CEPAL Review*, No. 7, April 1979, pp. 167-188.

2. *The many conflicting demands of development*

Nowadays almost everyone will admit that a development process calls for high rates of economic growth and that the benefits of that growth must spread through all the strata of the population. In order to achieve high rates of development, high rates of accumulation are necessary and, consequently, some austerity in consumption. To these exigencies relating to saving and investment, austere consumption and an equitable distribution of the benefits of growth, many authors—including Prebisch himself—add that of democratic liberalism, on the grounds that the enjoyment of traditional individual freedoms is an inherent part of the concept of wellbeing pursued through development.

Doubts may be entertained as to the feasibility of achieving more or less simultaneously a steady rise in accumulation (and hence economic growth) together with an improved distribution of income and respect for the individual freedoms which accompany a liberal democratic approach. However, this is essentially what is aimed at in the set of guiding principles formulated by the CEPAL secretariat over the last 30 years. In any event, it should be recognized that there may be worthwhile trade-offs in securing one of these major objectives, in the short or even medium run, in order to achieve the proposed development.

Thus, for example, those who advocate a centrally-planned economy are prepared to forego democratic liberalism, at least during an initial period, in the interests of growth and equity, even placing the emphasis on the latter. On the other hand, the supporters of the neoclassical approach are prepared to forego equity over the short and medium term (even though they may consider this "painful") in order to stimulate accumulation and growth. In other words, equity is sacrificed to growth, on the assumption that in a dynamic context the benefits of growth will spread throughout all the population strata, thus leading progressively to prosperity for all. In addition, a growing volume of literature argues that the neoclassical approach implies foregoing democratic liberalism, again only for a time, since the social

tension arising from the sacrifice of the objective of equity means that an autocratic government is necessary to ensure that these pressures are kept under control.⁵ Indeed, it is this twin sacrifice of both equity and democratic liberalism which has kindled the wrath of those who uphold some version of the reformist theories of development. The experience gathered so far suggests that in those Latin American countries where the neoclassical approach has been applied, with varying degrees of strictness, the economic growth achieved has failed to benefit large strata of the population, and autocratic governments, whose ideological stamp is well known, have been necessary to apply the chosen economic policy.

3. *Viability of economic liberalism in the Latin American context*

Can it not be contended, however, that economic development is complex and painful, and that after a period of sacrifice, as envisaged in the neoclassical approach, these shortcomings will be resolved in the medium or long term? In the last analysis, the argument adduced consists in reiterating that that is how the capitalist centres developed, and that there is no reason whatsoever why the capitalist periphery should not develop in the image and likeness of the centres.

Those who argue along these lines apparently forget not only that the economic liberalism which fostered the development of the United States of America and the major European countries was heavily tempered by an increasing degree of State intervention from the second half of the nineteenth century onwards (*inter alia*, in the form of provision of social security, regulation of the behaviour of the main economic agents and, in the present century, application of an increasingly progressive tax system), but also that the conditions in which the industrial revolution took place were

radically different from those prevailing today in the capitalist countries of contemporary Latin America. The situations differ in at least five respects: (1) the noteworthy consequences of the increasing importance of scientific and technological progress; (2) the demographic picture; (3) the role of domestic demand; (4) the organization of the international economy; and (5) the clear differences between the value systems and the political and cultural heritage of the central countries of yesteryear and the peripheral countries of today.

The revolution in scientific and technological development—the first of the factors listed above—is something fundamentally associated with the centres but imitated by the periphery. Thus the periphery, either from the need to compete in international markets or simply from emulation, tends to incorporate increasingly capital-intensive technology into its production processes, contrary to what would be warranted by its relative endowment of resources. Again, consumerism in the periphery is eminently imitative, and by no means limited to the high-income strata. The development of the mass media—another technological innovation which did not exist in the centres in the nineteenth century—has been most effective in imposing consumption patterns which have very little to do with the production capacity of the peripheral economies or, necessarily, with the quality of life of their inhabitants. Finally, another consequence of technological development has been the decline in mortality and, to a lesser extent, morbidity rates. This partly accounts for the second feature which distinguishes the periphery of today from the centre a century ago, and to which we shall return shortly: namely, population growth.

The countries which are now industrialized never had to face these difficulties. While the development of a broad market for consumer goods and services became the main engine of growth of those societies, their populations did not give free rein to imitative consumerism as do those of the peripheral countries today, thus contributing, among other things, to balance-of-payments and saving problems. Again, the central countries achieved their development by employing

⁵See Guillermo O'Donnell, "Reflexiones sobre las tendencias de cambio del Estado burocrático-autoritario", in *Revista Mexicana de sociología*, vol. XXXIX, No. 1, January-March 1977, pp. 9%59; and Pedro Vuskovic, "América Latina: la crisis de un patrón de desarrollo y sus consecuencias políticas", in *Comercio Exterior*, vol. 25, No. 12, Mexico City, December 1975.

technology more or less geared to their resource endowment, and while there were well-documented cases of human exploitation, these never reached the extremes of marginalization current in the Latin American countries today.

Turning now to the second element—the population factor—we can distinguish a *fundamental* difference between the centres a hundred years ago and the periphery at present. None of the currently developed countries had to face up to population growth rates even remotely similar to those now prevailing in Latin America. The existence of a large sector of the population which is unemployed or underemployed (the so-called 'reserve army') contrasts markedly with the situation of labour scarcity in most of the industrialized countries during their period of most intensive transformation: a circumstance which unquestionably spurred the development of inventions directed towards raising productivity per person employed. The fact that the Latin American population is growing at faster rates than the economies can productively absorb produces various kinds of problems. First, the existence of a large supply of 'cheap' labour led most of the Latin American countries to enter world trade with labour-intensive products, thus making use of their comparative advantages. This is a position qualitatively different from that occupied by the central countries, as is pointed out below. Second, the implantation of 'modern' activities in the Latin American peripheral countries, far from absorbing an increasing percentage of the population, has led to a technological duality which has contributed greatly to the unfair distribution of income. Third, the fact that a small group could exploit large quantities of cheap labour, combined with the problem of marginality itself, also helped to shape the power structure typical of most countries of the region, by weakening the bargaining capacity of the wage-earners, in contrast with what is happening in the industrialized countries. For example, one of the reasons behind the difference between the Costa Rican society and the other Central American economies must be that unlike what occurred in the other countries, during its colonial period Costa Rica had a small population, both in absolute terms and in rela-

tion to the land factor, and this led to the establishment of production units (small landowners) which were different from those of the other countries. Fourth, the fact that a large percentage of the population is virtually excluded from the market economy leads to a very warped production structure primarily catering to the demand of the higher income groups. And this brings us to a third fundamental difference between the central economies, past and present, and the economies of the periphery.

One of the main props underpinning the central capitalist economies is a broad consumer market. It is widely realized that for the system to function properly there must be a high level of demand and that furthermore this demand must develop dynamically. In turn, this high level of demand implies a wide range of investment opportunities in a great variety of goods and services. In contrast, regrettably, it seems that in the majority of the Latin American countries the working of the system involves, at least implicitly, other requirements which take priority over the desirability of broad-based, dynamic demand; chief among these is the need for a large supply of cheap labour in order to maintain an acceptable level of competitiveness in world trade. Nor is it surprising that the dominant groups in society are more interested in their short-term objective of holding down wages as part of the distribution pattern than in the long-term objective of expanding the domestic market. All this also means that investment opportunities are limited, which certainly fosters consumption of luxury goods and investment in fields of limited social profitability, such as real estate.⁶ For the above reasons, the cyclical fluctuations in the central economies have traditionally been linked with the growth of domestic demand. In contrast, in the Latin American periphery the sometimes abrupt swings between relative prosperity (for a few) and recession are much more closely linked with the performance of the external sector.

The external sector is indeed the fourth factor distinguishing the Latin American

⁶ Mention should also be made of the opening of savings accounts abroad, the reasons for which are more complex than the mere lack of investment opportunities.

countries of today from the central countries in the past. It is not so much a question of the degree of openness of their economies as of their position in world trade. There is an abundant bibliography on this question, including ground-breaking studies by the CEPAL secretariat showing that the Latin American countries depend heavily for their exports on products whose income-elasticity of demand is relatively low, whereas the industrialized countries exported and continue to export goods for which demand is extremely dynamic. Even if this circumstance should change in the future—there might be a rising trend in the value of raw materials, food products and non-renewable resources—it is quite obvious that the international economy today is not what it was in the second half of the nineteenth century, and many of the new features which characterize the contemporary international economy run counter, in the last analysis, to the interests of the peripheral countries. In brief, the Latin American countries today are faced with much more serious problems in the international economy, and are much more dependent on the external sector, than was the case for the United States of America and most of the European countries during the last 150 years. Hence the familiar demands of the Third World, which aim at the so-called New International Economic Order.

Finally, the differences in the scale of values of the central countries of the past century and the Latin American countries today are relevant to this cursory analysis. Democratic liberalism has a long tradition in almost all the countries of the capitalist centre, which made possible among other things the effective organization of different interest groups, including the trade unions. All this led to a more balanced power structure than that existing in most Latin American countries today. Furthermore, in the former countries the role of the State was traditionally to avoid excesses and ensure orderly development as regards civil and political rights, but this has not always been true in Latin America. Instead, the Latin American countries, although adopting all the trappings of democratic liberalism upon attaining economic independence, at the same time inherited economic and social structures which

reinforced inequality, and did not have a tradition of civil and political rights. In sum, in the central capitalist countries for some 200 years or more there was a movement towards broader popular participation in national life, including, of course, economic life; such a movement existed in only a few Latin American countries, however, and instead the heritage of the past, as reflected in the present power structure, tended in the opposite direction.

It is no accident that these fundamental differences between the central countries of the late nineteenth century and the Latin American countries of today lead to the very set of features described by Prebisch in his critique of the neoclassical approach: a very inequitable distribution structure which is nothing less than the reflection of an unfair power structure; a level of accumulation which is too low to absorb the labour force productively, partly owing to the wastage implied by the privileged-consumer society on the one hand and by the existence of redundant labour on the other; and the tendency towards what the author calls the 'external bottleneck' in the pattern of economic relations between the central and peripheral countries.

Of course, the trends of recent years may change in the future, so that conceivably at least the economies of the Latin American periphery might develop along lines comparable to those followed by the central economies in the past. For example, it is possible that, against all the present evidence, agreement might be reached on a new international economic order which would allow the developing countries to gain a better foothold in the world economy, or simply that the products exported by Latin America might rise in value. It is also possible that the very advance of science and technology which in the past affected mortality rates may now affect fertility rates, thus reducing the pace of population growth, although the passage of a generation would be required for the effects of this circumstance to make themselves felt in a reduction in the growth rate of the labour force. Altogether, however, what is clear is that if the trends of the recent past continue there is no reason whatsoever to suppose that the dynamism of the industrial revolution can be

repeated in the Latin American countries, where economic, social and political conditions, at both the domestic and the external level, are fundamentally different. In other words, there is no reason for believing that the Latin American countries can reproduce the experience of the United States or Europe.

Hence the conclusion may be drawn that the neoclassical approach being tried out in some countries of the region does not offer much hope of success. In the first place, it involves a sacrifice of some subjective but widely accepted values such as distributional equity and, apparently, democratic liberalism. Secondly, there are no grounds whatsoever for supposing that the Latin American countries today can repeat the striking successes achieved by the United States of America and the European countries over the last 150 years.

4. *Implications for future studies*

The preceding review, extremely cursory and unquestionably partial, is only one of many possible ways of undertaking the critical analysis of the neoclassical approach applied to the development of the Latin American countries. At all events, it identifies clearly the areas calling for further research: the present and foreseeable performance of the external sector, the formation of the surplus and accumulation, marginality, the distribution structure, power relations, what Prebisch calls 'privileged' and 'imitative' consumerism, and the application of science and technology to development. All these aspects are intermingled in one way or another in the above-mentioned studies by Prebisch, and it is to be hoped that the CEPAL staff will rise to the challenge and continue this fruitful analytical work.

*Comments by Isaac Cohen**

1. These comments refer almost exclusively to the political aspects of the latest articles by Raúl Prebisch. This should not be taken to mean that the economic or social aspects of what he proposes are considered less important; but it is in the political field that the present author considers he can contribute to the critique of the proposal. It should also be pointed out that the following comments on the political aspect by no means underrate the need for development problems to be approached from a standpoint which does justice to their multidisciplinary nature. It must be recognized, therefore, that the studies in question have the merit of approaching the issue from an angle broad enough to make it possible to argue that the development process should signify greater accumulation and at the same time a fairer distribution of the surplus accumulated, all within a framework which preserves a liberal political system.

2. This last exigency is a second merit of the proposal, in view of the constant attention

paid throughout to the importance of power relations in the development process. Thus, the proposal is consubstantial with the intellectual tradition of political economy, a tradition which today has regrettably been seriously undermined by the artificial academic separation of the two disciplines.

3. This importance attached firstly to power relations and secondly to political liberalism gives rise to one of the criticisms which can be made of Dr. Prebisch's proposal. For after power relations have been turned into one of the key explanatory factors of the development process, by the time one reaches the actual proposal put forward in "Towards a theory of change" political aspects no longer possess, in this later section at least, the importance attributed to them in the earlier part. It is never made clear exactly which of the constituent elements of political liberalism is meant: the existence of political parties, or a strict separation of powers with a self-regulating balance attained through a system of checks and counterchecks among the different branches of government which prevents possible abuses of power by any one of them. Nor is

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anything said of how basic freedoms, such as the rights of information and association, can be preserved in a system which sets out to restrict forcibly the consumption of some strata. In other words, how can the social appropriation of the surplus be achieved while preserving political freedoms?

4. The foregoing may perhaps be due to the fact that strictly speaking the political aspects are not part of the view of development on which the proposal is based. If it is admitted that development is conceived as "an endless superimposition of technological layers characterized by increasing productivity and efficiency upon preceding technological layers where productivity and efficiency are lower"; and that "in the course of this process the latter tend to disappear; and the labour force which was employed in them is mainly transferred to technological layers of increasing productivity and efficiency, promoting the homogeneity of the structure",¹ the question arises: where do political exigencies fit into this view of development? Perhaps this conception of development would be more consistent with the proposal if it included the changes in the power structure necessary for this orderly superimposition of the layers of technology to take place.

5. Another criticism that can be made of the proposal stems from the view of politics upon which it is based. It is stated that power relations are not subject to any regulating

principle whatsoever, and are not based on considerations of equity, for these are alien to the operation of the system.² Now, if the present system is criticized for this shortcoming, it may therefore be asked: what agency is going to be responsible for providing the criteria of equity, with what legitimacy and with how much power to impose them? Unfortunately, the proposal as stated does not answer these questions. Or, to put it another way, it appears to posit the existence of a political system in which equity is brought in from outside by some unidentified agency, without any mention of what power that agency possesses for so doing.

6. Perhaps a different conception of politics might help to throw light on these doubts arising from a reading of the proposal. Every political system may be understood as a tacit social contract between governors and governed, whose terms are constantly being put to the test in order to discover the limits of obedience and revolt.³ Accepting this conception of politics, the conclusion must be drawn that the introduction of a different principle of equity from that prevailing in a given political system requires the transformation of the power structure. This in turn calls for a study of the different actors in the political system, and of the alliances which should be made in order to build up sufficient power to enable the new criteria of equity to prevail.

¹"Socio-economic structure and crisis of peripheral capitalism", in *CEPAL Review*, No. 6, second half of 1978, p. 197.

²*Ibid.*, p. 160.

³This idea is taken from Barrington Moore, *Injustice: The Social Bases of Obedience and Revolt*, New York, M.E. Sharpe, 1978, p. 18.

Comments by Fernando Fajnzylber*

Introduction

The articles by Raúl Prebisch to which the following comments refer¹ are in our view particularly stimulating, since the author:

(i) Focuses attention and emphasis on some important endogenous aspects which help to explain the functioning of the Latin American economies;

(ii) Analyses the development of the periphery as an integral part of capitalism taken as a whole, and endeavours to build a bridge between strictly economic matters and political and social questions;

(iii) Openly challenges not only certain 'truths fashionable in the region', but also his own earlier propositions;

(iv) Seeks to draw normative conclusions from his interpretation.

Precisely because these conclusions are founded on the interpretation, it would seem particularly important to analyse the interpretative phase in depth. Such an analysis is attempted below, though very schematically, in these critical comments which basically refer to the main subjects with which Raúl Prebisch's articles deal, namely:

- The imitative nature of peripheral capitalism;
- The surplus, the structure of production and accumulation;
- The system's tendency towards crisis;
- Neoclassical theories and economic policy;
- Towards a theory of change.

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¹"Socio-economic structure and crisis of peripheral capitalism", *Cepal Review*, No. 6, second half of 1978; "The neoclassical theories of economic liberalism", *Cepal Review*, No. 7, April 1979; "Towards a theory of change" (preliminary mimeo version of the article which appears in *Cepal Review*, No. 10; the quotations here are taken from this preliminary version, and therefore may not exactly correspond to the text published in the *Review*).

1. The imitative nature of peripheral capitalism

The great importance the author attaches to this aspect is made clear as follows:

"Peripheral capitalism is essentially imitative, in contrast with the innovative capitalism of the centres. Under the hegemony of these latter, it opens its doors wider and wider to their capital and to their techniques; to their consumption patterns and other cultural manifestations; to their ideas, ideologies and institutions".²

However, in specifically analysing the operation of the model, he focuses attention almost exclusively on the imitation of patterns of consumption, as an important factor in explaining the lack of dynamism: "The exclusive tendency is due above all to the increasing imitation of the centres' patterns of consumption, as well as to the siphoning-off of peripheral income by the centres. All this occurs at the expense of a capital accumulation process which ought to be much more intensive than that which takes place within the limited sphere of the privileged-consumer society".³

Queries

In view of the importance the author attaches to this aspect, it would seem useful to add a few observations concerning both the concept and its implications.

(i) The tendency towards homogenization of consumption patterns is more a characteristic of the contemporary world economy than a specific feature of Latin American development. The spread of the 'American way of life' throughout the developed countries and to the continents on the periphery as well is something that has its origin not only, perhaps, in the advertising phenomenon but also in the emerg-

²"Socio-economic structure and crisis of peripheral capitalism", *op. cit.*, p. 173.

³"Towards a theory of change", *op. cit.*

ence of forms of mass consumption which, for special historical reasons, flourished particularly in the United States.

(ii) An important aspect of Raúl Prebisch's argument stresses the fact that this imitative consumption basically occurs in a small sector at the peak of the income pyramid. Recent research in two large countries in the region, Brazil and Mexico, shows that specific items which can be classed under this head of 'imitative consumption' have achieved a high degree of penetration among the urban population as a whole. This would seem to be due to the following factors: a shift in the structure of consumption in favour of these items, the development of consumer finance machinery, and a decline in the relative prices of the goods in question as compared with those traditionally consumed.⁴ Since a high proportion of these modern goods come from the transnational corporations, the conclusion must be reached that it is necessary to qualify, in accordance with the sectors of production, the frequent assertion—which we formerly endorsed—that these enterprises produce essentially for the high-income sectors.⁵ If one grants that the philosophy followed by these firms is eminently pragmatic, and that one of their basic objectives is to expand the market, it is understandable that they should use their influence to bring the population's pattern of consumption into line with the goods which they know how to produce. Irrespective of the ethical judgement these facts may provoke, it is vital to recognize the existence of this phenomenon, whose importance goes beyond the strictly economic sphere.

(iii) In emphasizing 'imitative consumption', the author leaves out an area where Latin America does appear to present highly specific

⁴ See John Wells, "The diffusion of durables in Brazil and its implications for recent controversies concerning Brazilian development", *Cambridge Journal of Economics*, vol. 1, No. 3, New York, September 1977; "Algunas interrelaciones entre redistribución del ingreso y el nivel de crecimiento del producto y del empleo", in *Proyecto de Planificación y Promoción del Empleo* (MEX 75/007), provisional text, June 1977.

⁵ Obviously, it would be difficult to maintain that this assertion is valid for specific items of clothing, some household appliances, certain foodstuffs and beverages, cosmetics and some pharmaceutical products, plastic utensils, and so on.

features; we refer to the structure of production by means of which the above-mentioned pattern of consumption is satisfied. It is an indisputable fact that, after the Second World War, the 'Western' pattern of consumption penetrated countries such as Korea and Japan, but without leading to the transplantation of large numbers of firms from the West to produce such goods. The existence of powerful local bourgeoisies, with specific plans in view for the country, together with a variety of other familiar historical and cultural factors, made it possible to reconcile the imitative pattern of consumption with a structure of production whose centre of gravity was to be found in local groups which were capable of competing internationally—even in those markets where the goods had originated. The growing efficiency achieved by these structures of production, strictly protected for substantial periods, made it possible to reduce costs and sharply expand the domestic market for these 'copied' goods.

Hence can be inferred the relative weakness of those analyses which endeavour to explain the lack of dynamism by concentrating exclusively on the high level of protection. This suggests that it is important to introduce into the analysis the factors accounting for the mould in which the domestic structure of production is cast and, in particular, the role played by the domestic entrepreneurial sector, directly and through the State.

2. *The surplus, the structure of production and accumulation*

The distribution of the surplus plays a central role in Prebisch's analyses:

"This dynamic is based on a structural phenomenon to which we have attributed decisive importance: the surplus.

"A fairly large proportion of the fruits of technical progress remains in the hands of the owners of the means of production in the form of a surplus, and this occurs at the expense of the labour force disadvantaged by market laws because of the social heterogeneity of peripheral capitalism."⁶

⁶ "Towards a theory of change", *op. cit.*

A central element in the analysis is what he terms the struggle for distribution (of the surplus), its impact on accumulation and inflation, and the effect of inflation on the political process and, in particular, on what he refers to as the tendency towards a "crisis of the system".

Queries

(i) The structure of production and the surplus.

In this paragraph attention is focused on the magnitude of the surplus and its links with the structure of production, this latter being a subject to which the author makes practically no reference. His central concern is the distribution of the surplus, over time, between the sectors which own the means of production and the labour force, and this distribution struggle is expressed in terms of the relationship between growth of productivity and growth of earnings. If productivity grows faster than earnings, the surplus will increasingly be channelled towards the owners of the means of production. Here the author does not inquire into the factors which determine the level of productivity and its evolution over time, and for this reason does not need to introduce into his analysis the aspects referring to the structure of production. This omission with regard to the structure of production becomes important in the normative phase, however, precisely when the author suggests machinery whereby the distribution of the surplus can be substantially modified.

Among the factors which determine the overall productivity level are the sectoral structure and the type of enterprise existing in each of the sectors. Rises in productivity are caused by alterations in the sectoral structure and by changes in the balance between modern and traditional enterprises within each of the sectors. Even if productivity were to remain constant in each of the sectors, overall productivity would increase to the extent that the higher-productivity sectors grow faster than the others. Furthermore, productivity per enterprise may remain constant, but for modern enterprises to grow more rapidly than the rest is enough to raise productivity in each sector, and consequently overall productivity. If the above pic-

ture is rounded out by introducing technical progress and the economic policy context in which productive activity is pursued (protection, State intervention, market structure), this will supply a rough guide to the forces which account for the increase in productivity. In this way it can be confirmed empirically that there is a direct relationship between the growth rate of the product and the productivity increment. In other words, the rate of introduction of technical progress by enterprises and intra- and inter-sectoral changes become more intensive with the growth of the economy as a whole.

Consequently, the characteristics of the structure of production and the changes it undergoes are of fundamental importance in explaining the evolution of productivity over time, but they also exert a direct influence on the growth of earnings. The relative incidence of modern enterprises, the relative weight of sectors which are more or less concentrated in urban areas, and the growth rate of economic activity, in addition to historical and cultural factors and the size and growth rate of the population, directly influence the capacity of the labour force to exert pressure in the distribution struggle to which the author refers.

It is clear from the above considerations that Prebisch's neglect of the structure of production and almost exclusive concentration on the distribution of the surplus not only prevent him from dealing with the wide variety of situations in Latin American countries, but also limit the scope for enlarging upon the proposal made in the normative phase of his article.

(ii) Surplus and accumulation.

Throughout the various articles runs the idea, conveyed with greater or lesser explicitness, that there seems to be a direct relationship between the volume of the surplus and the rate of accumulation.

"In order to understand it one must remember the two opposite movements from which the total amount of the surplus results. On the one hand, it is increased by new productivity increments which are only partially transferred to the labour force. On the other hand, it is reduced by the process of sharing just mentioned.

"The dynamics of the system require that the total surplus resulting from these opposed

movements should grow constantly in order to satisfy the consumption requirements of the privileged strata and the corresponding requirements for accumulation.⁷

Nevertheless, for the purposes of specific analysis of the Latin American countries—and, most importantly, where there is an intention to make proposals for an alternative form of development—it would seem useful to add a few qualifications of this proposition, which, it may be noted, is a central element in Prebisch's thinking.

If productivity grows faster than wages, an increasing proportion of the surplus will be channelled towards the owners of the means of production; once the size of the surplus is determined, the amount available for investment in the private sector will depend on the tax burden, consumption by the recipients of the surplus, and the proportion of the surplus which is remitted abroad as payment for external factors. Assuming that the net sum of resources available in the country is increasing, and that there has been no appreciable decline in the product-capital ratio, a situation will arise where the decision to invest will depend on the real investment opportunities capable of generating a satisfactory rate of return. In other words, the hypothesis that higher growth of productivity than of wages implies an increase in the rate of private profit is a necessary but not a sufficient condition for accumulation. In some Latin American countries, during periods of social tension, and when prospects for the entrepreneurial sector appear unfavourable, it has been observed that high rates of private profit are reached which are not translated into domestic investment. This also seems to happen in some countries of the region where drastic changes have been made in protectionist policy, reducing opportunities for investment in those sectors of production that are exposed to international competition, and limiting accumulation to financial assets, frequently speculative in nature, and to non-tradeable sectors (construction, recreational services and tourism). In cases where the share of wages has fallen, too, the increase in the surplus may have

failed to be reflected in productive accumulation.

3. *The system's tendency towards crisis*

The author maintains, in the first place, that there is a relationship between the nature of the system and the outbreak of the crisis, and locates the crisis at an advanced stage of the development process:

"I have maintained that the process of development heads for a crisis because of the very nature of the systems; and this tendency arises in advanced stages of the process. It is true that the initial phases are characterized by exclusive phenomena, but those conflictive phenomena which play such an important role in the outbreak of the crisis have not yet emerged with sufficient intensity".⁸

Consequently, the distribution struggle will be intensified during the process of development, and this, in specific circumstances, will intensify pressure from the labour sector.

"As changes take place in the social structure, however, the trade-union and political power of that disadvantaged labour force allows it gradually to remedy the weakness of its ability to obtain its share, and likewise the inadequacy of the system's absorption capacity. Thus it improves its private consumption and its consumption of State services, but it does so, as has been shown, at the expense of a growth rate of the surplus superior to that of the product".⁹

As a result of this tendency, a time will come when earnings grow at the same rate as productivity.

"Accordingly, as these various forms of participation evolve, a moment is reached at which the growth rate of the surplus becomes equal to that of the product, and the greater the extent to which political or trade union power spreads to the lower strata, the sooner will that moment occur. This is the limit beyond which the participation of the disadvantaged labour force cannot go without causing trouble, under the sway of market laws."¹⁰

⁸ *Ibid.*

⁹ "Socio-economic structure and crisis of peripheral capitalism", *op. cit.*, p. 180.

¹⁰ *Ibid.*, p. 181.

⁷ *Ibid.*

In the face of this trend, the entrepreneurial sector would have the option of resorting to price increases as a compensatory mechanism.

"There are, however, institutional mechanisms whereby the owners of capital can recoup themselves for the decrease in the surplus: the same whereby they were able to appropriate the structural surplus [a concept whose meaning is not specified — F. F.] and retain it indefinitely in their hands. These are monetary mechanisms, and however strong the opposition put up by the responsible authority, the economic and political power of the owners of capital prevails in the end".¹¹

This in turn will lead to an intensification of labour pressures.

"This reaction on the part of the privileged-consumer society is not slow to bring with it a counter-reaction on the part of the labour force, when it has achieved sufficient power, with new pressures that become more intense if and when the lower strata join in this struggle. The inflationary spiral is then triggered off, evidencing the crisis of the system; this is a type of inflation which falls outside the scope of orthodox monetary prescriptions."¹²

Thus we reach the phase prior to the outbreak of the crisis, which will be tackled by resorting to force.

"Inflation upsets the system and causes its social disintegration, and this sooner or later culminates in recourse to another of the State's institutional instruments: the use of force, determined either by a decision on the part of those who hold it in their hands, or by the influence of political power at the summit of the system. The object of the use of force is to overrule or suppress the trade-union and political power of the masses, thus seriously undermining their sharing capacity."¹³

Queries

This proposition, attractive in its clarity and simplicity, prompts the following questions, among others:

¹¹ *Ibid.*, p. 181.

¹² "Towards a theory of change", *op. cit.*

¹³ "Socio-economic structure and crisis of peripheral capitalism", *op. cit.*, p. 181.

(i) To what extent has higher growth of wages than of productivity been empirically confirmed in the countries of Latin America over relatively lengthy periods? Empirical evidence is lacking, but it may nonetheless be stated that, in order for this to happen, the surplus of unemployed labour must be small, the trade union organization must be powerful and the range of sectoral productivity levels must be broader than the sectoral wages spectrum. If this last condition is to be satisfied, the trade-union movement must not only be powerful in given areas but must also be highly integrated at the national level, and this in the last analysis requires the existence of strong political organizations representing the labour force.

It may be asserted *a priori* that, except in very special cases (perhaps in some countries in the Southern Cone during specific periods), these are not the situations that predominate in Latin American countries; and this will for the time being significantly restrict the validity of the hypothesis formulated.

(ii) Even in any cases where evidence may have been found of a greater rise in wages than in productivity over a relatively protracted period, in keeping with what Prebisch terms 'advanced stages' of Latin American development, the question arises of the importance of this tendency in explaining inflation, and, by extension, the crisis.

As from the second half of the 1960s there is empirical evidence that in the developed countries wages have been growing faster than productivity. This tendency, reinforced by the increased tax burden and the deterioration in the terms of trade of the developed countries (aggravated from 1974 onwards by the rise in oil prices) would seem to have caused a drop in the rate of return, which, together with the perpetuation of the previous factors, would seem to lie at the root of poor economic growth in the developed countries and to constitute one of the major reasons for the persistence of inflation.¹⁴

¹⁴ See P. McCracken *et al.*, "Towards Full Employment and Price Stability", OECD, Paris, June 1977; Edward F. Denison, "The Puzzling Drop in Productivity", *The Brookings Bulletin*, vol. XV, No. 2; Leonard Silk, "Productivity and Inflation", *The New York Times*, 12 January 1979; John Wyles, "Puzzling over Productivity", *Financial*

On previous occasions, a slowing of the growth rate led to greater slack in the labour market, and this also spread to the political sphere, thus generating appropriate conditions for a subsequent boom in private investment; this would seem to be the mechanism through which the system reacts to phases where wages grow faster than productivity. It is clear that, at least up to the present, this mechanism, which in fact is one of the factors accounting for the cyclical process in the developed countries, has not produced the type of crisis to which Prebisch refers in his work, i.e., the sort which would seem to have occurred in various Latin American countries. In the case of some countries of the region, the period of social tension prior to the crisis is characterized not only by an intensification of pressure from the labour force within the limited area of the distribution struggle, but also by more profound questioning of the organization of the social system, which does not discount changes in the ownership of the means of production. Perhaps for the very reason that this comprehensive challenge does not form part of the distribution struggle in the developed countries, the machinery for adjusting the system by cyclical means does not lead to the critical situations which are characteristic of Latin America's special brand of capitalism.

As regards inflation, it seems relatively clear that the distribution struggle is an important factor, but by no means the only one. In

addition to the various structural and monetary factors which help to account for this phenomenon, a persistence of inflationary pressures has been observed in recent years in some countries where force was resorted to, and where trade-union pressure was appreciably weakened; and this would seem to confirm that the distribution struggle is part of a broad range of factors which contribute to inflation.¹⁵

(iii) In so far as the author does not specify the country cases where his analysis would apply, the impression may be left that the aim is to propose an overall explanation for the crises experienced by the various Latin American countries. However, with respect both to the causes of these crises and to the models which culminated in them, there would seem to be a variety of situations which are not strictly in keeping with the propositions set out by the author in this regard.

There are cases where industrial development is intensified after the crisis, and others where it declines. In some instances the share of wages falls, while in others this tendency does not occur; in some, again, a drastic liberalization is provoked, while in others the protectionist policy remains in force; and there are also significant differences as regards the role played by the State. We are sure that this wide variety of situations has not escaped the author, though it may possibly be that the specific area which inspires Raúl Prebisch's thinking corresponds to some of the cases where the crisis has occurred with the use of force.

4. Concerning the neoclassical theories and their application to economic policy

In his criticism of what some have termed a 'popular' version of the neoclassical theories, Prebisch concentrates attention on the inequitable distribution of the fruits of technical progress.

"First and foremost, the fruits of increased productivity are not reflected in a fall in prices

Times, 15 February 1979; William B. Franklin, "The Inflationary Threat on the Productivity Front", *Business Outlook*, 2 February 1979, p. 29; "Public Expenditure Trends", OECD, Paris, June 1978; R. Keohane, "Economic Activity, Inflation and the Role of the State", *World Politics*, Princeton University Press, 1978; Martin Feldstein and Lawrence Summers, "Is the Rate of Profit Falling?", *Brookings Papers on Economic Activity*, No. 1, 1977; Robert Eisner, "Capital Formation, Where, Why and How Much? Capital Shortage: Myth and Reality", in *Capital Formation*, vol. 67, No. 1; William D. Nordhaus, "The Falling Share of Profits", BPEA, No. 1, 1974; Charles L. Schultze, "Falling profits, rising profit margins, and the full-employment profit rate", *Brookings Papers on Economic Activity*, No. 2, 1975; Martin S. Feldstein and Michel Rothschild, "Towards an economic theory of replacement investment", *Econometrica*, vol. 42, No. 3, Evanston, Illinois, May 1974; Arthur M. Okun and George L. Perry, "Notes and Numbers on the Profits Squeeze", *Brookings Papers on Economic Activity*, No. 3, 1970.

¹⁵ Albert O. Hirschman, "The Social and Political Matrix of Inflation: Elaborations on the Latin American Experience", The Institute for Advanced Study, Princeton, New Jersey, prepared for The Brookings Project on the Politics and Sociology of Global Inflation, October 1978.

in so far as they have not been transferred to the earnings of the labour force, but remain in the hands of the owners of the means of production in the shape of a surplus."¹⁶

In his argument he therefore emphasizes the importance of power in the distribution process.

"In conclusion, the fruits of technical progress are not distributed according to marginal productivity, as is assumed in neoclassical theory, but mainly through the power of the various social groups."¹⁷

In analysing the application of the neoclassical theory to international trade, he introduces institutional aspects such as the presence of the transnationals and the behaviour of the centres *vis-à-vis* exports from the periphery, emphasizing the functionality of the present international division of labour in relation to the dominant interests both in the centre and in the periphery:

"Thus, the classical theory of international trade has scientific validity given certain assumptions, but it also served to formulate that outdated prescription for the international division of labour which accommodated dominating interests both in the centre and the periphery"¹⁸.

Queries

In the Latin American countries applying an economic policy transparently and strictly based on neoclassical theory, one may observe, in addition to the distribution problems to which Prebisch refers, serious shortcomings as regards the level of activity and the very objective of attaining an efficient and stable position in the international market. In other words, there is firstly a problem of generating the product, and secondly a problem of distributing it. In order to seek a better understanding of this situation, it may perhaps be necessary to raise the question of the validity of some of the hypotheses on which the said theory rests, the way in which its conclusions are interpreted for the purposes of devising economic policy, and

also the nature of the present international circumstances in which the developments under discussion are taking place. This task is tackled, schematically and with no claim whatever to exhaustiveness, in the following paragraphs.

(i) There appears to be general agreement in government circles in Latin America that the problem of unemployment is one of the main challenges the region will face in the coming decades. Curiously, one of the hypotheses which serve as a basis for the neoclassical formulation of the theory of international trade is precisely the existence of full employment; and its aim is to identify conditions as regards the organization of production and trade which will lead to a satisfactory solution for all countries: in other words, to identify in which activities each country should specialize so as to make full use of the "abundant factors" with which nature has endowed it. In order to reach such a position sectoral changes are needed, but it is assumed that these occur in a situation characterized by full employment. In this regard, one is struck by the surprise expressed in certain circles at the fact that the scrupulous application of the criteria derived from this theory does not lead to an appreciable increase in employment. They forget that, for the purposes of the theory, this condition is satisfied from the outset.

(ii) It is understandable that the nucleus of more advanced countries which have a common matrix of technology and help to ensure that it is constantly being developed should accept, at least at the intellectual level, the hypothesis of international trade theory which holds that competing countries have similar production functions and that, accordingly, the sole problem is to select those items in each country that make most intensive use of the factors which, in each country, are relatively more abundant. This means that none of those involved would enjoy 'absolute advantages' over the others. As a result of Leontief's famous empirical proof¹⁹ regarding the Heckscher-

¹⁶ "The neoclassical theories of economic liberalism", *op. cit.*, p. 170.

¹⁷ *Ibid.*, p. 173.

¹⁸ *Ibid.*, p. 177.

¹⁹ W. W. Leontief, "Domestic production and foreign: the American capital position re-examined", *Proceedings of the American Philosophical Society*, Philadelphia, Pa., No. 97, September 1953; W. W. Leontief, "Factor propor-

Ohlin model and the later study by Arrow, Chenery, Minhas and Solow,²⁰ as well as subsequent research on the Hecksher-Ohlin-Samuelson model when the production functions vary for the various countries, it has become clear that there is no justification for excluding the possibility that specific countries have 'absolute advantages', which would explain how, while possessing an 'abundance of capital', they are in a position to export labour-intensive products.²¹

If it is postulated that, in some Latin American countries, the disadvantages are 'absolute', the problem arises of defining the action, mechanisms and periods of time necessary for moving from this initial situation to another which combines advantages in some areas with disadvantages in others.

In David Ricardo's classic version of the theory of international trade this problem was automatically resolved through the operation of the 'quantity theory of money': under this theory the country with the 'absolute disadvantage', England, sold both wine and textiles at higher prices to Portugal, which would compensate its deficit by paying in gold; this operation would tend to raise prices in Portugal and reduce them in England, so that a time would come when the product manufactured relatively more efficiently in England would become competitive with the less efficient Portuguese product, and at that point the stage of 'relative comparative advantages' would begin.

It is difficult to imagine —though it is equally hard to exclude the possibility— that anyone could still maintain this to be the mechanism by which the countries of Latin America could move from a situation of 'absolute disadvantage' to one of 'relative disadvantage' in their commercial transactions with the United

States, the European Common Market and Japan.

So far, the real mechanism has been external borrowing, and its trends and implications suggest that the initial lag will not be eliminated by this means. There is sufficient evidence to permit the assertion that, in the absence of internal transformations, borrowing basically results in a consolidation of the prevailing distortions.²²

(iii) 'Efficiency' is a crucial concept in the 'Latin American neoclassical debate'. Its formulation ignores some empirical and everyday elements such as the decline in the flexibility of prices and wages; the general erosion of competition, and particularly competition through prices; systematic government intervention; the obsolescence of the international monetary system and, above all, of the gold standard; and also the serious imperfections in information flows.

However, perhaps the most serious omission is related to the economic policy objectives for which this concept of efficiency would be functional; in our view these objectives should be incorporated within the concept of 'efficiency'.

In order to be described as efficient, agriculture and industry would have to make a contribution through exports which, if the remaining components of the balance of payments remained constant, would make it possible to finance the volume of imports needed to reach satisfactory levels of growth in production and employment, with an 'appropriate' level for the exchange rate. These qualifications with regard to levels of dynamism and exchange rates are of fundamental importance in emphasizing that what is involved is not just any kind of 'efficiency', but an efficiency which is consistent with the overall objectives of economic policy. It is easy to give an impulse to an industrial sector that exports enough to finance the volume of imports required for a stagnant economy, or to one that substantially increases its exports of a broad range of items,

tions and the structure of American trade: further theoretical and empirical analysis", *Review of Economics and Statistics*, No. XXXVIII, Amsterdam, November 1956; "Reply", *Review of Economics and Statistics* (Supplement) No. XL, February 1958.

²⁰ K. Arrow, H. B. Chenery, B. Minhas and R. W. Solow, "Capital Labor Substitution and Economic Efficiency", *Review of Economics and Statistics*, vol. 43, August 1961.

²¹ Harry Johnson, "International Trade: Theory", in David L. Sills (ed.), *International Encyclopedia of the Social Sciences*, vol. 8, New York, Macmillan, 1968, pp. 83-95.

²² Anwar Shaikh, "On the Laws of International Exchange", Seminar on Economic Theory and Policies for Growth, Mexico City, Centro de Investigación y Docencia Económicas A. C. (CIDE), 5-9 September 1977.

on the basis of a drastic devaluation which will produce serious secondary effects in the form of inflation and concentration of income.²³

The challenge is to raise efficiency, understood here as being linked to long-term objectives. Moreover, the importance of the connection between efficiency and dynamism arises from the fact that the existence of a relationship between growth in output, productivity and technological innovations has been empirically proved.

(iv) Japan and Korea are perhaps the clearest historical examples of countries which rejected the 'popular' version of the theory of comparative advantages, 'processing' its normative criteria into dynamic terms in keeping with their own situations.

Perhaps the clearest and most direct account of Japan's industrialization after the Second World War was given by the Vice-Minister for International Trade and Industry, Y. Ojimi:

"The Ministry of International Trade and Industry decided to establish in Japan industries which require intensive employment of capital and technology, industries that in consideration of comparative costs of production should be the most inappropriate for Japan, industries such as steel, oil refining, petrochemicals, automobiles, aircraft, industrial machinery of all sorts, and electronics, including electronic computers. From a short-run, static viewpoint, encouragement of such industries would seem to conflict with economic rationalism. But, from a long-range viewpoint, these are precisely the industries where income-elasticity of demand is high, technological progress is rapid, and labour productivity rises fast. It was clear that without these industries it would be difficult to employ a population of 100 million and raise their standard of living to that of Europe and America with light industries alone; whether right or wrong, Japan had to have these heavy and chemical industries. According to Napoleon and Clausewitz, the secret of a successful strategy is the concentration of fighting power on the main battle

²³ See Ajit Singh, "North Sea Oil and the Reconstruction of U.K. Industry", a paper presented at the National Economic Conference on De-industrialization, London, Chatham House, 27 June 1978.

grounds; fortunately, owing to good luck and wisdom spawned by necessity, Japan has been able to concentrate its scant capital in strategic industries."²⁴

The extent to which this national undertaking, where participation in industry by foreign firms was minimal,²⁵ has been successful in penetrating the international market is proved by the increasingly strong reaction on the part of the United States and Europe aimed at limiting Japan's export drive. After 30 years of protection Japan subscribes to the declarations of the developed countries regarding the desirability of liberalizing world trade, but does not allow that to prevent it from curbing exports to its own domestic market, by means of non-tariff protection.²⁶

In the case of Korea, in addition to the part played by the extensive battery of economic policy instruments, the specific conditions of authoritarianism and the geopolitical situation, a decisive role was enacted by the systematic and organic liaison between the executive branch and the country's leading groups, as well as by the bold, clear-cut strategic options adopted by Korea at the sectoral level.²⁷

Korea is now embarking resolutely on production of capital goods, relying on direct support from the government and from the World Bank.

²⁴ *The Industrial Policy of Japan*, Paris, Organization for Economic Co-operation and Development, 1972, p. 15.

²⁵ Between 1964 and 1970 the share of transnational corporations in Japanese industrial output rose from 2.5% to 3.0%. See T. Ozawa, *Japan's Technological Challenge to the West, 1950-1974*, MIT Press, 1974.

²⁶ See Charles C. Hanson, "New EEC pressure on Japan to cut trade imbalance", *Financial Times*, January 1979; "The Rise of Japanese Competition", *Dollar and Sense*, January 1979; "Yusuke Kashiwagi, the supreme competitor, Bank of Tokyo's President", *Euromoney*, January 1979; "Japan Steps up its 'Invasion' of US", *U. S. News & World Report*, December 1978; Bruce Vandervort, "Japan won't meet US trade demands", *These Times*, November-December 1978; "Scaling the 'buy Japanese' Wall", *Business Week*, December 1978; Mitsuo Ikeda, "Japanese Electronic Cash Registers Score Worldwide Sales Victory", *Business Japan*, November 1978; Klaus R. Schroder, "Liberalization comes crawling in", *Euromoney*, January 1979.

²⁷ Despite what is often maintained, the involvement of foreign capital in Korean industry is relatively marginal. It has been estimated that no more than 5% of industrial assets have links with foreign capital. See Larry E. Westphal, "The Republic of Korea's Experience with Export-Led Industrial Development", World Bank Reprint Series,

It would be a mistake to think that these two elements, *selectivity and articulation*, are exclusive to Asian societies because of the latter's special features. The best demonstration of the fact that these two criteria are being actively applied in all the developed countries, with different degrees of intensity and in different forms, is the emphatic support their governments, in close co-ordination with their major firms, are currently giving to the 'micro-electronics' sector, the crucial component of the new 'industrial revolution' now in its initial stage.²⁸

The confluence of the advances achieved in telecommunications, data processing and electronics, supported by the development of microprocessors, will make it possible to introduce fundamental changes in the various phases of 'information technology', which in turn will lead to significant progress in communications, services and the capital goods and durable consumer goods industries. These changes will have a direct impact on international trade, by substantially modifying the relative positions of the different countries.²⁹

What a contrast there is between these facts and the guiding principles in force in some of the countries of the region, which lay

down that, out of respect for theory, even activities related to technological research must be subject to market laws, and that consequently applied research institutions should be self-financing. Thus in the developed countries the heresy of government intervention and the voluntarism associated with sectoral selectivity continue to prevail, whereas some Latin American countries have already entered the ethereal and abstract phase where theoretical purity alone reigns supreme.

There are so many and such varied cultural and historical differences between Japan, Korea and Latin America that the lessons derived from this experience could hardly be mechanically transplanted to our region. Consequently, these cases are mentioned only in order to bring out the fact that when analysing the process of industrialization in Latin America, it is necessary to include protectionism among the elements which define the *modus operandi* of Latin America's industrial system. Protection is undoubtedly an important aspect; but some thought must be given to the type of production it is sought to protect, the nature of the firms responsible for indiscriminate import substitution, the role played by the State, the sectors of society for which this industrialization is functional, and consistency between the nature of assimilated technical progress and the region's requirements and potentialities in terms of human and natural resources.

(v) To the above considerations must be added the international situation, as the concrete framework for the political and economic design of this experiment in the strict application of neoclassical theory.

Declarations of principle are frequently adopted in the developed countries in favour of free trade, and concerning the need to reduce protectionist barriers both in those countries themselves and in the more advanced of the developing countries;³⁰ nevertheless, they do not succeed in neutralizing pressure from the

No. 54, p. 361. As far as exports are concerned, it has been estimated that the share of foreign firms stood at 11% in 1979 and 14% in 1971. See Benjamin I. Cohen, "Comparative behaviour of foreign and domestic export firms in a developing economy", *Review of Economics and Statistics*, vol. 60, 1973, pp. 190-197.

²⁸ See Michael Mc Lean, "The Impact of the Microelectronics Industry on the Structure of the Canadian Economy", October 1979; C. G. Kean and Cullen R. Savage, "Micro-computers", Stanford Research Institute, Report 570, California, USA, 1976; W. J. King, "G. E. Microprocessors", April 1977, pp. 32-36; Dr. N. Swords-Isherwood and P. Senker in *Manufacturing Engineering*, October 1978, pp. 64-72.

²⁹ See "Competition, Technical Change and Manpower in Electronic Capital Equipment: A Study of the UK Minicomputer Industry", SPRU Occasional Paper, Series No. 8, Science Policy Research Unit, University of Sussex, September 1978; J. M. Mc Lean and H. J. Rusch, "The Impact of the Microelectronics on the UK", SPRU Occasional Paper, Series No. 7, June 1978; B. J. Pond, "A Management Guide to Computer-integrated Manufacturing", *Iron Age*, 10 April 1978; B. J. Pond, "The Road to CAD/CAM", *Iron Age*, 28 March 1977, pp. 37-44, 25 April 1977, pp. 39-44, 30 May 1977, pp. 32-37, 27 June 1977, pp. 31-34; B. J. Pond, "Machine Tools: A Time of Change", *Iron Age*, 5 December 1977.

³⁰ "In the field of international trade, the challenge is to widen the area in which the GATT's principles are applied and in which fair and open competition is maintained. To that end, one U. S. objective will be to increase the number of countries that are subject to the rules of the GATT, including notably some of the rapidly industrializing

trade unions, from small and medium-sized industry and from the regions affected by the recession and inflation which have prevailed in recent years.³¹

In the particular case of the United States, the magnitude of the external deficit has prompted the formulation of an export promotion policy,³² accompanied by protectionist pressures, whereby it is hoped to reinforce the effects associated with the devaluation of the dollar.³³

It is therefore becoming obvious that the application of policies for the promotion of industrial exports is no mean task for the Latin American countries.³⁴

In general terms, then, it can be seen that the countries of the region are simultaneously facing problems such as the promotion of exports from the developed countries; pressures for a reduction in protection; and tendencies towards the granting of more and more facilities for direct investment. Although it may appear paradoxical, it is precisely in this context that particular force is acquired by the criti-

cisms of Latin American industrialization which call for the elimination of protection and stress the need to reduce to a minimum the 'interference' associated with government action.

5. Concerning the proposal in "Towards a theory of change"

In Prebisch's proposal two levels of abstraction may be distinguished. The first relates to the nature and fundamental objectives of the proposal, while the second refers to its specific content in the economic area.

As far as the nature of the proposal is concerned, its essential objectives are the restoration of political liberalism, equity and growth, with emphasis on the concerns and aspirations of that specific regional conglomerate which is known as Latin America. The task is "to combine vigorous development, distributional equity and the advance and consolidation of the democratic process".³⁵

The core of the proposal appears to lie in what the author calls the 'social use of the surplus': "The new option for the transformation of the system is based on the *social use of the surplus*, taking it from in whose hands most of the means of production are concentrated. Its purpose is to attack the major evils of the system by collective discipline *in distribution and accumulation*".³⁶

This proposition, which is strictly consistent with the interpretation already advanced by the author in the articles previously commented upon, focuses attention on the process of distribution of the surplus and its use for the purposes of growth, postponing for consideration in subsequent studies the issue of the level and structure of the surplus generated.

The proposal, which strictly speaking takes the form of a call for reflection, self-criticism and seeking a consensus of the majority, might, because of the objectives pursued, arouse the attention and interest of broad sectors of society. Perhaps the only groups that would stand aloof from this consensus would

countries that have become major factors in world markets." W. Michael Blumenthal "Steering in crowded waters", *Foreign Affairs*, vol. 56, No. 4, July 1978, p. 739.

³¹ For an important academic challenge to the liberalization approach, which comes from a developed country with a weak relative position in international trade, see Francis Cripps and Wynne Godley, "Control of imports as a means to full employment and the expansion of world trade: the UK's case", *Cambridge Journal of Economics*, No. 2, 1978, pp. 327-334; Francis Cripps, "Causes of growth and recession in world trade", *Economic Policy Review*, No. 4, March 1978; and Francis Cripps, "The money supply, wages and inflation", *Cambridge Journal of Economics*, No. 1, 1977, pp. 101-102. Trade union opposition is expressed as follows: "The problem of a greater rise in imports than in exports during the 1970s has modified the trade union attitude to trade". This new position is stated in the basically protectionist programme adopted by the AFL-CIO Executive Council. See *American Federationist*, July 1978.

³² See "US President's Statement on Export Policy", Department of State, 26 September 1978.

³³ See, for example, "US trade policy and the textile industry", *National Journal*, 10 June 1978, which describes the protectionist platform of the textile sector.

³⁴ "The scope for the growth of exports from developing to industrialized countries is likely to be much more limited for the next decade than it was in the last two. The main reasons for this are the faltering pace of economic recovery in the industrialized countries and the rise of protectionist pressures." *World Development Report 1978*, Washington, D. C., World Bank, 1978, p. 66.

³⁵ "Towards a theory of change", *op. cit.*

³⁶ *Ibid.*

be the small but powerful sectors which would be affected by this "collective discipline in distribution and accumulation". The author maintains that "part of the surplus of the major enterprises will be redistributed to the disadvantaged labour force. And this will make it possible for the private and social consumption of the latter sector to increase at the expense of privileged consumption".³⁷

As regards the specific meaning of the discipline of accumulation, it is "designed to raise the rate of accumulation substantially and equitably. In order to achieve this aim all enterprises would have to increase the amount of the surplus devoted to accumulation at the expense of consumption on the part of the owners of the means of production".³⁸

Queries

In respect of its specific economic content, the proposal is somewhat opaque. It is not clear what approach would be adopted to a number of issues to which the author himself attributes great importance in the interpretation which forms the background of the proposal:

(i) The 'imitative' character which would appear to be associated with specific patterns of consumption, and accordingly with the structure of production and the presence of transnational corporations, is a subject which is not explicitly introduced into the proposal. If this

means that the imitative character in question would remain unchanged, it would be interesting to see the consequent repercussions on the model proposed; if, on the other hand, the imitative character is to be modified, no indication is given of how this might be achieved;

(ii) Nor is it specified what mechanism would be used to attain the objective of converting the 'socialized' surplus into accumulation. One can imagine the direct effect of this redistribution on the equity objective, but the feasibility of simultaneously fulfilling the aim of stepping up accumulation is less clear;

(iii) In the interpretation of the present model, the author emphasizes the decisive importance of subordination to the centres in the operation of 'peripheral capitalism'. If this hypothesis is accepted, it would appear natural to question what would be the effects of this 'socialization of the surplus' on the position of the countries of the region in the world economy.

We understand that Raúl Prebisch's purpose—as he states himself in the concluding pages of his latest articles—is to help to stimulate thought and discussion rather than to supply a finished product whose specific technical aspects meet strict standards. We consider that, both because of his contribution to interpretation, and because of the nature of the normative proposal, the author has fully achieved his object. The brief comments outlined here are precisely a formulation of the moot points on which reflection is prompted by the articles concerned.

³⁷ *Ibid.*

³⁸ *Ibid.*