

# CEPAL

## Review

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## Notes and Comments

### Two statements from La Paz: Raúl Prebisch and Gabriel Valdés\*

#### *Address by Raúl Prebisch*

Decidedly, I cannot escape from the infectious enthusiasm of Enrique Iglesias. He put me in charge of his Review, he invites me to seminars, and now he has brought me to this meeting, where I have the honour to be addressing you.

Seriously, however, I find this all very gratifying, and I give thanks to Enrique Iglesias for it, since I could not have resigned myself to withdrawing to some twilight corner, there to be covered by the dust of ages, or at any rate not yet, for changes of great significance are taking place which I am striving to interpret, and from which I am seeking to draw lessons and guidance.

I wonder whether we are not approaching the end of an era, in which we cherished illusions which are now vanishing. I should like to comment here on three of these:

— The illusion that here in the peripheral countries we could develop in the image and likeness of the major industrial centres;

— The illusion of the monetary arrangements of Bretton Woods; and

— The illusion of the supreme regulatory role of the market forces.

It was the impressive technical progress of the centres which fostered the first of these illusions. However, technology possesses certain inescapable demands. It rapidly brings ever higher productivity. But for technology to be able to penetrate deeply into the social structure it is essential that a considerable part of the fruits of this rising productivity should be devoted to boosting the accumulation of reproductive capital, both in the training of people and in physical assets.

This is the first requirement, which we are certainly not satisfying properly in Latin America. The second is that this productivity must be genuine, and not obtained at the expense of the environment and the irrational exploitation of non-renewable natural resources. Obviously, here again we are not fulfilling this requirement to the extent that would be desirable.

I should like to pause briefly on this question of the accumulation of capital. Our countries have already shown an outstanding capacity to adopt new technology, without which it would have been impossible to attain our unusually high rates of development, but we have been squandering much of the potential for capital accumulation which accompanies this rising productivity.

\*Addresses delivered at the eighteenth session of CEPAL in La Paz, April 1979. Dr. Prebisch is Director of CEPAL Review, and Gabriel Valdés is Regional Director of UNDP.

This potential is being squandered through the privileged consumer society and through certain forms of siphoning off income from the periphery which reflect the hegemony of the industrial centres and their technical and economic superiority.

The consumer society is based on the great social inequalities of development. The fruits of technical progress are concentrated above all in the upper strata of the social structure, where the life-styles of the centres are increasingly—in some cases one might even say frenziedly—imitated. These excesses of privileged consumption make it impossible to accumulate capital to the degree which would be possible and indeed essential in order to absorb at increasingly high levels of productivity and income the broad masses of the population still relegated to the bottom of the social structure. This is a stubborn feature of development of which the Executive Secretary has spoken with moving eloquence.

Let us not deceive ourselves. However much we are now told from the Northern hemisphere, sometimes in surprisingly simplistic terms, that poverty must be eliminated, we will not be able to get to the roots of this problem without a frontal attack on the privileged consumer society, whose continued evolution is incompatible, absolutely irreconcilable, with the social integration of the lower strata of society.

The privileged consumer society is the clear result of the desire to develop in the image and likeness of the centres. Yes, I know we have indeed succeeded in doing so, sometimes very vigorously, but the development has been limited to a restricted social circle. It is a socially exclusive form of development. Furthermore, with the passage of time conflictive elements arise which fuel the inflationary spiral when the process of democratization progresses in a relatively unrestricted manner, and this kind of inflation cannot be treated by the traditional monetary remedies.

Such is the outcome of this capitalism which, in its thirst to imitate, is far from austere. Neither austere, nor authentic—nor autonomous!

The fact is that the centres are intimately linked with the privileged consumer society, above all through their transnational corporations, and they play their cards in such a way as to favour this kind of development. They exalt the consumer society, while at the same time shedding crocodile tears over the social injustice of this system.

The centres show a really incongruous attitude, since they stubbornly resist trade and financial co-operation measures which would favour development and alleviate external vulnerability and which, with some adjustments, could also be very effective in transforming the system.

I can understand that in their present critical cir-

cumstances the centres choose to ignore the periphery, but neither did they show any great interest in its problems during the long years of prosperity prior to 1973.

In the periphery we are drifting in the wake of events and cannot seem to make up our minds to launch a resolute assault on the major problems of development. I do not believe that the centres will basically change their attitude until they get over their present major upheavals. What can we do, then?

The answer is that there is a great deal we can do, and it includes actions of great importance. The periphery must wake up to its great possibilities for action. It must wake up to the vast potential for capital formation which it has within itself if only it would clamp down on the privileged consumer society. It must wake up to the fact that it has immense possibilities for reciprocal trade to halt the ingrained tendencies towards external imbalance now re-emerging owing to the recession in the centres and the increase in oil prices.

These are possibilities which must be seized in a determined manner, because however much the growth capability of the centres is restored we could not think of unloading on them all the industrial exports which our development inevitably requires.

I am not, of course, one of those who favour delinking from the centres. Quite the contrary. I am only laying heavy stress on our countries' own responsibilities. Far from evading them, I consider that despite the urgent problems which occupy the attention of both North and South, we could be building up a common strategy to solve the great common problem of development.

Perhaps the most positive result of three decades of international discussion has been the recognition that development is a common problem. We have not, however, been able to reach agreement on this common strategy, which would be one of converging measures by developing countries and capitalist and socialist developed countries; a common strategy in which the centres would progressively liberalize their imports from the peripheral countries, in conjunction with measures to liberalize reciprocal trade between the latter countries; a common strategy in which large-scale financial co-operation commitments by the centres should be combined with commitments to mobilize the domestic resources of our countries, all of which would transform—perhaps beyond all recognition—the present type of development in the image and likeness of the centres.

Neither in this nor in other regards am I departing from the idea of the New International Economic Order. I am the very last person who would do so! I am only recommending a joint set of efforts which would be carried out gradually, but whose objectives would be agreed upon as of now—efforts requiring the union of the political will of the centres and the political will of the periphery.

I do not believe that the present monetary upheavals should delay us from concerting this overall strategy. Let us not forget that in the very midst of the Second World War, major measures were conceived for reordering the world's economy.

Among those measures were the Bretton Woods agreements, which played an important role in a now fading era. This brings us to our second disappointment.

Let us not be prejudiced against those who planned the new system. It is really very difficult to conceive of any international monetary system if one of the member countries has the possibility of fostering international inflation.

We are witnessing with mingled anxiety and hope President Carter's tenacious effort to correct the fiscal deficit, which together with the rise in the price of oil is the most important factor in this process. He is striving to close the gap through which an extraordinary amount of international liquidity has flowed: a process witnessed at first with satisfaction by the whole world but subsequently with increasing concern because of the serious disruptions accompanying it. Until the origin of such disruptions is eliminated, the reluctance of countries with large external surpluses to expand their economies is understandable: it would be like watering the garden in a rainstorm!

The situation is clearly understood, I would say, but unfortunately when attempts are made to use a restrictive monetary policy to correct the domestic consequences of inflation of fiscal origin, or its impact on other countries, economic recession with huge loss of income becomes inevitable.

To attack the fiscal origin of world inflation is therefore essential, although this alone is not sufficient to develop a clearly defined expansive policy for the benefit of both the centres and the periphery.

All this will also clear the way for a new international monetary régime which can no longer be based on the currency of a single country, particularly if it is of great international importance.

The periphery's interest in solving this problem is very clear. Its interest is in a healthy monetary system in which the cautious creation of international money, strictly in relation to exchange requirements, can be linked with development financing. This link was rejected by the centres—with some exceptions—because they said it would prove inflationary! What tragic irony of events: there has been no link, but there *has* been inflation!

Finally, I would like to refer to that other illusion which is evaporating: the regulatory role of market forces. No one believes any longer in the spontaneous effectiveness of these forces for correcting the adverse effects of ambivalent techniques, although some governments still believe in their effectiveness in domestic development.

I hasten to state right away that the market forces have great economic and also political importance. If they are to operate efficiently, however, it is necessary to correct the adverse consequences of the penetration of the technology and other propagating phenomena of the centres into a peripheral social structure fundamentally different from their own. A big differentiation must be drawn between the market with its underlying structure and the power relations which derive from it and which influence so strongly the unequal distribution of income and insufficient capital formation. I would not hesitate to say that with suitable discipline over accumulation and distribution the market could become a most efficient technical instrument.

Similar observations may be made regarding the great structural differences between the centres and the periphery which likewise distort the play of the market forces at

the international level. In this connexion, I should simply like to mention one important example, that of basic commodities. While the stabilization plans were being discussed in the UNCTAD meeting in Nairobi, Dr. Kissinger unexpectedly floated his proposal for a natural resources bank. I was inclined to see in his attitude a sign of a change of policy or perhaps of recognition of the need for convergent measures: to stimulate production and ensure regular supplies to the centres, on the one hand, and on the other to offer the periphery a stable and advantageous basis for developing their activities. In other words, to provide a long-term framework in which the forces of the market would operate. A short time after, however, —now away from the State Department— the same Dr. Kissinger declared to United States businessmen that the aim was to obtain basic commodities from the periphery at low prices for the centres. And to think that there are still people who deny that under the laws of the market the benefits of technical progress in the periphery tend to be transferred to the centres!

All this should be part of the world strategy, the strategy of common responsibilities and mutual commitments, to which I have already referred. This does not involve merely a new formula, but calls for a fundamental change in attitudes in the centres and the peripheral countries. Both are failing to take advantage of the imponderable promise of technology. We have become bogged down in detail. We must raise our sights boldly so as to embrace in wider-ranging perspective the great promise of technology —the possibility of extending human well-being to the great masses who are still at the bottom of the social structure.

A prospect which has never before presented itself in the development of mankind has become attainable. It is within our reach if we succeed in linking arms in a common venture: an immense venture in human welfare and —let it not be forgotten in these times— a venture in human dignity.

### *Statement by Gabriel Valdés*

I have great pleasure in conveying to the Economic Commission for Latin America at its eighteenth session the most cordial greetings of the Administrator of the United Nations Development Programme and his best wishes for the success of its deliberations.

I wish, first and foremost, to state with great satisfaction that our co-operation with CEPAL has continued to improve and expand during the past two years, reaching what I consider to be an exemplary level of relations between two institutions of the United Nations system. Thus, it has been possible, on the one hand, to meet the requirements specified by the countries themselves at the CEPAL session in Guatemala City and, on the other, to benefit from that co-operation through a continuing exchange of knowledge and experience.

Since the Commission's last session, and in accordance with its recommendations, full agreement has been reached concerning UNDP's participation in the financing of the new structure of the Latin American Institute for

Economic and Social Planning (ILPES), which is thus initiating a new and promising phase of activities under the direction of the distinguished economist, Mr. Jorge Méndez. Our co-operation with CEPAL has grown. In 1979, UNDP will contribute over US\$ 2,500,000 for regional projects requested by member countries and executed by the Commission. These activities are being carried out in various fields, apart from those covered by ILPES itself, as, for example, those related with the implications for Latin America of the situation of the international monetary and financial system, critical poverty in Latin America, trade with socialist countries, the situation and prospects as regard the production of and requirements for capital goods, education and development in the region, and the creation of technology in the manufacturing sector. Several of these activities are also carried on in close co-operation with other agencies of the United Nations system. I might also mention that we shall soon be initiating activities relating to the rural sector, which will merit special attention.

In the process of the restructuring of the United Nations system, the General Assembly decided that the regional commissions should participate actively in establishing priorities for the assignment of UNDP's regional resources. I may say with some satisfaction that both the first cycle 1971-1976 and the second cycle 1977-1981 were programmed with particular attention to the criteria expressed at the successive sessions of the regional Commission and other intergovernmental organs, and in co-ordination with the specialized agencies as regards the definition of specific fields. We are now preparing to implement this General Assembly decision as efficiently as possible for the next cycle.

We await with keen interest the resolutions that will be adopted here, so that we may know the governments' priority criteria in the field of international co-operation.

The report submitted at this session and the brilliant and comprehensive statement by the Executive Secretary, Mr. Enrique Iglesias, have given a clear picture of the region's economic situation, in a manner which will give rise to a rich and wide-ranging discussion. This is an essential function of the regional commissions within the United Nations system. With intellectual independence and a critical and realistic approach, they are called upon to indicate both positive and negative development situations and to ascertain the fulfilment of the mandates and resolutions emanating from international meetings and conferences, or the gap between them and the specific action and situations actually found in the various countries, and thus to suggest lines of action for consolidating peace through a new, fairer and more stable international order, solving the general problems affecting the region, and helping to increase intra- and extra-regional co-operation. From the angle of international co-operation and the broad topics of concern to the United Nations, I feel it is appropriate to set forth some reflections about certain trends observed in the region during the past decade and their projection for the future. Three broad lines may be identified in this projection, no longer as hypothetical scenarios but as imminent realities if voluntary political measures to modify their course are not adopted. First,