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Social use of the surplus, accumulation, distribution and employment

Armando Di Filippo*

This article explores the structural heterogeneity and the insufficient dynamism of Latin American societies, with special reference to the use they have chiefly made of the surplus. It postulates that the global surplus represents a very high proportion of income, but the pace and orientations of accumulation do not suffice to redeem the labour force subsisting in the lower strata from the depths of intolerable poverty. As a counterpart, over-consumption of the surplus increases social inequalities, and promotes the imitation of life styles—proper to the centres—which correspond to much higher levels of productivity and income.

The first section recapitulates these ideas, which are, of course, nothing new in ECLA thinking. In the second and fourth sections an attempt is made to provide a minimum analytical base for the foregoing theses, founded on well-known propositions of the contemporary theory of growth. The third section offers a synthesis of some recent contributions published in this same Review, relating to the "real" role of monetary variables in the social struggle for the appropriation of the surplus.

The fifth section presents two typical and contrasting situations with respect to the ethic underlying the accumulation process. In the last section a minimal frame of reference for the study is sketched from a broader standpoint; this is indispensable for an adequate appraisal of development and development styles in peripheral societies.

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Introduction

In Latin America the accumulation process has not managed to achieve either the pace or the patterns required to generate jobs of sufficient productivity, at a rate that would make it possible to do away with structural heterogeneity. Structural heterogeneity can be thought of as the coexistence of forms of production and social relations—of ownership, labour and trade—pertaining to different phases in the history of peripheral development, but interacting within politically unified national societies. The historical roots of structural heterogeneity stretch back, in Latin America's case, to the region's colonial past and its subsequent peripheral insertion in the international capitalist order (Pinto, 1965 and 1970).

This does not mean that the rate of absorption of manpower in the higher strata of productivity has been slow. On the contrary, it has been very swift, but nevertheless not swift enough. The insufficient dynamism of Latin American development has subsisted notwithstanding an accumulation process which, having created higher-productivity jobs at a very rapid rate, has acquired neither the tempo nor the modalities necessary for the gradual eradication, in reasonable periods of time, of underemployment and critical poverty (García, 1982 and Tokman, 1982).

An underlying potential in the economic system for still further speeding up its rate of accumulation and of creation of employment opportunities exists in Latin America, where the functional distribution of income determines a ratio between global surplus and wages and salaries far higher than that existing in the central economies. But the social use of that surplus has developed a bias towards patterns of consumption—imitative of those prevalent in the centres—which are not in keeping with the average levels of labour productivity attained by our peripheral societies. Hence derives a process of accumulation whose rate is insufficient—high though it is compared with that recorded in the centres—and whose orientation is undesirably slanted towards non-reproductive forms of capital (Prebisch, 1981 and 1982).

The aim of the present article is to provide a minimum analytical and conceptual basis for these ideas. In the first place, a study is made of the concept of structural heterogeneity, dis-
tinguishing between its technological and its economic significance. The incidence of the unsatisfactory social use of the surplus in our peripheral societies upon their insufficient dynamism is likewise brought into prominence.

For the purposes of an analytical sketch of these ideas, which have long been fostered by ECLAC, the classic concept of the economic surplus is introduced and economic development is characterized as a systematic increase in the average productivity of human labour.

As is common knowledge, the concept of economic surplus — understood as that part of the social product which is not appropriated by the labour force that has directly generated it — has been attacked by the neoclassical marginalist school of thought and superseded by the theory of marginal productivity. The old political economy tradition, however, has also been taken up by the contemporary theory of growth. ECLAC's conceptions can be comfortably fitted into the analytical framework of these ideas that were launched by Ricardo and further developed by Marx, Kalecki, Keynes, Robinson, Harrod, Domar, Kaldor and Pasinetti.

The effort made here to construct such a theoretical framework is precarious and inadequate. It must be interpreted as an invitation to any who, better equipped for the task, can continue it in the future. Even so — with all its shortcomings — this conceptual recapitulation affords an opportunity to stress how far removed are the ideas of ECLAC — and of those economists who have decisively contributed to the forging of its lines of thought — from the neoclassical conceptions associated with the theory of marginal productivity.

This theory, conceived in conditions of stable general equilibrium and perfect competition, is the pith and marrow of the neoclassical recommendations on wage and employment policy. Setting aside the classical and Marxist concept of a subsistence wage, the neoclassical approach suggests that over the short term unemployment is attributable to institutional barriers which prevent wages from dropping to their 'equilibrium' level equivalent to the marginal productivity of labour. These issues have been debated at great length since the time of Keynes in so far as the causes of unemployment are concerned, and since much farther back still in the history of ideas, as regards the legitimacy of remunerations of the capital factor. This is not the place to attempt a fresh review of those bygone controversies; the aim here is simply to bring to the fore two important 'social functions' of a frankly ideological character which are performed by the theory of marginal productivity: that of legitimizing remunerations of capital and that of laying the blame for the existence of unemployment on institutional rigidities which push up wages.

But the theory of marginal productivity also looms up as a conceptual barrier to a proper understanding of the economic development process, inasmuch as it distorts the concepts of capital and labour to make them 'fit' into a 'good behaviour' production function.

Consequently, it will be as well to give a categorical warning that in this study the concept of marginal productivity in its neoclassical sense is totally meaningless.

The guiding thread of our conceptual recapitulation is the productive capacity of human labour, the increase in which, century by century, has been, since the dawn of civilization, the cornerstone of economic development. We shall reinstate the idea of the surplus, which acquires an economically precise significance in contemporary capitalist societies. We shall distinguish between the means of production and the capital that is a power exercised in the markets for the said means of production, which become capital goods when purchased by the capitalist.¹ In this context capital is envisaged as a social form of power objectified and measured through the possession and use of money. Capital as a 'factor of production' cannot be apprehended as such in the technological sphere proper. At least it cannot from a macroeconomic viewpoint, where the concept of productivity of capital is lacking in any precise technological significance.

On the basis of these preliminary considerations we shall attempt in what follows to take as a guiding thread the productive capacity of human labour and to discuss the social forms of its utilization and appropriation in capitalist societies.

¹For a more detailed examination of this concept of capital — of Schumpeterian origin — see Armando Di Filippo (1980).
I

Structural heterogeneity and insufficiency of dynamism in peripheral societies

The structural heterogeneity of peripheral societies derives from the heavily slanted and uncertain penetration of the production processes and social relations which accompany capitalist development. In simpler terms, it is an expression of the unequal and precarious diffusion of the economic and social patterns of capitalist development as it takes place in the centres.

We have said that an essential feature of economic development is a systematic and recurrent increase in the productivity of labour. Economic theory—both liberal and Marxist—assumes that any technological innovation is prone to spread through all the enterprises in a given branch of production, thus promoting the homogenization of their production processes, and the attainment of relatively analogous internal levels of productivity.

In the following exposition of the economic and social forms taken by structural heterogeneity, which belie this supposed tendency towards homogenization of the productivity of labour within each branch of activity, a distinction will be drawn between the technical and economic expressions of labour productivity (Pinto, 1965).

Taking any branch of production, we can divide its total value added (V) in a specific period by the total number of workers employed in it (T), and obtain the expression $\frac{V}{T}$, which represents the economic manifestation of labour productivity. The value added expresses the difference between the sales price (p) and the unit cost (c_m) of intermediate inputs, multiplied by the quantity of units sold in the period (Q), all this being divided by the number of workers employed (T).

$$\frac{V}{T} = (p - c_m) \times \frac{Q}{T}$$

This expression enables us to distinguish, within each branch of production between the technical expression of the average productivity of labour ($\frac{Q}{T}$) and its economic expression ($\frac{V}{T}$).

The technical expression of labour productivity within each branch of production can be measured in physical units, and is comparable only with another unit of production in the same branch making similar products. Underlying the technical inequalities in productivity is the purchasing power of capital at the disposal of the different entrepreneurs, since this determines their real possibilities of modernizing their efficiency and stepping up the average productivity of labour.

From this angle a distinction could be drawn between at least three technological strata within many branches of production: the "modern" stratum, utilizing productive techniques which are current in the developed capitalist centres and whose introduction into the Latin American economies is often attributable to the dynamics of transnational capital; the "intermediate" stratum, by which is meant not only a mere statistical category, but also the real referent of those processes of production which, being proper to industrial societies, have become obsolete in the centres; and, lastly, a lower stratum characterized by the pre-industrial (and even, in some cases, pre-Columbian) nature of its production techniques.

But the differences in productivity mentioned hitherto are purely technological; to obtain their economic expression each unit produced must be weighted by the value added that it acquired in each phase of the production process. This value added, as we have said, is equal to the difference between the unit price of the product and the cost of the intermediate inputs needed for processing each unit (p - c_m), and expresses the value of the profit made plus the remunerations paid to the owners of the other factors of production.

From another standpoint, this difference reflects the bargaining power of enterprises in the supply and demand markets. To revert to the technological categorization in three strata, enterprises belonging to the technologically modern stratum, inasmuch as their operations are often on a large scale, usually hold monopolistic posi-
tions in the markets where their products are on supply and monopsonic positions in the markets to which they take their demand for inputs. Thus, their monopsonic positions deriving from the substantial weight carried by their demand for intermediate inputs enable them to reduce the cost of their inputs and raw materials. Consequently, their economic productivity is high not only because their technical productivity is high likewise, but also because their power in the market enables them to maximize the relation \( p \cdot c_m \) on which the value added per unit of output depends. The technologically intermediate production units lack the market power shown by the modern enterprises, and take up comparatively narrow "market tracks", adapting themselves to the price levels fixed by the large-scale and high-productivity modern enterprises, and unable to benefit to the same extent as the latter by the lower costs of the inputs they require. Enterprises in the pre-industrial technological stratum are not, strictly speaking, capitalist enterprises at all, since their aim is generally subsistence rather than profit and accumulation. They take advantage of the market 'loopholes' which are not occupied by the capitalist enterprises. Their economic productivity is minimal not only for technical reasons, but also because of their disadvantageous insertion in the supply and demand markets where they offer their products and obtain their inputs. In trade, they are a puny appendix to the other strata, whose products they retail. In agriculture, alongside modern farms, there is still a peasant sector, of considerable size in some countries, where definitely precapitalist production techniques and social relations survive.

We have attempted to illustrate schematically how it is that the heterogeneity of productivity is due not only to the positions of enterprises as regards productive capacity in the purely technological sphere, but also to their purchasing power positions in the sphere that can more properly be termed economic. These latter positions are obviously influenced by the institutional regimes that regulate the ownership of capital and enterprises and the more or less monopolistic and oligopolistic conditions prevailing in the markets for products or inputs.

Thus, within each branch of production, labour productivity is an average which conceals significant internal disparities, originating both in unequal absorption of technical progress, and in unequal insertion in the régimes that regulate control of capital and trade in inputs and outputs.

Within the three-fold stratification that we have proposed as a heuristic device, it is the enterprises in the technologically modern stratum that are in a position to pay the highest average wages, precisely because their levels of economic productivity are so high.

In addition to their position in the stratification of productivity per worker the bargaining capacity of wage-earners in the modern stratum is particularly good, owing to their educational levels, to the better internal organization of their trade unions, to the more generous financing they can provide for economic, legal and financial advisory assistance, to the consequent professionalization — and bureaucratization — of their representatives, and so forth.

From a dynamic point of view, however, the rate of increase of average wages in the modern sector does not need to keep pace with that of labour productivity to enable employers to preempt the more skilled manpower, since the supply of workers at pre-existing wages already far exceeds demand.\(^2\)

In the stratum which, by reason of its levels of labour productivity, we have called intermediate, levels of technical and economic productivity are not sufficiently high for it to match the wage levels prevailing in the modern sector. The abundant supply of manpower also exerts a downward pressure on wages.

In the pre-industrial or subsistence strata the minimal level of technical and economic productivity represents an objective ceiling for the income of the labour force subsisting in conditions of structural poverty (Di Filippo, 1981).

Economic development is generated by the superimposition of technical layers in which

\(^2\) Larger-scale and higher-productivity enterprises also need, to a variable extent, unskilled or almost unskilled workers. They help to generate the average productivity of the enterprise, but the rates of increase of their wages are far below those of the productivity in question, although they are higher than the average wage earned by workers whose level of skills is the same but who are employed in smaller-scale and lower-productivity enterprises.
labour productivity and efficiency are higher upon the pre-existing technical layers. In the course of this process, as it tends to work out in the centres, the lower-productivity and less efficient technical layers gradually disappear, and the manpower previously employed in them moves up into higher-productivity strata.

The root cause of the insufficient dynamism of Latin American development lies in the fact that the lower-productivity strata do not disappear in the course of peripheral development, but continue to exist and to harbour significant percentages of the total labour force. This process of insufficient absorption is the dynamic counterpart of the structural heterogeneity of the economic system and the basic framework which accounts for the persistence of critical poverty in the region.

The insufficient dynamism is also due to the inadequate rate and inappropriate orientation of the capital accumulation process. The rate of capital accumulation is inadequate —although not necessarily slow— because an over-large proportion of the global surplus is used for unproductive consumption. The orientation of capital accumulation is inappropriate —for the purposes of remediying the insufficiency of dynamism— because the concentrated distribution of income disposable for consumption fosters the imitative introduction of the centres' patterns of consumption, which correspond to economies with far higher levels of average labour productivity (Prebisch, 1981).

If too big a fraction of the global surplus is used for consumption, this does not mean that the global surplus is small, or that its growth rate is not sufficiently dynamic. In reality, in the peripheral economies the surplus per worker follows a quite rapid upward trend.

What is important is that the global surplus be used in such a way as to raise the rate of increase of accumulation and redirect its course towards reproductive applications that will be beneficial to development (Prebisch, 1981).

II

Surplus and profit in the theory of growth

In the 1930s Keynes (1945) challenged the neoclassical paradigm of stable general equilibrium exploring situations of shortfall in effective demand which were reflected in over-saving in relation to the investment planned. For the neoclassical school such a situation was theoretically "unthinkable" because there would always be a rate of interest capable of levelling up the amounts saved and invested. Keynes retorted with his consumption function —dependent upon income— and considered saving too to be primarily dependent upon income. Thus he formulated his concept of the multiplier, according to which the magnitude of income growth was established as a function of the growth of investment equivalent to the inverse of the marginal propensity to save.

\[
dY = \frac{dY}{b} \cdot \frac{1}{b}
\]

where:

\( dY \) = income growth;

\( dl \) = growth of effective demand for investment goods;

\( b \) = saving/income coefficient.

This short-term Keynesian view from the demand side was analysed and enriched by Domar (1966), who brought out the fact that, on the supply side, investment was creative of new productive capacity, such that:

\[
dP = dK \cdot \frac{1}{k}
\]

where:

\( dP \) = growth of the production capacity of the economy;

\( dK \) = growth of capital, or investment \( dK = I \);

\( k \) = incremental capital/output ratio.

Over the long term, macroeconomic equilibrium with adequate utilization of production capacity required that —starting from an initial situation of equilibrium—the growth rate of investment should be such as to enable production
capacity to increase pari passu with effective demand. Consequently, if \( dP = dY \), then:

\[
\frac{dI}{I} = \frac{b}{k}
\]

Investment should increase at a rate equal to the quotient of the propensity to save and the incremental capital/output ratio. Domar, like Keynes before him, again challenged the paradigm of stable general equilibrium, asserting that the system lacked self-regulating mechanisms which would guarantee a satisfactory growth rate of investment.

The long-term avenue of approach opened up by Domar was subsequently explored by Harrod (1966), who warned that full utilization of production capacity did not guarantee full employment of the labour force. Thus he introduced the concept of a "natural" growth rate, i.e., the highest sustainable rate that technical conditions allow the system to reach:

\[
g_n = \frac{da}{a} + \frac{dT}{T}
\]

where:

- \( g_n \) = "natural" growth rate of output;
- \( \frac{da}{a} \) = growth rate of average labour productivity;
- \( \frac{dT}{T} \) = growth rate of the labour force.

It should be recalled that Domar's equation represented a condition of equilibrium, in accordance with which the system could achieve stable expansion, the growth rates of all variables becoming equal and both the average and the incremental capital/output ratio being stabilized. Consequently, in Domar's view, in a state of equilibrium the growth rate of output was the same as that of investment. It should not be forgotten, however, that this equilibrium was not based on the existence of supposed automatic regulatory tendencies in the economic system.

Harrod's equation also introduced an additional condition: to preserve full employment of the labour force it was necessary for output to increase at a rate \( (g_n) \) equal to the sum of the growth rates of the manpower supply and of labour productivity.

Thus a new and more complex condition for equilibrium was introduced:

\[
g_n = \frac{b}{k} \text{ or likewise } b = g_n \cdot k
\]

If what is desired is long-term equilibrium with full utilization of production capacity and of the labour force, the propensity to save (both incremental and average) must be equivalent to the natural growth rate multiplied by the capital/output ratio.

This is a very rigid relation because each of the three variables considered is determined by different causes, and there is no self-regulatory mechanism in the system to ensure fulfillment of the condition of equilibrium. Once again this relation calls in question automatic tendencies towards stable equilibrium.

The neoclassical marginalist school of thought has attempted to make the foregoing equation more flexible, by interpreting the incremental capital/output ratio as the inverse of the marginal productivity of capital. Thus, using production functions of the Cobb-Douglas type, it based its conception of adjustment on the assumption of variations in the marginal productivity of capital. Solow (1966), for example, explored this alternative, including a large number of 'heroic' assumptions which Harrod and Domar did not require. Thus, the neoclastic marginalist school tried to 'phagocytize' this line of thought and eliminate its irritant heterodoxy.

The Cambridge legates of the classical tradition, however, chose a second path. Deviating from the artificial assumptions inherent in the operation of a no less artificial macroeconomic production function, they resorted to their most authentic theoretical genealogy.

Kaldor (1966) reinstates the concept of the surplus—which he calls profits—and makes a dichotomic division of income (Y) into wages (S) and profits or surplus (E).

Total saving then appears as the sum of the saving of wage-earners (A_s) and of the recipients of the surplus (A_e).

\[
A = A_s + A_e = b_s \cdot S + b_e \cdot E
\]

in which \( b_s \) and \( b_e \) are the respective savings coefficients of wage-earners and of the recipients of the surplus.

In a line of argument already explored by Kalecki, Kaldor introduces the assumption—classical and Marxist—that workers do not save, therefore:
A = b_e \cdot \frac{E}{Y}

whereby the savings coefficient becomes a function of the functional distribution of income between wages and surplus.

\[ b = \frac{A}{Y} = b_e \cdot \frac{E}{Y} \]

Substituting this magnitude in the Harrod and Domar equation we get:

\[ b_e \cdot \frac{E}{Y} = g_n \cdot k \]

If \( k \) is an incremental and average capital/output ratio such that in a situation of long-term equilibrium:

\[ k = \frac{dK}{dP} = \frac{K}{P} \]

then:

\[ b_e \cdot \frac{E}{Y} = g_n \cdot \frac{K}{P} \]

Since in equilibrium output, income and effective demand are equal (\( P = Y \), the result is:

\[ \frac{E}{K} = \frac{1}{b_e} \cdot g_n \]

generally known as the Cambridge equation.\(^3\)

The neoclassicals would repudiate this argument. They would say that profit is not a surplus nor is it derived from growth; that in conditions of equilibrium, profit is simply a remuneration equivalent to the marginal productivity of capital and that an increase in the average productivity of labour can only generate exceptional and temporary profits, which are incompatible with the general equilibrium of perfect markets and disappear when this equilibrium is re-established.

On the other side, the Cambridge school rejects the neoclassical production fiction and conceives of profit as an authentic surplus in the old-time classical tradition. Even within the classical tradition, however, the principles of Say’s law and of the theory of labour value itself indicate that increases in productivity should be reflected in a correlative price decline and could not generate any type of surplus, except perhaps a temporary entrepreneurial profit, while the price adjustment lasted. The Cambridge equation was not designed to explain these points. In order to clarify them it is necessary to devote explicit consideration to the ‘real’ economic role played by monetary variables. This topic will be dealt with in the next section.

Later on, in a subsequent section, we shall revert to Cambridge equation as a basis for an attempt at analytical explanation of the factors affecting the rate of accumulation. In both cases the aim will be to throw into relief the way in which not only the genesis of the surplus but also the rate of accumulation depend, in the first place, on the power relations that determine the functional distribution of income and, in the second place, on the socio-cultural factors that influence the consumer habits of the recipients of the surplus.\(^4\) These cultural and power factors operate in a technological framework defined by the levels previously attained in the productive capacity of labour.

\(^3\)The theory of profit and distribution which is common to many macroeconomic models formulated in Cambridge has grown up as a development of the Harrod-Domar economic growth model. All these models are, of course, theories of long-term equilibrium. They envisage full employment systems in which economic growth possibilities are externally determined by the increase in the population and by technical progress. Consequently, the volume of investment—in physical units—necessary to maintain full employment through time is externally determined likewise.

The interest expedient which has made the analytical formulation of these models so simple and so manageable consists in assuming that growth possibilities, determined externally, increase through time at a constant proportional rate, i.e., in accordance with an exponential function. When this happens and the corresponding investment is really effected, all economic quantities increase through time at the same proportional growth rate, so that all interrelations remain constant. The system expands but keeps its proportions constant (Pasinetti, 1978).

\(^4\)In this connection Pasinetti (1978) has shown that the global rate of profit—in the sense of the Cambridge equation—and the functional distribution of income are independent of the workers’ propensities to save.
III

Basic mechanisms of appropriation of the surplus

In the Keynesian view of demand it is assumed that expenditure is a generator of income, and that is the significance of the multiplier, incorporated in the Cambridge equation through the inclusion of the savings coefficient.

However, the converse is also true, in the sense that income generates demand. Enterprises pay out income to the various owners of the factors of production. From the standpoint of the enterprises, that income forms part of the price of the product at factor cost. From the standpoint of the recipients of that income, it becomes purchasing power which is used to buy the final product supplied. If all the income is spent, it ought to permit complete realization of the final goods emerging in the production sphere as a counterpart of the said income. On the basis of these postulates, the surplus can be considered from the standpoint of its commercial appropriation, i.e., the utilization of the purchasing power which is distributed in the form of income and generates final demand. Let us assume that enterprises are the only generators of income in the system—for example, in a closed model excluding government transactions. Obviously, if enterprises only pay wages to the labour force, those wages will be the sole source of effective demand and therefore wage-earners will appropriate the whole of the social product. This means that the functional distribution of monetary income is essential for the commercial realization of the surplus. The owner class can appropriate the surplus only if it has the requisite nominal income at its disposal. The corollary of this is that the overall level of prices is not a merely monetary problem which can be dealt with quite independently of the appropriation of the surplus at the real level. With the distribution of income to the receivers of the surplus, the overall price level rises, reducing the purchasing power of the labour force and making it possible for the surplus to be appropriated by the owner class. This does not necessarily presuppose inflation, since remunerations for ownership are a permanent structural component of the functional distribution of income in a capitalist society. Consequently, the surplus appropriated in this way may be termed a distribution surplus (Di Filippo, 1980 and 1981).

The foregoing considerations do not call in question the validity of Say’s law, according to which supply creates its own demand. Enterprises, in order to be able to produce, pay wages, rents, interest and other forms or remuneration which enable them to generate a real supply, and concurrently to distribute the income whereby that supply can be realized on the market. We are confronted with a “zero-sum game”, in which enterprises recoup in the form of demand the same amount of income as they disbursed to cover the cost of the production they supply.

Let us now assume that a wave of technological innovations begins which increase the productivity of human labour and generate growth. In that case the opinion of established theory is that the overall price level must fall until it once again coincides with the lower costs deriving from the innovation. During the period in which prices are adjusting to the new and lower level of costs, the enterprises that introduced the innovation will be able to enjoy a temporary and exceptional profit which is the fruit of a situation of disequilibrium. Schumpeter (1968 and 1939) and Keynes (1953) define profit in this way, i.e., as the product of a transient situation of disequilibrium. Schumpeter derives his theory from the economic cycles of these waves of technical progress that increase the productivity of labour. Keynes, in his A Treatise on Money, defines macroeconomic profit as the fruit of an excess of effective demand (G = I - A). For the neoclassical marginalist school of thought this anomaly is of no theoretical significance. It represents nothing but a fleeting deviation from equilibrium, and the system automatically adjusts itself, returning to the long-term general equilibrium of neoclassical theory in accordance with which average and marginal costs are ultimately evened with prices. This automatic adjustment has two justifications. At the macroeconomic level it depends upon the above-mentioned Say’s law. At
the microeconomic level it depends upon inter-entrepreneurial competition.

In recent studies, however, Prebisch has challenged these conclusions, attributing to macroeconomic profit—in the sense in which Keynes and Schumpeter used the term—a permanent character, in so far as the growth of employment and the introduction of technical progress are permanent likewise, because income anticipates in the form of final demand the output generated against the payment of that income. This is a structural feature inherent in the technical characteristics of production of goods. When conditions are expansionist in productivity and—an important point—in employment, each period's output, by virtue of the aforesaid time-lag, is purchased with the higher income corresponding to subsequent production cycles. Thus the productivity surplus remains in the hands of enterprises in the form of profit which does not disappear but is maintained in conditions which might be described as 'stable general disequilibrium' (Prebisch, 1981).

It might be suggested that a full understanding of Prebisch's concept of surplus entails explicitly taking into account the distribution surplus, whose relative magnitude is very high in Latin American societies.

For example, if nominal wages move upward more slowly than the global monetary surplus and the general price level, we are faced with an inflationary process which may increase both the pre-established distribution surplus and the "dynamic surplus" in Prebisch's sense. But even in conditions of price stability, trends and re-orientations in the distribution of labour productivity increments depend upon the changes in the functional distribution of monetary income. These changes may decisively modify the relative size both of the distribution surplus prevailing up to that time, and of the 'new' dynamic incremental surplus, for which the appropriation mechanism has been highlighted by Raúl Prebisch. All these phenomena and processes are the expression of social struggles for power whose very existence, and whose incidence on economic processes, can hardly be overlooked. Yet they have not been clearly integrated by the different currents of economic theory in pigeonholing the 'monetary' and 'real' spheres of their respective analyses.

Monetary variables are not 'neutral', nor can they be studied as a category entirely apart from real variables. Examination of the societal factors—which determine the generation of monetary income and of the overall price level is essential for an understanding of the functional distribution of real income and, therefore, the corresponding proportion of the distribution surplus. The same may be said of the ways—socially open or closed—of appropriating productivity increments within the dynamic surplus concept that Prebisch suggests.

These propositions, so briefly condensed for reasons of space, can be supplemented by a numerical example which, for the reader's convenience, is included as an annex. Study of it is indispensable, however, to impart greater quantitative precision to the ideas set forth here.

IV

Growth of employment and capital accumulation

To investigate the relation existing between the growth of employment and capital accumulation, we shall start with the Cambridge equation:

\[ \frac{E}{K} = \frac{1}{b_c} \left( \frac{da}{a} + \frac{dT}{T} \right) \]

in which the growth rate of output is expressed as the sum of the growth rates of labour productivity and of employment.

In conditions of long-term equilibrium, the rate of increase of output \((\frac{da}{a})\) is equal to the rate of increase of capital \((\frac{dT}{T})\). This equality is the immediate corollary of constancy in the capital/output ratio (Pasinetti, 1978).

Consequently, in the above-mentioned conditions, the growth rate of employment is equal to the growth rate of capital (rate of accumu-
tion) minus the growth rate of labour productivity:

$$\frac{dT}{T} = \frac{dK}{K} - \frac{da}{a} \quad (1)$$

The relevant point to be determined is the nature of the factors influencing the rate of accumulation. We know that in conditions of equilibrium:

$$\frac{dK}{K} = \frac{E}{K} \cdot b_e$$

If we multiply and divide by $S$ we obtain:

$$\frac{dK}{K} = b_e \cdot \frac{E}{S} \cdot \frac{S}{K}$$

But total wages ($S$) can be expressed as the product of average individual wages ($s$) multiplied by the number of workers employed ($T$). Similarly, the total surplus ($E$) can be expressed as the surplus per worker ($e$) multiplied by the number of workers employed ($T$):

$$\frac{dK}{K} = b_e \cdot \frac{e \cdot T}{s \cdot T} \cdot \frac{sT}{K}$$

Simplifying the above equation we obtain:

$$\frac{dK}{K} = b_e \cdot e \cdot \frac{T}{K}$$

The rate of accumulation, in conditions of long-term equilibrium, is the product of three factors. The first is the savings coefficient of the receivers of the surplus. In a capitalist economy it is strongly influenced by cultural patterns. Weber's reflections on the spirit of capitalism are pertinent here: the austere and enterprising spirit of the Calvinist ethic can be contrasted with the unbridled consumer propensities of a light-mindedness. The extreme of austerity would be represented by a situation in which owners worked and allotted themselves a salary for their entrepreneurial activity — without unduly 'blowing it up' — , while saving and investing all the income deriving from ownership. In such a case $b_e = 1$.

The second factor is the surplus per worker ($e$), which is a typically structural variable, since it is influenced both by the level of the production capacity (or productivity) of human labour ($a$) and by the average level of real wages ($s$). De facto, $e = a - s$. Accordingly, the surplus per worker is at the same time the result of the technical progress already achieved and of the social relations that determine the ratio between wages and average labour productivity.

The third determinant of the rate of accumulation could be designated the labour/capital ratio which expresses the number of workers that can be employed per unit of capital invested. It is a technico-economic ratio, for it also depends upon the relative prices of equipment. Given the structure of relative prices, the more workers — with a certain average level of productivity — can be employed per unit of purchasing power invested, the higher will be the rate of accumulation. This is so because what gives meaningfulness to capital goods — understood as units of the means of production to which a price is assigned— is their capacity for employment of workers and for endowing them with a certain level of productivity. It is in this that accumulation consists, interpreted as an increase in the overall production capacity of the economy.

Replacing in (1) the value of $\frac{dK}{K}$, we get:

$$\frac{dT}{T} = b_e \cdot e \cdot \frac{T}{K} - \frac{da}{a}$$

Given the expression $e = a - s$, we are left with:

$$\frac{dT}{T} = b_e \cdot a - s \cdot \frac{T}{K} - \frac{da}{a}$$

The more rapidly technical progress ($da$) is introduced, the higher will have to be the rate of accumulation to sustain a certain requisite growth rate of employment. But the rate of accumulation will depend in its turn upon the cultural, social or power and technologico-economic factors to which we have already alluded.

Thus it becomes evident how deeply the rate of accumulation and, therefore, the growth rate not only of employment but also of output are rooted in the cultural and power factors which determine the societal structure. In the following section we shall discuss this topic on general lines and without the analytical constraints imposed by the present formalization.
V

Accumulation ethic, inequality and dynamics of employment

If personal consumer income distribution is a matter of power and the economic theory of value reflects power relations and processes which are channelled through the market, then economic systems can be classified in much the same way as political systems, according to the nature of the process by which the power in question is generated and distributed.

Directly or indirectly, all economic processes are aimed at satisfying forms of consumption. The power of purchasing consumer goods is individually distributed in different ways. Consumer preferences do not all have the same capacity to guide the resource allocation decisions adopted by the owners of capital. On the basis of this observation the 'political economy of power' could be a 'positive' page of knowledge which has yet to be indited, and which is necessary to support another economic discipline of a normative character and explicitly loaded with value judgments. This discipline, likewise not so far on record, could be termed the 'political economy of democracy'. It should expound not only the conditions for the effective existence of an 'economic democracy', but the ways of using economic power that could guarantee an authentic democracy in the political and social spheres (Di Filippo, 1983).

From this point of view it will be necessary to revert to an old problem: that of the societal forms of appropriation and use of the economic surplus. The recipients of the economic surplus are on the one hand private owners — holders of the economic power that is measured and exercised through the use of capital — and on the other hand the State, holder of the political power that is exercised through the government. In the social use of the surplus there are very wide disctritional margins founded on the forms of power on which appropriation of this surplus is based. That part of the surplus which consists of the income deriving from ownership gives its recipients discretiond power to consume it or invest it — either directly or through the saving-investment process. This option between consumption and investment of the income in question is essential for determining the process of democratization of capitalist economics. We shall consider it in some detail below, leaving for another occasion the study of ways of utilizing the public surplus that passes into the hands of the government.

If the recipients of income deriving from ownership have a strong propensity to save and invest, that income is re-injected as capital which has a tonic effect on production. This is favourable to the dynamics of economic development and democratizes personal income distribution. If the said propensity is slight, the income concerned is spent on consumption, and this slows down the rate of accumulation and concentrates personal income distribution — that is, makes it unequal.

What is understood by income here is the general purchasing power exercised over the flow of final goods and services that emerges from the sphere of production. Capital is seen as the general purchasing power which is used to give dynamic impetus to the production process. It is a general purchasing power that is utilized to acquire the equipment, the inputs and the potential labour which, dynamically combined, constitute the production capacity of an enterprise.

Like the Janus of mythology, income from ownership has two faces. One of them looks towards final consumer goods. The other, more austere and enterprising, looks towards production equipment, inputs and potential labour. The recipients of income from ownership have the alternative of assuming either of the two countenances and from their choice emerge two extreme scenarios which, in simplified form, could be summarized as follows:

Let us first imagine, as an ideal or pure type, a society of austere and enterprising owners, capable of pursuing their bent for accumulation to the utmost. A large proportion of income from ownership is translated into demand for
new capital goods and hiring of manpower. This steady and intensive demand for new capital goods is reflected in a high investment/output coefficient and in a rapid rate of creation of new jobs. The introduction of technical progress makes itself felt in an increase in labour productivity. In this case, part of the productivity increments will go to raise real wages, because, given the high rate of accumulation, entrepreneurs compete for labour. Another share of the labour productivity increments goes to augment income from ownership. But our owners—let us remember—are austere and enterprising and their propensity to accumulation continues to amply outweigh their propensity to consumption. Consequently, their income increments are once again reflected in further demand for investment goods and for manpower.\(^5\)

In short, the personal distribution of consumer income is relatively egalitarian because wages tend to increase pari passu with the increase in productivity—or even at a still higher rate—and owners display an extremely frugal and responsible attitude in the sphere of consumption, together with an aggressive investment policy. They regard themselves as the depositories of the production capacity of society and manage it soberly, setting an example of frugality and detachment.

Let us now imagine, likewise as an extreme simplification, a greedier and more ostentatious society, in which owners apply a ‘maximizing’ code of behaviour in the sphere of consumption. This ‘maximization’ is referred to in inverted commas because it does not necessarily imply refinement and selectiveness—which are compatible with a frugal attitude—but presupposes an accumulation of expensive consumer items which are relatively quickly replaced by virtue of a rapid obsolescence resulting from intensive development of ‘consumer technology’. In short, with the austere productivist ethic of our first scenario is now contrasted a more consumerist ethic on the part of the owners of capital.

A lion’s share of income from ownership is translated into demand for new consumer goods. Here, this ‘high propensity to consumption on the part of the owner class’ is a matter of quantifi-

\(^5\) In this consists, I believe, the ‘reproductive accumulation’ process in Prebisch’s dynamic conception.
centrated distribution of personal consumer income, and the process becomes more and more incompatible with economic democratization.

Unfortunately, this situation has predominated in peripheral societies, shaping patterns of accumulation that are unavailing against the phenomenon of insufficient dynamics.

At least in the case of the centres, mass consumption, and its subsequent increasing refinement, came into being as a response to the decline in effective demand, and was reflected in a rise in real wages in all strata of the labour force. This process was in keeping with the degree of development previously attained by production capacity in the societies in question. Only in more recent times has a tendency towards 'stagflation' been observable, which might be explained as an unsatisfactory composition of global demand (excess of consumption and insufficient investment).

In the case of Latin America, premature imitation of the consumption patterns of the centres helps to reduce the rate of accumulation and to redirect it along undesirable lines. Our imitative capitalism can reproduce such patterns only for what is inevitably a minority, helping to generate what Aníbal Pinto—in a felicitous phrase—has called a “caricature of the affluent society”. Neither average levels of labour productivity nor the diversification of the region's production capacity warrant this ostentatious consumption. Hence, therefore, the undesirable compression of the real income of the lower strata and the bias in the use of the capacity to import which derives from the periphery's insertion in the world order.

Unfortunately, as a result of these trends accumulation patterns have been shaped which do nothing to overcome the heterogeneity of Latin American social structures.

Lastly, it should be noted that we have said nothing of the role of the State, in order to avoid over-complicating our 'scenarios' and to point the contrast between two types of rationale in the private sphere. Obviously, a more realistic presentation would entail reintroducing the increasingly significant part played by the State in contemporary capitalist economies. This more complex and at the same time more specific subject will not be tackled on the present occasion.

VI

A final frame of reference

Needless to say, the global approach we have adopted in this study is an altogether inadequate simplification which cannot give a thorough grasp of the subject of development, accumulation and employment.

If we introduce here a breakdown of economic activities by sectors, and distinguish, for example, between secondary and tertiary activities, it will be possible to catch other distinctive overtones which are of decisive importance for a broader consideration of development in its economic and social dimensions. In a historical and structural study of development and of the dynamics of employment, this multi-sectoral viewpoint is indispensable. In the more purely analytical sphere, it permits the introduction of significant conceptual elements such as, for instance, the input-output models (Leontief) or the classic theory of the formation of relative prices (Sraffà). The great diachronic long-term views to which contributions have been made by writers of the stature of Simon Kuznets or Colin Clark also clearly deviate from the neoclassical marginalist approach.

ECLAC's thinking and that of most economists of the Latin American structuralist school of thought is in tune with the above-mentioned empirical and analytical contributions.

From them it can be deduced that economic development is essentially asymmetrical, as regards the intersectoral dynamics of the product and of employment; that this asymmetry implies

6In this line of multi-sectoral studies, the most recent and outstanding of the attempts at integration on the theoretical plane is Luigi Pasinetti's (1981).
a displacement of the labour force from primary—particularly agricultural—to secondary and tertiary activities; that these trends stem from certain regularities linked with the inelasticity of demand for different types of final goods and with the way in which technical progress is introduced (Prebisch, 1973). The socio-spatial counterpart of this shift of manpower to non-agricultural activities has been the process of urbanization and metropolization which has accompanied the consolidation of capitalist societies and of the Industrial Revolution as the starting-point of contemporary development styles.

ECLAC's ideas can be better understood within this conceptual frame of reference. One of the messages of the 1949 Economic Survey, worked out more fully by Raúl Prebisch (1982), is that the international division of labour proper to the centre-periphery relationship makes for structural disequilibria in the world economy as a whole and in the peripheral economies in particular. With the march of world economic development the introduction of technical progress means that the relative share of production and employment in primary activities declines. Accordingly, the peripheral economies specializing in the production and export of primary products were bound to find themselves in a disadvantageous position of deficit and indebtedness in international trade and of insufficient capacity to generate employment within their own frontiers. The fundamental structural problem was and still is rooted in the asymmetrical distribution of international production capacity.

ECLAC's auguries of propensities to structural disequilibrium in trade and employment have been fully confirmed since the war. In actual fact—with the exception of petroleum in the 1970s—the traded value of manufactures has systematically increased its relative share in world trade and the opposite has happened in the case of primary commodities. On an average, Latin America's development has been dynamic, but it has been based on a protected form of industrialization geared to the domestic market. Its participation in world trade, in contrast, has been significantly reduced. Despite the diversification of its production, Latin America has not succeeded in overcoming either its structural heterogeneity or its tendencies towards insufficient dynamism. It can readily be imagined how much more serious the employment situation would be if the region had kept strictly to its primary-exporter position without pursuing the path of diversification. Even with all its inefficiencies and shortcomings—which must be remedied— Latin American industrialization is still an option for the future of regional development that cannot be waived (Pinto and Kňakal, 1973).

The approach that we adopt in the present study can and must be fitted into the framework of the broad view just outlined, but as part of a more integral conception of the styles that may be assumed by the future regional development. According to the concepts formulated by ECLAC and by some economists who have made outstanding contributions to the forging of its ideas (Pinto, 1976 and 1978), a desirable objective that has been postulated is the achievement of a style of development which is at once autonomous, dynamic and equitable. These three features are not mutually contradictory, but strengthen one another. The study made of the social use of the surplus and the dynamics of accumulation suggests that the greater the share of the global surplus allocated to saving and investment, the greater will be not only the economic dynamism of the system, but also the distributive equity of its development. An equitably dynamized production capacity will make an essential contribution in the long run to the enhancement of Latin America's autonomy in the international concert of nations. In the field of employment in particular, as a necessary result of the attainment of the aforesaid objectives the problem of insufficient dynamism will be resolved.
Annex
THE BASIC MECHANISMS OF APPROPRIATION OF THE SURPLUS
(A numerical illustration)

The object of this section is to exemplify in numerical terms, starting from a stable general equilibrium—or, if preferred, circulating-current—situation, the ways and means of appropriating the fruits of economic development.

We shall analyse here four phases of a dynamic process covering twelve discrete periods of equal length (see table on p. 133).

First phase
The first phase corresponds to a classic stable circulating-current situation. Both the quantity of production and supply and the number of workers employed remain constant. In this numerical example, total wages absorb half the total income distributed. An assumption of crucial importance to the argument is that the income generated is spent in the same period and that the supply of final goods is equivalent to the quantity produced in the preceding period. As we are assuming a circulating current, however, within this first phase the quantity of supply in each period is equal to the quantity produced. The same thing happens with the value of total demand, which is equal to the cost of total supply. In these conditions, Say's law, according to which supply creates its own demand, seems to be operative. This would mean that the income paid out by the enterprises would serve to finance demand for the final output generated and supplied against payment of that same income. In this first phase of the numerical example Say's law appears to be substantiated because the model identically reproduces itself. The situation of general equilibrium is further manifested in the fact that average prices are equal to average costs, which means that unit profit is equal to zero. This implies that macroeconomic profit, understood as the difference between the value of total demand and the cost of total supply, is also equal to zero.

In short, although our division into periods implies a dynamic methodology, the first two periods recorded in the first phase of our example typify a stable circulating-current situation, in conditions of general equilibrium and price stability.

Second phase
The second phase extends from the third to the fifth period of our example, inclusive. Here we introduce a modification of the circulating current. We assume that labour productivity begins to increase at a rate of 1% while the level of employment remains constant. Consequently, the quantity produced also begins to grow by 1%.

Here the lag between the quantity produced and the quantity of supply does become meaningful. In the course of the third period—corresponding to this second phase—the increase in labour productivity and in the quantity produced does not yet affect the other economic magnitudes because it does not yet emerge from the sphere of production in the form of effective supply.

In the fourth period, the quantity of supply resulting from the increase in output also begins to grow at a rate of 1%. But since in our example monetary income has remained constant, the same is true of the value of total demand. Consequently, in order to be able to realize this expanded supply, enterprises have to lower their prices at a rate of 1%, which is correlative to the productivity increment. This implies an 'open'—socially generalized—appropriation of the labour productivity increments through a correlative fall in the average overall level of final output prices.

As can be seen, in the fifth period, if productivity were to go on increasing at that same rate prices would continue to fall, ceteris paribus, to a correlative extent. This behaviour appears to be in complete accordance with Say's law and with the postulates of pure competition. In conditions of pure competition, enterprises, in order to be able to realize their effective supply, augmented by the increase in productivity, will have to compete with one another up to the point at which their prices fall to the new level of average costs. Similarly, Say's law seems to remain valid because, as total monetary income has not
yet been modified, even if supply does not create its own demand, the value of total demand and the cost of total supply are equalized within each period. Thus, although nominal wages per worker remain constant, real wages follow an upward trend at a rate more or less correlative with the increase in productivity and the decline in price levels.

**Third phase**

As from the beginning of the sixth period, labour productivity continues to grow at a rate of 1%, but we introduce in addition the assumption that the number of workers employed begins to increase at a rate of 2%, whereby necessarily, the growth rate of total output rises to approximately 3%. Monetary wages per worker are assumed to remain constant, so that total wages start to go up at the same rate as total employment, i.e., by 2%.

We are now faced with a fact of some theoretical importance. In the expansionist conditions surplus —income to ownership and the State—and the value of total wages is maintained. The total surplus distributed must therefore grow at the same rate as total wages. In the last analysis, this means that total income will be increasing at a rate of 2%.

Consequently, the value of total demand will also rise by 2%, i.e., at a lower rate than the quantity of production and supply, which expands by 3%.

In our numerical example, the increase in employment and the rise in total wages are new facts. The growth rate of output is now a sum —approximately— of the growth rate of productivity and the growth rate of employment.\(^a\) The real product, which increases at the rate of 3%, is subject to partially closed appropriation, and is equivalent to the algebraic sum of the increase in nominal income (2%) and the fall in the overall price level (−1%).\(^b\)

\(^a\)Assuming continual tiny increments:

\[
\frac{dQ}{Q} = \frac{da}{a} + \frac{dT}{T}
\]

whence —approximately—, 3% = 1% + 2%.

\(^b\)Assuming continual tiny increments:

\[
\frac{dQ}{Q} = \frac{dY}{Y} - \frac{dp}{p}
\]

whence —approximately—, 3% = 2% − (−1%).

We are now faced with a fact of some theoretical importance. In the expansionist conditions of output, employment and income, the economic system definitively abandons general equilibrium for the following reasons: i) it is seen that Say’s law does not operate under expansionist dynamic conditions; ii) the remunerations of ownership, the State and labour do not use up the whole value of income, and in enterprises a surplus appears which takes the form of a net macroeconomic profit; iii) this macroeconomic profit derives from the fact that the value of total demand exceeds the cost of total supply; iv) completely open appropriation of the fruits of economic development ceases to occur and another form of appropriation which is partially or totally closed begins to take place.

In the example chosen, closed appropriation of 2% of the increase in total output occurs through a rise in income and the remaining 1% is openly appropriated via the fall in prices.

Lastly, it can be seen that given totally closed appropriation and price stability the value of the macroeconomic profit is equal to the value of the increase in the real product. We shall demonstrate this in the fourth phase of our numerical model.

**Fourth phase**

As from the beginning of the ninth period we assume that the struggle for nominal income breaks out, by virtue of which monetary wages per worker begin to rise at a periodic rate of 1%. Consequently, total wages also begin to rise at an approximate rate of 3%. The recipients of the surplus endeavour to counteract this trend and to increase their own nominal income so that it too may grow at a rate of 3%. A social ‘break-even’ then takes place and the relation between the distribution surplus and total wages remains unchanged.

Total nominal income is now increasing at the same rate as the quantity produced (3%). If we continue assuming that in each period that income is expended in its entirety, then necessarily prices will remain at a constant level. Much the same thing will happen in the case of unit costs (after the necessary adjustment has taken place in the ninth period in consequence of the changes of rate in the aforesaid magnitudes).
<table>
<thead>
<tr>
<th>Workers employed</th>
<th>Quantity of production supplied</th>
<th>Ownership and State income</th>
<th>Total wages paid</th>
<th>Costs</th>
<th>Prices</th>
<th>Macroeconomic profit</th>
<th>Cost of supply of output of worker</th>
<th>Real wages per worker</th>
<th>Average productivity per worker</th>
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<tr>
<td>1</td>
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<td>10,000</td>
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In this fourth phase totally closed appropriation of the productivity increments occurs. However, price stability exists and stable reproduction of the process can go on indefinitely if the growth rate of its variables does not change.

In short, stable dynamic reproduction exists, but stable general equilibrium does not, since: i) supply does not create its own demand; ii) total remunerations do not exhaust the value of income and a permanent surplus appears in enterprises; iii) the value of total demand is permanently higher than the value of total supply, which is compatible with stable prices; iv) appropriation of the fruits of development becomes entirely closed and, in view of the stability of prices, the real value of the macroeconomic profit becomes equal to the value of the increase in the real product which is still in process of formation.

Lastly, it should be observed that these findings are entirely independent of the structure (competitive, monopolistic, oligopolistic, etc.) of the final output markets. Their only assumptions are: i) in a given period demand anticipates supply; and ii) the whole of the income received in each period is used in the formal demand and, reciprocally, the supply on the market in each period is sold out.

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