The centre-periphery model and the political economy of the Economic Commission for Latin America and the Caribbean: past and present

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Abstract

This article is focused on the hypotheses of Raúl Prebisch and Hans Singer regarding the centre-periphery model, which is the cornerstone of development theory for peripheral countries. The article emphasizes aspects of theory and policy related to the political economy of the Economic Commission for Latin America and the Caribbean (ECLAC) from the early 1950s to the present. It shows how, since the 1980s, ECLAC economists —influenced by evolving neo-Schumpeterian models and equipped with sophisticated microeconomic instruments— have undertaken a critical appraisal of the import substitution model in Latin America while retaining Raúl Prebisch's original hypotheses on the external forces restricting the economic development of peripheral countries.

Key words

Economic dependence; economic development; import substitution; Prebisch, Raul; ECLAC; economists; thinking; development models; economic structure; macroeconomics; Latin America.

JEL classification

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I. Introduction

Less developed countries, especially in Latin America and Asia, have not necessarily followed the same development process as today's capitalist developed countries, in particular those in mainland Europe. While Latin American structuralist development theories, like their European counterparts, advocate industrialization as the only means of overcoming underdevelopment —on the basis of the same arguments as classical developmentalism—,[2] they are more progressive in two aspects: (i) they take into account the historical, social and institutional particularities of each country or region and the model that underdeveloped or developing (i.e. peripheral) countries adopt for global economic participation; and (ii) they emphasize development-focused economic policy (i.e. development and economic planning measures), without which peripheral economies cannot approach or maintain higher levels of per capita income and well-being. As Celso Furtado (1954) argues in one of his classic studies, without input from historians, anthropologists, sociologists and other social scientists, economists cannot say why any society develops or identify the social agents responsible for this process. Although economic analysis "can describe the mechanism of economic development" (Furtado, 1954, p. 129), the distinctive historical factors of a given country or region must be taken into account.

This article is focused on the hypotheses of Raúl Prebisch and Hans Singer regarding the centre-periphery model, which is the cornerstone of development theory for peripheral countries. Following this introduction, the article contains an additional four sections. The second section presents an examination of the centre-periphery model, which constitutes the analytical underpinnings of structuralist and neo-structuralist development theory in Latin America. The third section examines the analytical mechanism of the political economy of the Economic Commission for Latin America and the Caribbean (ECLAC) as the guiding force behind the Latin American nationalist-developmentalist policies adopted between 1950 and 1980. The fourth section looks at the development of the centre-periphery model from the 1980s to the present. The author will show that, since the 1980s, ECLAC economists —influenced by evolving neo-Schumpeterian models and equipped with sophisticated microeconomic instruments— have undertaken a critical appraisal of the import substitution model in Latin America while retaining Raúl Prebisch's original hypotheses on the external forces restricting the economic development of peripheral countries. The final section presents a brief conclusion.

II. The centre-periphery model, theoretical foundation of structuralist development policy in Latin America

The centre-periphery model traces its origins back to the hypotheses of Raúl Prebisch, second Executive Secretary of ECLAC, and Hans Singer, economist in the Department of Economic Affairs (later renamed the Department of Economic and Social Affairs) of the United Nations. The two men developed these theories —independently but almost simultaneously— in the early 1950s.[3] Prebisch (1950) conceived of the global economy as comprising two blocs: the centre, made up of developed countries, where innovation is concentrated and there is a near-total global monopoly on technical progress; and the periphery, composed of underdeveloped or developing countries which seek to emulate and absorb technical progress from central countries.

[2] Latin American structuralist theories of development, like classic development theory, are based on the hypothesis that the manufacturing sector drives the accumulation of capital and the generation and dissemination of technical progress, and on the idea that economic development is a process of structural change in which productive resources are reallocated from low-productivity sectors to high-productivity sectors.

[3] Prebisch's seminal article was published in Spanish in 1949, but not in English until 1950, the same year that Singer (1950) was published in *The American Economic Review*.

An examination of goods and services trade flows between central countries and peripheral countries led Prebisch (1950) and Singer (1950) to conclude that the benefits of the international division of labour did not transfer to peripheral countries, contradicting the theory of comparative advantage espoused by free trade proponents.

The theory of comparative advantage holds that laissez-faire economic policy and free world trade will lead each country to specialize in the goods and services that are comparatively cheapest to produce (i.e. those with the highest relative productivity or largest comparative advantage),[4] and that peripheral countries can maximize their efficiency only by using their economic resources mainly to produce goods and services with the lowest comparative cost (i.e. opportunity cost). The logical conclusion of this theory, which remains foundational to pro-free trade arguments, is that peripheral countries should specialize in commodities and central countries should specialize in manufactured goods.

In the view of David Ricardo (1817), the determining factor for each country's comparative advantages is its relative mastery of the technology used to produce each good, which translates into greater or lesser relative labour content incorporated into production when compared to other global competitors. However, this theory approaches technology as an exogenous factor, mysteriously inherited through laissez-faire and free trade practices, that distinguishes the centre from the periphery. It fails to consider that technology is generated and disseminated as a result of the simultaneous interaction between government stimulus measures and the private sector's innovation in response to those measures, which govern production in a market economy. The theory of comparative advantage does not account for the fact that this dynamic interaction determines the faster or slower pace of capital accumulation and technological development.

A different but complementary iteration of Ricardian theory was later developed by Swiss neoclassical economists Eli Heckscher (1919) and Bertil Ohlin (1924 and 1933). In their iteration, the different relative costs and prices of goods and services produced by each country are attributable not to technological differences but to the relative distribution of factors of production throughout the global economy.

In this neoclassical version, peripheral countries specialize in commodities, which they produce at lower costs relative to central countries owing to their greater relative wealth in the factors used intensively in the production of such goods (i.e. natural resources or unskilled labour). Central countries, meanwhile, specialize in manufactured goods, which they produce at lower relative costs thanks to their greater access to the factors used intensively in manufacturing (i.e. capital or skilled labour). Thus, the Heckscher-Ohlin version of Ricardian theory postulates that engaging in reciprocal free trade practices allows each bloc to import the goods that, for them, present a comparative disadvantage —commodities for central countries and manufactured goods for peripheral countries— more cheaply than they could produce them domestically.

In contrast to Ricardo's theory, the free trade arguments put forward by Adam Smith are eminently dynamic and based on the hypothesis that the free trade of goods in global markets would allow each country to expand its exports beyond the natural limits imposed by the size of its domestic market. Free trade would also provide greater access to imported goods at cheaper prices than domestically produced goods. Thus, Smith's conception suggests that the main benefit of international trade comes from the expansion of each country's net exports, and the primary impact of that expansion is, ultimately, increased long-term economic growth.

The formal sophistication of the Ricardian principle of comparative advantages allowed traditional neoclassical theory to anchor its defence of free trade in predominantly static arguments. Neoclassical theory has built an analytical framework to show that, under a highly restrictive set of hypothetical

[4] In the strictest sense, among the multiple productive sectors of an economy, comparative advantages are determined by differences in each sector's relative productivity and wages as compared to the corresponding sectors of the trading partner's economy. For a detailed analysis of this theory, see Krugman, Obstfeld and Melitz (2015), in particular chapter 3.

circumstances (e.g. constant returns to scale, perfect competition and laissez-faire), free trade achieves the optimal allocation of productive resources in the global economy, without regard for the possible positive or negative effects on each country's economic growth. Unlike Smith, neoclassical theory traces the provenance of global trade's primary benefit to the expansion of each country's net imports, which ultimately improves well-being by increasing total consumption.

The neoclassical version of the theory of comparative advantage gained enormous policy influence with the development of the factor price equalization theorem by Paul Samuelson (1948 and 1949), which provided the ideological heft to finally persuade periphery governments of the benefits, including dynamic benefits, of unconditionally embracing multilateral free trade. According to this theorem, if all markets (of goods and factors of production) operated under conditions of laissez-faire and perfect competition, free trade would lead to the equalization of the relative prices of goods and factors of production in the global economy.[5]

The mechanics of this theorem are simple: reciprocal pressure created by inter-industrial competition between countries causes the relative price of a given good to fall in the countries that are at a comparative disadvantage to produce that good.[6] The theorem predicts that free trade will drive down the relative price of imported manufactured products for Latin American peripheral countries and of imported commodities for central countries. At the same time, the falling relative price of these goods, for periphery and central countries, respectively, brings down the relative price of factors used intensively in the production of each (capital and skilled labour in peripheral countries and natural resources and unskilled labour in central countries). The theorem also states that free trade encourages movement in the opposite direction (i.e. upward) in the relative price of goods for which each bloc of countries has a comparative advantage, in addition to increasing the relative price of the factors used intensively in their production. In other words, the factor price equalization theorem holds that, in a utopia of perfect competition, real wages and earnings will be equal throughout the world.

However, if, as the theory of comparative advantage and the factor price equalization theorem suggest, peripheral countries will enjoy permanent benefits as exporters of commodities and importers of manufactured goods, what is the source of their economic development? Although the neoclassical theory of international trade does not explicitly answer this question, it does imply that accelerated capital accumulation and technical progress in the manufacturing sector tend, in the long term, to bring down manufactured goods prices relative to commodities prices. In other words, peripheral countries, by engaging in free trade, can accumulate capital and absorb the technological progress embodied in the capital goods that they import from central countries, which would allow them to incorporate such technology in their local production activities (including in emerging industrial sectors) and thereby accelerate their economic development.

Indeed, there has never been a prosperous nation that developed thanks to an extreme dependence on the importation of manufactured goods.[7] However, the criticisms of Prebisch (1950) and Singer (1950) are largely theoretical, based on the hypothesis that the factor price equalization theorem does not apply to the real world or the observed dynamics of international trade.

This discrepancy between theory and reality is explained by structural heterogeneity in the supply and demand behaviour of commodities as compared to manufactured goods. Regarding supply, the manufacturing sector has two distinctive characteristics: it generates and disseminates technological

[5] It is worth pointing out, however, that this theorem only applies in the framework of the comparative advantage model as envisaged by Heckscher, Ohlin and Samuelson. In the original Ricardian model, with production costs depending on a single factor (labour), there is no mechanism through which international trade can equalize wages.

[6] Neoclassical theories of international trade assume the absence of financial capital flows among countries, which limits international economic transactions to trade flows of tradable goods and services. They also assume the free movement of physical factors of production (e.g. capital, labour and natural resources) domestically (i.e. from one part of the country to another) but not internationally. Thus, the real exchange rate is directly dictated by the terms of trade (that is, the relationship between price indices for exports and for imports). For technical details in this regard, see Feenstra (2004).

[7] For reference, see the classic works of Amsden (2001) and Chang (2002).

innovations at a higher rate, and it uses technologies that are subject to both static and dynamic economies of scale. As a result, the sector dictates the strength of capital accumulation, technical progress, economic growth and support for long-term productivity. A higher degree of oligopolization tends to hinder price competition in the sector, giving leading enterprises enormous power to fix market prices and control profit margins.

As Prebisch stated (1950, p. 10), if this theory were correct, the terms of trade (i.e. peripheral countries' export prices relative to their import prices) would have shifted in favour of primary products given the higher productivity of this sector. However, this scenario has not materialized because, on the supply side, increased productivity gains —which correspond to sharp declines in the cost of manufactured goods produced by central countries— are not transferred to prices in a proportional manner; and on the demand side, there is significant structural heterogeneity between the goods exported by central countries and those exported by peripheral countries. In this regard, for the price factor equalization theorem to bear up under real-world conditions, the following prerequisite must be met: the income elasticity of demand for goods in which the central and peripheral countries specialize (manufactured goods and commodities, respectively) must be equal to unity, meaning that the average growth rates of global demand for commodities and manufactured goods must equal the average growth rates of global income.

However, international trade is also governed by Engel's law: the income elasticity of demand for luxury goods (i.e. most manufactured goods) —which are subject to product differentiation and the manipulation of consumer preferences via marketing, advertising and propaganda— is greater than unity. By contrast, the income elasticity of demand for essential goods (i.e. commodities) —which are generally homogeneous and easily replaceable in the marketplace— is lower than unity.

An analysis of the prevailing historical and economic conditions of the period 1870–1930, during which the peripheral countries of Latin America followed a development strategy with a primarily external focus, led Prebisch (1950) and Singer (1950) to conclude that this model tended to perpetuate perverse and unsustainable growth in the long term. Even during cycles of global economic expansion, demand for peripheral countries' commodities exports tended to grow at a slower pace than demand for central countries' manufactured goods exports, leading to a general deterioration in the terms of trade. As Prebisch observed (1951, p. 30), commodity imports by central countries expand at a lower rate than real income. Thus, the income elasticity of commodity imports by these countries tends to be lower than unity.

Therefore, it is impossible for peripheral economies to develop following a model of international participation guided by static comparative advantages, because the secular deterioration of terms of trade tends to reduce their import capacity. Specifically, the foreign exchange flows needed to finance the importation of manufactured goods, in particular machinery and equipment used for capital accumulation, are reduced in relative terms. In practical terms, assuming the equilibrium of the real exchange rate (meaning that the currency of peripheral countries was neither undervalued nor overvalued against the basket of currencies of central countries), this perverse process of "outward-oriented" development caused the value of commodities exports to fall relative to the value of manufactured goods exports. Thus, peripheral countries, facing diminished import capacity, transferred part of their income to central countries and grappled with recurring balance-of-payments crises.

As Furtado (1962) showed in his classic text *The Economic Growth of Brazil*, in the periods following frequent exchange-rate crises, periphery governments heavily devalued their currencies with the aim of reducing the price in foreign currency of exportable commodities while increasing the price of importable manufactured goods. However, as demand for commodities is price-inelastic (i.e. not very affected by prices) and demand for manufactured goods is price-elastic (i.e. very affected), currency devaluations did little to boost peripheral countries' exports and sharply reduced their imports, such that the resulting balance-of-payments adjustment was highly recessive.

How should we understand these short-term or medium-term periods in which peripheral countries benefited from rising international prices of agricultural and other commodities? Would not the facts of the periods 1820–1830, 1840–1860[8] and, more recently, the 2000s, negate Prebisch's and Singer's hypotheses, the corroboration of which hinges on the hypothesis of deteriorating terms of trade?

The answer is no. These transitory periods did not see peripheral countries parlay their "commodity lottery" prize (to use the apt expression coined by Díaz-Alejandro (1984)) into permanent gains. Rather, they were passing phases in which spikes in relative commodity prices resulted from an aberrant increase in demand from key international actors, as in the case of the United Kingdom at the height of the Industrial Revolution (1850–1860) and China during its transition to a middle-income economy (early 2000s). The hypotheses of Prebisch and Singer, however, are based on the hypothesis of secular deterioration of terms of trade, which empirical data have supported time and again.[9]

Is there any alternative, then, to the free-market approach to participating in external trade, which condemns peripheral countries to long-term economic stagnation? As Prebisch showed (1950, p. 29), the exchange-rate controls adopted from the 1930s on and import substitution's eruption onto the Latin American scene as a new development model for peripheral countries were "not the result of a theory" but rather "imposed by circumstances". This is because Latin American countries were induced to spontaneously reorient their development model inward, through the import substitution process.

Nevertheless, both in his 1950 manifesto and his 1951 study, with greater theoretical precision, Prebisch presents arguments for the adoption of deliberate State-coordinated development policies. To paraphrase Marx, for Prebisch and the ECLAC economists, it was not enough to interpret the periphery; the point was to change it. The 1950s ushered in a wave of long-term public policies adopted as part of the national development programmes of Latin American periphery governments, under the influence of the political economy of ECLAC.

III. ECLAC political economy and the nationalist-developmental State

There is no question that the nationalist-developmentalist public policies implemented between 1950 and 1980 in many Latin American countries, including Brazil, were markedly influenced by the ideas of Prebisch and the fruitful theoretical debate under way at ECLAC. Curiously, in the past three decades, critical analysis of the basic theoretical aspects and policy implications of nationalist-developmentalism, including in Brazil, has been biased, disparaging and ideologically prejudiced. As will be discussed in the following section, the national development plans adopted by periphery governments in Latin America, including Brazil, were not without their faults —both in design and implementation—, but then, they were never faithful reproductions of the public policy strategies recommended by ECLAC to begin with.[10]

There is scarcely a single example of a country which developed after the Industrial Revolution in the United Kingdom or is still developing that allowed its economic development to be guided by the classical liberal model in which free-market forces determine its specialization according to its

[8] To consult these data, see Coatsworth and Williamson (2002).

[9] Coatsworth and Williamson (2002) observed a near constant deterioration of the terms of trade of peripheral countries between 1870 and the early 1940s. The International Monetary Fund (IMF, 1994, p. 92) noted a downward trend in commodities prices throughout the post-war period and, furthermore, recalled that the weakening of these prices was secular, rather than temporary. Ocampo and Parra (2003), analysing the behaviour of relative prices of a statistically significant sample of commodities and price indices, observed an overall, albeit intermittent, trend of deteriorating terms of trade between 1900 and 2000. More recently, Silva, Prado and Torracca (2016) concluded that, between 1977 and 2011, terms of trade tended to be unfavourable to peripheral countries.

[10] Nothing could be further from the truth than the claim (Sachs and Warner, 1995, pp. 4 and 5) that the great historical mistake of Prebisch's hypothesis was to recommend import substitution —via protection through tariff and quota barriers— rather than export promotion, as the path to industrialization.

natural comparative advantages (i.e. laissez-faire, laissez-passer).[11] On the contrary, Germany and the United States, in the late nineteenth century, and China, India, Japan, the Republic of Korea and Taiwan Province of China, in the wake of the Second World War,[12] either were or continue to be guided by firmly nationalist-developmentalist strategies based on the well-known infant industry argument.

ECLAC economists' favourable opinion of protectionist policies geared towards the industrialization of the Latin American periphery was also grounded in the infant industry argument —the same argument that had been used to justify protectionist policies in less industrialized countries (as measured against the development of the British economy). In both cases, the argument was based on the fact that the slow uptake of free trade practices by industrializing nations had perpetuated the absolute technological gaps between them and countries that had developed earlier. However, free trade with central countries (which at the time included the United States and several countries of mainland Europe) had observably blocked economic development in Latin America owing to terms of trade that were unfavourable to peripheral countries —a fact which strengthened the argument advanced by ECLAC.

ECLAC-recommended policies went beyond the adoption of industrial policy programmes, defined as a set of public incentives for the economic activities, sectors and production chains that had the greatest potential to accelerate capital accumulation, spread technological progress and, consequently, foster long-term economic development.[13] ECLAC proposed more broadly —and in the author's view, correctly— that the governments of Latin American peripheral countries should follow an economic planning model, based on the adoption of national development plans.

ECLAC economists were aware that the challenge facing Latin American countries from the second half of the twentieth century onward was much greater than the challenge that had faced less developed countries, in particular Germany and the United States, at the end of the nineteenth century. The task for these two countries had been to incentivize, through public policy, the development of industries and the adoption of radical innovations that they themselves would conceive and create (e.g. machinery and mechanical equipment, electricity and the automotive and chemical industries).[14] For Latin American peripheral countries, however, government support was geared towards import substitution industrialization, led by domestic or external private investors or State investors, in sectors where the relevant technology had already or nearly reached maturity in central countries.

Prebisch, in particular, recognized the magnitude of the challenge. He predicted the possible emergence of several microeconomic problems that policymakers would have to confront and resolve in the implementation of development programmes in Brazil and, more broadly, Latin America. How would one reconcile, for example, the industrial technologies that central countries had already invented and put to use —characterized by massive technical scales of production and high capital intensity relative to labour— with peripheral countries' smaller markets and abundance of idle labour?

It is not always possible to adapt the size of manufacturing plants, which incorporate indivisible technologies, to peripheral economies' relatively small market size.[15] Moreover, Prebisch already recognized that, as industrialization in peripheral countries accelerates economic development and

[11] Interestingly, as shown by British economic historian Leonard Gomes (1987) —in opposition to Smith and Mill, the free trade proponents in classical political economy—, the scope of Ricardian liberal activism at the global level was limited to the elimination of tariffs on wheat imports in the United Kingdom. Ricardo believed that tariff barriers for wheat harmed workers' basket of goods and, by extension, the real cost of local labour, which harmed the rate of profit of British manufacturing. Thus, while for Ricardo, the principle of comparative advantage had been developed to demonstrate that trade in any form is better than no trade at all, for Mill and, later, the neoclassical economists, the same principle would provide the theoretical foundation for the unconditional defence of global free trade.

[12] See Johnson (1982), Amsden (1989 and 2001), Wade (2003), Chang (2002) and Devlin, Estevadeordal and Rodríguez-Clare (2006).

[13] The term "industrial policy" has many definitions, but the author considers the concept, as adapted by Chang (1994, p. 60), to be the best suited to the strategic objectives of a poor or developing country.

[14] For further details on the second industrial revolution, see Landes (1969, chapters 4 and 5).

[15] In the manufacturing sector, it is unusual to use equipment with a 1:1 ratio of capital to labour (unlike with personal-use sewing machines or harvesters). Modern manufacturing facilities overwhelmingly use continuous, large-scale production systems, employing technologically indivisible machinery and equipment. This is the case, for example, with steel, oil drilling and refining, paper and pulp, chips and automobiles, among other industries. For further details, see Scherer and Ross (1990, chapters 3 and 4).

lessens balance-of-payments pressures, rising per capita income produces structural changes in demand. By increasing demand for goods with high income elasticity, these changes tend to act as endogenous accelerators of import growth which, in turn, exposes peripheral countries to the possibility of new external constraints. Prebisch (1951) diagnosed this problem and suggested reducing superfluous imports and implementing an export stimulus programme to overcome it.

Another problem arises from the intrinsically closed nature of the import substitution model. No matter how substantial the effort to shift export composition and flows towards manufactured goods, which enjoy stronger demand in international markets, progress in the substitution process has a tendency to reduce the import coefficient (i.e. the ratio of total imports to domestic availability (apparent consumption) of goods and services).[16] As noted by Tavares (1964, p. 4), the substitution process is not intended to reduce the overall import quantum; the reduction, when it occurs, is the outcome of restrictions in the external sector rather than an aim in itself. Thus, as the substitution of certain imported goods advances, others take their place. Sooner or later, the process leads to exhaustion.[17]

In the specific case of Brazil, Tavares (1964), backed by ample empirical evidence, called attention to the saturation apparent in the import substitution process by the early 1960s. To avoid any tendency towards long-term structural stagnation, she suggested moving towards "a new and truly autonomous [model], receiving its vital force from the system itself", in which the structural questions that had been pointed out would have to be dealt with (Tavares, 1964, p.56).

ECLAC assisted some Latin American countries in the preparation of national development plans in the 1950s, including the Brazilian Targets Plan under the government of Juscelino Kubitschek (1956–1961). For the reasons previously indicated, it was only natural that ECLAC economists would include conventional mechanisms to protect infant industries, such as import tariffs, production subsidies and investment financing, in the range of industrial stimulus measures. However, this does not mean that the political economy of ECLAC advocated the perpetuation of draconian protectionist regimes or the full-scale reorientation of Latin American economies towards their domestic markets, isolating themselves from international trade. In his most academically prominent and politically influential articles, Prebisch (1950, 1951 and 1959) expressed profound reservations regarding the practical application of these stimulus measures, which are presented below.

1. Prebisch's reservations concerning the practical application of stimulus measures

(a) The role of the State

Prebisch (1951, p. 22) recommended that the State formulate "a well-rounded programme, including the various branches of economic activity, in which State intervention would be limited to creating favourable economic conditions for private enterprise and exercising the indispensable incentives which will enable it to fulfil the planned goals". It follows that the State's entrepreneurial activity (i.e. the creation of State enterprises) should be strictly limited to cases of strategic necessity (Prebisch, 1951).

[16] Apparent consumption refers to the domestic availability of goods and services and is calculated as production + imports – exports. The import coefficient, then, is measured as $\left[\frac{Imports}{GDP + Imports - Exports}\right] \times 100$. It can also be calculated as the ratio of imports to GDP.

[17] See the analysis of Albert Hirschman (1968) regarding the process of import substitution in Latin America. Hirschman discusses the relatively early disillusionment with this model of industrialization in the region that structuralist economists (including Raúl Prebisch and Celso Furtado) were already voicing in the 1960s. Hirschman (1968, p. 31) recognized that the sequential character of the process presented inherent difficulties such as lack of training in technological innovation, resistance to accelerating backward linkage investments (for example in intermediate goods sectors) and barriers to access to international markets through manufactured goods exports. Nevertheless, he concluded that import substitution was the best model for accelerating Latin American development.

(b) The role of foreign capital

According to Prebisch (1951, p. 13), the economic development of Latin American peripheral countries must be led by national investment, with international investment playing only a secondary role. Indeed, this scenario, which has played out in China and India in recent decades, never materialized in post-war Latin America, causing a variety of problems that persist to this day. This topic is addressed in section IV.

(c) The relationship between agriculture and industry

ECLAC analysis underscores the enormous structural heterogeneity that exists not only between the centre and the periphery but within the periphery, which combines a primary export sector characterized by modern technology and high productivity with an infant industry characterized by traditional practices and low productivity. Even within the primary sector, there has been and continues to be a significant productivity gap between export-oriented agriculture and traditional agriculture (which employs typical subsistence production technologies).

To address low levels of productivity and real wage stagnation in this furthest-behind sector, Prebisch (1951) recommended the provision of incentives for its capitalization and technological modernization. Nonetheless, he warned, mechanization, when extended beyond the industrial and other sectors' capacity to absorb the surplus labour that it creates, can result in technological unemployment (Prebisch, 1951, p. 61) and migration flows, ultimately causing the population to balloon and social conditions to deteriorate in urban centres.

Furtado (1964), in particular, but also Rangel (1957 and 1963), identified the dualism of agriculture and industry as an obstacle to the development of domestic markets in Latin American peripheral countries, exacerbated in the case of Brazil by the system of *latifundios* (large landed estates) after nearly four centuries of slavery.

(d) Selectiveness and productivity level of local industry

Prebisch argued —and this holds true today— that the local market should not be protected indiscriminately but, rather, selectively. Nor should protection be insufficient or excessive; it should be applied to the precise degree required for increased productivity.[18] According to Prebisch (1959, pp. 259, 260 and 265),

> …protection by itself does not increase productivity. On the contrary, if excessive, it tends to weaken the incentive to produce. Therefore, in order to maintain at the periphery the major fruits of technical progress in primary activities and especially in exports, similar progress has to be made in industrial activities in order to improve their productivity and increase the level of wages in foreign currency. This will allow a parallel increase in wages for export activities; thus preventing a corresponding transfer of real income. The need for technical progress in industrial activities has been duly emphasized in the infant industries argument. As productivity improves, protection may decrease until it is completely eliminated. [...]. And in some cases indiscriminate or massive protection has gone far beyond the optimum point, to the serious detriment of exports and world trade.

[18] In a competitive market, the calculation of the import tariff should equalize the external price to the domestic price. This is because, by definition, the domestic price is higher than the external price, from the industry's nascent phase until its achievement of sufficient scale and competitiveness for the domestic price to converge with the international price, which is lower. For further details, see Krugman, Obstfeld and Melitz (2015, chapters 9–11).

(e) Protection through import tariffs (or subsidies)[19] versus protection through currency depreciation

As Prebisch (1959, p. 257) stated (correctly, in my view),

> …a policy of depreciation or devaluation should be used only to correct an externally overvalued currency and not as an instrument for effecting structural changes in the economy. A selective protection policy is a preferable instrument, notwithstanding the obstacles that have to be overcome in practice; and if it is applied gradually, higher import prices, affecting a relatively small proportion of imports each time, could be absorbed by general increments of productivity without affecting the price level of the entire economy, provided that protection has not been exaggerated to shelter inefficiency.

(f) Expansion, diversification and competitiveness of exports

The claim that the political economy of ECLAC encourages peripheral countries to adopt a model of development that is primarily focused on the domestic market is false. Prebisch emphasized that export flows from peripheral countries are critical to fund their imports and avoid driving up their external debt.

The main reason is obvious: contrary to the neoclassical conception, in which savings (the portion of national income that is not spent) are viewed as a social sacrifice, the achievement of a favourable trade balance (which was the objective, mutatis mutandis, of none other than the mercantilists)[20] makes it possible to generate sufficient domestic savings to alleviate external constraints on economic growth. This is because the increase in net exports comes with a simultaneous increase in aggregate income and, if all else remains constant, an expansion of net foreign exchange flows in convertible currencies.[21] Exports, according to Prebisch (1951, p. 60), "may procure a wider margin of savings and better means of transferring such savings in order to facilitate imports of capital goods". These measures, in that regard, "should be designed to increase exports and effect through domestic production the required alterations in the structure of imports both as regards industrial and agricultural imports" (Prebisch, 1951, p. 81).

Nonetheless, Prebisch recognized that strengthening and restructuring exports in favour of manufactured goods was no small feat for periphery economies, where markets in the early phases of industrialization were too small to compete in industries subject to large economies of scale. Even without the proper analytical tools at the time, Prebisch suggested two strategies to change the export profile, both of which are supported to this day by modern international trade theory.

The first strategy is to ensure that, as the framework protecting local industry against imports changes the productive structure, it also functions as a mechanism for the creation of strong comparative

[19] In the short term, direct subsidies to production are less harmful to consumers than import tariffs. Whereas the latter increases the price paid by the consumer by transferring demand for imported products to the local market, the former provides an identical boost to national enterprises without changing domestic consumer prices. The burden associated with the subsidies falls squarely on government (or more precisely, on society, which pays the taxes). See, in that regard, Krugman, Obstfeld and Melitz (2015, chapter 9).

[20] Between the mid-eighteenth century and the mid-nineteenth century, mercantilists came under systematic criticism from David Hume, Adam Smith and David Ricardo. However, as Thirwall (2011) notes, mercantilist policies were not unsophisticated. In fact, they were strategically important to the national interests of the major European Powers of the time.

[21] The faithful implementation of this strategy by the Chinese State in the 1980s and 1990s kick-started a process of development and has enabled that process to be sustained ever since. However, until the late 1990s, China's largest sources of net foreign exchange flows were activities located in special economic zones, where multinational and Chinese subsidiaries can only produce goods exclusively for export. As activities located outside these special economic zones have always been subject to the government's regulatory mechanisms, China's external trade policy is governed by a model that Feenstra (1998) called "one country, two systems". Also see Devlin, Estevadeordal and Rodríguez-Clare (2006).

advantages and for broadening the proportion of the export basket dedicated to more technologically sophisticated manufactured goods with higher income elasticity of demand in global markets. Prebisch (1959, p. 269) wrote:

> Industrialization needs a dynamic policy of protection, which should be continually adapted so as to introduce new changes in import composition as the economy develops and disparities in the income elasticity of demand play their role. Trade treaties should not try to crystallize existing situations but should be flexible enough to promote these changes in import composition in an orderly, selective, and rational way.

This strategy of local protection as export promotion was described mathematically by Krugman (1984), according to whom, in the presence of oligopolies and large economies of scale, protection instruments (e.g. government procurement policy) can shift import demand to local enterprises, reducing their marginal costs to the detriment of foreign enterprises.[22] [23] Economies of scale offer local enterprises a pathway to increased sales at the expense of foreign enterprises, reinforcing subsequent reductions in marginal and average costs and changing the competitive profile of protected industries until they can compete in the international market.

The second strategy suggested by Prebisch (1959) is to give preference to regional integration agreements with trading partners of a similar per capital income level. Even if the agreement includes both small and large countries, integration raises the bloc's average per capita income closer to that of larger countries. Looking to the example of the European integration strategy to form a common market beginning in the 1950s, Prebisch strongly recommended that governments strive to establish a Latin American common market. According to Prebisch (1959, p. 268),

> … an unfavorable fluctuation in exports tends to have critical effects on economic development far more so than when, as in former times, vulnerability was more on the demand side. The common market by diversifying trade within the area can gradually correct this situation. This is without detriment to the possibilities of developing industrial exports to countries outside the region that the common market may foster through the reduction of industrial costs.

More recent international trade literature is conclusive: the larger the domestic market, the greater the potential to achieve a competitive level of industrial exports. Efficiency in that regard depends on optimizing the massive economies of scale required. The establishment of a common market (as in the European Union) has no other objective than to maximize income through economies of scale among the member countries, by increasing reciprocal demand (to use John Stuart Mill's expression) between large and small economies.

In two seminal articles, which contributed to his being awarded the Nobel Prize, Krugman (1980 and 1981) formally showed the following to be true when economies of scale, product differentiation and competitive oligopoly (or "monopolistic competition", in his words) are present: (i) the possibility of becoming a large-scale exporter of manufactured goods depends on the size of the domestic market (Krugman, 1980, p. 958);[24] (ii) much of global trade is between countries endowed with similar factor endowments (Krugman, 1981, p. 959), meaning that countries rich in physical and human capital

[22] Marginal costs refer to the cost change (at the margin) that comes from the use of variable factors of production (e.g. labour) to make additional units of a product. According to traditional microeconomic theory, in the short term, potential productive capacity is considered a given, such that, above a certain level of enterprises' current production, the increase in production (at the margin) entails an increase in (marginal) costs due to the use of variable factors of production (e.g. labour). This theory states that, when production flows are below the optimal level, an enterprise can increase current production at decreasing marginal costs, but when production is above the optimal level, marginal costs increase. For that reason, under conditions of perfect competition, enterprises can only produce above the optimal level by raising their prices. This is not a viable strategy in the long term, given the existence of competitors capable of producing at lower prices. For further details, see Pindyck and Rubinfeld (2009, chapters 7 and 8).

[23] Krugman (1984) assumes that, without protection, and even under oligopolistic conditions (i.e. possessing the market power to set prices), local enterprises would produce below the optimal level. Therefore, in the absence of protection (where the import tariff equals zero), local enterprises cannot compete with imported goods.

[24] The author recognizes Burenstam Linder (1961) as a pioneer of this work, although his effort showed less formal precision.

dominate exports of the industrial goods that are intensive in these two forms of capital; and (iii) among countries with similar levels of per capita income and demand profiles (on average), a large part of trade is intra-industrial, meaning that the manufactured goods being traded are similar, though not identical, as they are subject to product differentiation by model, brand and quality standards, for example.[25]

Newer thinking around international trade suggests that, to maximize competitiveness in manufactured goods exports, which are subject to economies of scale and product differentiation, the best strategy for developing countries to participate in the global economy is to strengthen regional integration[26] with countries that have similar per capita income levels while remaining engaged in multilateralism. This approach is consistent with Prebisch's argument that the best strategy for Latin American countries to engage in global trade was and remains to prioritize regional integration agreements while continuing to pursue multilateralism. Agreements with rich countries, by contrast, should include exception clauses to keep open the possibility of accelerating industrial development.[27]

An examination of the post-war economic history of Latin America shows that the governments responsible for implementing development programmes in the region did not, strictly speaking, follow any of Prebisch's recommendations to the letter. To be fair, implementing these recommendations in practice is more art than science, and the process leaves room for course corrections along the way; still, the fact is that little was done to correct errors in time.[28]

For example, in contrast to successful endeavours in East Asia, in particular the Republic of Korea and Taiwan Province of China, Brazil's major development plans —from the Targets Plan (1956–1960) to the end of the 1970s— were not selective. Instead, they relied on excessive protection mechanisms for the domestic market and reinforced the country's dependency on foreign investment, technology and financing, among other aspects.[29] This shows that, while the arguments for adopting State-coordinated development plans to achieve a sustained recovery from underdevelopment are theoretically sound, the biggest challenge lies in their real-world implementation, where success hinges on the historical, political and cultural idiosyncrasies of each country. The State's primary challenge, in any capitalist model, is to resist pressure from rent-seeking private interests to maintain an unproductive appropriation of public funds beneficial to them.[30]

In spite of massive static inefficiency in the microeconomic allocation of resources, which created a national industrial production system characterized by high prices and low quality relative to international standards, Brazil managed to catch up between 1950 and 1980. However, a period of stagnation began in the early 1980s and continues to this day.

[25] Intra-industrial trade in automobiles between France, Germany, Spain and Sweden within the European Union is one example. Similar examples of such trade in differentiated manufactured goods can be found in other regional integration mechanisms (be they free trade areas or customs unions), such as the United States-Mexico-Canada Agreement (USMCA), the Association of Southeast Asian Nations (ASEAN) and the South American Common Market (MERCOSUR).

[26] The literature on international trade distinguishes phases of regional integration, from the simplest to the most ambitious. The simplest is the free trade area, in which member countries eliminate barriers (tariff and non-tariff) to trade with other member countries but continue to impose differentiated import tariffs on countries outside the bloc. The next phase is the customs union, where, in addition to the removal of trade barriers, a common external tariff is imposed on countries outside the bloc. The common market is achieved when, in addition to the elimination of trade barriers, factors of production (capital and labour) can move freely among countries within the bloc. In the economic union, in addition to the removal of trade barriers, member countries share a common currency, adopt monetary policies regulated by a unified central bank and establish shared legislation regarding the management of fiscal policy. Looking at recent regional integration experiences, USMCA is an example of a free trade area; MERCOSUR, despite its name, remains a partial customs union; the European Union is a common market; and the euro area is an example of an economic union in the midst of consolidation. For further details, see Hoekman and Kostecki (2009, chapter 10).

[27] This means that, for Brazil, even today, strengthening regional integration agreements with other Latin American countries is a more strategic pursuit than strengthening agreements with the United States. In the case of the European Union, the benefits of integration could be more promising, as there is enormous potential for intra-industrial trade, both with higher income countries and with member countries that have a per capita income comparable to Brazil's.

[28] See Fernando Fajnzylber's masterly works *La industrialización trunca de América Latina* (1983) and *Industrialización en América Latina: de la "caja negra" al "casillero vacío"* (1990).

[29] For a comparative analysis of the development plans of the Republic of Korea and Brazil, see Moreira (1995). For further information on the case of Brazil, see Suzigan and Furtado (2006).

[30] Similar arguments are found in a study by Peter Evans (1992).

Beginning in the 1980s, with neoliberalism on the rise and import substitution under heavy criticism in Latin America, the leading economists at ECLAC, equipped with the tools of neo-Schumpeterian microeconomic theory, undertook a critical appraisal of the region's development policies, comparing what had been proposed with what had been done in order to recommend adjustments. As neoliberalism took on hegemonic proportions, ECLAC paved the way for the development of neostructuralist theoretical models. This modified approach, while not enough to restore the Commission's policy influence in Latin America, would ultimately preserve its academic prestige.

IV. ECLAC neo-structuralism and the centre-periphery model today

At the beginning of the 1980s, most Latin American countries were already having trouble accessing international liquidity and ensuring sufficient foreign exchange availability to cover the external debt service costs that had been piling up since the previous decade. Argentina and Chile had adopted radical (albeit unsuccessful) liberalization reforms in the 1970s, but the rest of the Latin American countries had yet to follow.

Even before the Washington Consensus —the term coined by John Williamson (1990) to describe a set of 10 free-market policies prescribed by the multilateral institutions headquartered in the United States capital —became a mainstream tool for multilateral institutional pressure, the most prominent ECLAC economists (such as Jorge Katz, Osvaldo Sunkel, Fernando Fajnzylber and Ricardo Ffrench-Davis), using the more refined microeconomic and macroeconomic instruments at their disposal, were re-evaluating the import substitution model in Latin America, identifying the main errors in the policies adopted and proposing course corrections.[31]

The purpose of this critical review by ECLAC was to address the adverse international context and offer recommendations for definitively resolving the problems relating to the external debt crisis and high inflation. It was also intended to propose public policy adjustments to overcome stagnation and allow the continent to continue, as soon as possible, the process of catching up. However, let me be clear: policy adjustment did not mean unconditional adherence to neoliberalism; the suggestions were not to throw the sick baby out with the bathwater, but to remove it from the water, treat it and recreate the conditions for its healthy growth.

Fajnzylber (1983), in *La industrialización trunca de América Latina*, offers one of the most comprehensive studies on the policies and results of the import substitution process in Latin America. In Fajnzylber's view, most of the problems identified in Latin America were closely related to the weakness of policies adopted since the 1950s. Although those policies had accelerated economic growth through the late 1970s, they ultimately produced a "truncated industrialization" —a stunted and incomplete industrial system—, in particular in larger economies, such as Brazil, Mexico and Colombia.

The main problems studied by Fajnzylber, all of which resulted from the policies selected, are the following: (i) the perpetuation of indiscriminate and unselective protectionist practices ("frivolous protectionism"); (ii) the non-existence of an endogenous core capable of generating and disseminating technical progress in the economic system; (iii) multinational subsidiaries' grip on the industries with the greatest potential for technological development, which created a lack of independence in terms of investment, innovation and financing decisions and built a local business community whose capacity for making copies, reproductions and superficial alterations was greater than its capacity for genuine innovation; and (iv) the precarious relationship between agriculture and industry. Having addressed this fourth point in a previous section, we will briefly analyse the first three problems.

[31] For an outstanding book on the history of Latin American structuralist thought, see Di Filippo (2021).

Fajnzylber used the expression "frivolous protectionism" to refer to the perspective that, contrary to liberal objections, classical infant industry protection mechanisms are necessary to strengthen industrialization. The successful industrialization of the "Asian tigers" (in particular the Republic of Korea and Taiwan Province of China) shows that government stimulus measures, such as discriminatory import tariffs and other mechanisms to protect local industry, should be implemented temporarily and only to the degree needed to acquire technological knowledge and achieve domestically and internationally competitive scales of production. This was not the approach taken by the Latin American countries with the greatest market potential.

In Brazil, the use and abuse of excessive protection measures and the indiscriminate granting of government assistance —without imposing economic performance requirements linked to productivity, reduced unit costs and compliance with international quality standards— produced a relatively diversified industrial structure that nevertheless fell short of the level of competitiveness needed for global market penetration (with some notable exceptions).

The combination of intense local protection and overindulgence in foreign direct investment made it impossible for the domestic industries with the potential to drive technical progress to gain technological autonomy and perpetuated the prevalence of manufactured goods with high income elasticity of demand in the import profile. Fajnzylber (1983) correctly understood that, as a result of this dialectical interaction, the import substitution process remained stuck in its 1970s intermediate phase instead of advancing towards an economy driven by metalworking (which encompasses the capital goods and automotive industries) and electronics industries. Such industries, which at the time formed the vanguard of technological innovation and dissemination, would have had the transformative potential to generate such a rate of investment, capital accumulation and technological progress as to become endogenous to long-term economic growth. Thus, industrialization in Latin America was cut short by a failure to develop an endogenous nucleus for the dissemination of technical progress.

Fajnzylber noted that, even in Brazil —the most advanced economy in terms of industrial growth and diversification between the 1950s and 1970s—, this group of key industries was controlled by multinational enterprises.[32] In their countries of origin, would-be competitors faced enormous structural barriers to entry due to the required mastery of production techniques and significant minimum efficient scales of production. This created an environment of oligopolistic rivalry between established companies, where self-reinforcing technical progress drove a Schumpeterian process of creative destruction.

In Latin America, high levels of protection brought an influx of foreign subsidiaries to key industries, in particular durable consumer goods sectors (e.g. automotive and electronics), where enterprises compete on the basis of product differentiation rather than prices. In Brazil, for example, the overprotection of these sectors allowed an excess of foreign enterprises to crowd in and kept prices too high for international competition. According to Fajnzylber (1983, p. 192), despite operating at high unit costs owing to an exceedingly fragmented market and diminished scales of production, entrepreneurs in the highly protected countries of Latin America were in a position to transfer the costs associated with the partial use of their facilities to the consumer in the form of increased prices.

Fajnzylber (1983, pp. 176 and 177) correctly pointed out that the considerable permissiveness of the various social stakeholders in Latin American peripheral countries ultimately allows the supremacy of multinational enterprises in the major hubs of technological progress to restrict domestic entrepreneurs' capacity to adapt, innovate and compete internationally in a broad range of strategic sectors.

However, ECLAC economists' critical analysis of Latin American development policy, in particular policies implemented during the 1970s heyday of import substitution, emphatically rejects the unconditional adoption of the neoliberal precepts that would eventually come to pervade economic

[32] According to Fajnzylber (1983, p. 151), between 1950 and 1978, Brazil's industrial sector had the highest average annual growth rate in Latin America (8.5% compared to an average of 6.5% for 19 countries).

policy in the region, beginning in the 1990s. While ECLAC has since proposed public policy reforms to get the region's economies back on the path to sustainable development, its recommendations have never included a rapid transition to free trade ("shock therapy"), an open door to short-term foreign capital flows, a minimal State or even the limiting of public policies to correcting market failures.[33] Thus, its public policy proposals have never been aligned with the neoliberal agenda.[34]

Three key points can be distilled from the theoretical and empirical productive development literature produced by ECLAC since 1990: (i) the recognition that the region's considerable economic growth from 1950 to 1980 failed to reduce social inequality and eliminate poverty; (ii) the renewed endorsement of the centre-periphery model —sometimes called the North-South model— as an analytical framework for understanding the factors contributing to the persistence of large gaps in productivity and per capita income between Latin America and more advanced economies; (iii) the conclusion that the process of development in Latin American peripheral countries was interrupted by premature deindustrialization more than four decades ago; and (iv) the rehabilitation of the centre-periphery model, emphasized in more recent documents (ECLAC, 2010, 2012 and 2018), and more specifically, the observation that the globalization of Latin American countries (in particular their financial globalization) has further entrenched their position on the periphery by increasing social inequality and labour market insecurity.

In ECLAC (2018, p. 13), the Commission identified poor diversification of production, dependence on natural resources, specialization in low-value added activities and vulnerability to external shocks as harmful to equality, citing their tendency to stifle the labour market and restrict the dissemination of skills. It also recommended that governments in the region adopt a macroeconomic policy focused on development and take advantage of the myriad opportunities to incorporate low-emissions technologies. According to ECLAC, overcoming the region's protracted economic stagnation, which persists to this day, depends on leveraging the still-untapped potential of industrial diversification through structural change, while increasing the rate of investment, incorporating technological progress, reducing social inequality, and safeguarding environmental sustainability.

In an article on centre-periphery relations in the twenty-first century, Torres and Ahumada (2022) argue that the subordination of the periphery in Latin America under global capitalism has intensified in recent decades as neoliberal political hegemony increased the political and economic power of financial rent-seekers.

This situation is not irremediable. The main focus of ECLAC, during the period in which the external debt crisis and chronic inflation were weighing down most Latin American economies, was to restore macroeconomic stability and direct efforts towards generating and disseminating technological progress rather than merely imitating imported technologies, such that the resulting increase in productivity would boost the share of real wages in national income. ECLAC maintained the view that such results could not be achieved through the indiscriminate assimilation of neoliberal precepts but rather through a combination of restructured trade protections and an industrial policy in which innovation is approached systemically, in coordination with all other areas of public policy (e.g. science and technology, education and training, and those relating to fiscal, social and macroeconomic issues).

In a recent document, ECLAC (2020) justifiably emphasized the concern that, once the world emerged from the coronavirus disease (COVID-19) pandemic, the cavernous gap between Latin American peripheral countries and the global technological frontier could represent a structural barrier to the

[33] Neoclassical liberalism only allows for State intervention when imperfections in market functioning prevent free competition from achieving the optimal allocation of productive resources and national income distribution. In such cases, public policies may be adopted to correct market failures.

[34] The only document in which ECLAC dabbles in neoliberalism —and even then, it stops short of endorsing the full package of reforms proposed by that ideology— is *Open regionalism in Latin America and the Caribbean: economic integration as a contribution to changing production patterns with social equity* (1994), which was prepared under then-Executive Secretary Gert Rosenthal. Some proposals rooted in the neoclassical approach to market failures are examined in that document. See ECLAC (1994).

region's sustained economic growth. Moreover, the Latin American periphery would have to reconcile economic growth with two additional gaps: social inequality and the physical limitations imposed by environmental constraints.

With regard to the technology gap, according to Thirlwall's law, in the long term, the growth rate of peripheral countries *(GDP Periphery)* relative to central countries *(GDP Centre)* depends on their ratio of income elasticity of demand for exports to income elasticity of demand for imports. The equation that expresses Thirlwall's law can be further refined by the addition of a policy factor, represented by the term "development policies" inside the parentheses in equation (1):

$$\frac{GDP\ Periphery_{BP}}{GDP\ Centre} = \frac{Income\ elasticity\ of\ periphery\ exports}{Income\ elasticity\ of\ periphery\ imports}\ (Development\ policies) \quad (1)$$

To illustrate, let us apply this equation to the case of Brazil. In the long term, the economic growth rate compatible with the country's balance of payments (left side of the equation) is limited by the ratio of income elasticity of demand for exports to income elasticity of demand for imports (right side of the equation, except for the term in parentheses), which in turn reflects the current productive structure. A recent empirical study (Nassif, Feijó and Araújo, 2016) estimated the income elasticity of Brazilian exports and imports for the period 1995–2013 at 1.74 and 2.01, respectively.[35] Thus, more robust economic growth rates would tend to be short-lived in Brazil, as they lead to a faster increase in imports than in exports, thereby exposing the country to unsustainable current account deficits in its balance of payments.

Note also that, as the incorporation of the term inside the parentheses in equation (1) suggests, the current ratio of income elasticity of demand for exports to income elasticity of demand for imports in Brazil is lower than unity, as it is the result of short-term and long-term economic policies adopted in the preceding period (1995–2013). In economics as in life, you reap what you sow: a country's economic performance, as measured by the growth rates of its per capita income and the living conditions of its population, is the product of the selection and combination of public policies adopted in the past. From this perspective, Brazil's economic growth faces severe structural constraints.

But all is not lost: the term inside the parentheses in equation (1) also suggests that if the right development policies are implemented immediately, the ratio of income elasticity of demand for exports to income elasticity of demand for imports in Brazil could change, bringing its coefficient above unity at some point in the future. Consequently, more robust growth rates that would allow Brazil to steadily catch up, in this and the coming decades, would be possible.[36] By extrapolation, ECLAC could apply this conclusion to Latin America and the Caribbean as a whole, the focus of its research efforts.

V. Conclusion

The centre-periphery model is not a repudiation of the canonical theses of classical developmentalism, which postulate that industrialization drives economic development, bringing with it structural changes that reallocate productive resources from low-productivity sectors to high-productivity sectors. Rather, the two models are complementary. As far as remedies for underdevelopment go, the centre-periphery model represents progress, as it places greater emphasis not only on the economic, historical and social particularities of the peripheral countries of Latin America but also on the role of planning and public policy, compared to classical developmentalism.

[35] In view of the economic slowdown, crisis and stagnation that have played out in Brazil since 2014, there is no reason to expect significant changes in these estimates.

[36] See ECLAC (2020) and Porcile (2021).

ECLAC, as a centre of structuralist thought in Latin America, has formulated (and continues to formulate) theoretical development models and public policy recommendations aimed at supporting and sustaining the region's economic development. These policies do support protectionist measures for local industry based on the infant industry argument, leading critics to suggest that the political economy of ECLAC supports closed development models focused entirely on domestic markets; however, the academic publications of leading ECLAC economists (Prebisch, in particular) suggest otherwise. Indeed, the Commission's repertoire of policy recommendations has long included selective and moderate protectionism, measures to minimize technological dependence on multinational enterprises and support for manufactured goods exports.

The fact that Latin American governments did not scrupulously follow these recommendations just goes to show that some things are easier said than done: in practice, development policies are influenced by a variety of factors, including pressure from lobbies, the power of political oligarchies, changes of government, cultural factors and the prevalence of ideas or dogmas.[37] The region's fast-paced economic growth from 1950 to 1980 came at a cost: with few exceptions, this period ultimately created a heterogeneous, stunted and microeconomically inefficient industrial system.

Nevertheless, the low growth rates and secular stagnation in labour productivity that have plagued most Latin American countries since the early 1980s do not justify the region's long-term neglect of development policy and economic planning. In any country, developed or not, some development policies will succeed and others will fail, because their implementation occurs within a complex system of economically and socially interrelated stakeholders. For this exact reason, ECLAC economists have suggested to governments that past errors may provide a practical guide to correcting future development policies.

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[37] The author is grateful to André Lara Resende for recalling this factor.

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