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A critique of peripheral capitalism¹

*Raúl Prebisch**

The purpose of this article is to set forth the features, relations and fundamental problems which characterize peripheral development. The analysis principally seeks to throw light on the mechanisms underlying the distribution of the fruits of technological progress among the different social strata. To this end, a detailed account is given of the process of creation of the surplus and of its primary appropriation by the upper strata (through the power deriving from their ownership of the means of production) and its secondary appropriation by the middle strata (which are favoured by democratization).

A number of consequences of this process are carefully analysed. In the first place, consideration is given to its effects on the rate of capital accumulation, on the technologies used and on the orientation of consumption, investment and education; these factors in turn exert a decisive influence with respect to the sufficiency of dynamism in the economy, as ultimately expressed in its capacity to absorb labour productively and in progressively more equitable income distribution. Secondly, some consequences of the exacerbation of the distribution struggle are studied, such as soaring inflation and regressive changes in political régimes. Lastly, the author examines the relations between the centre and the periphery and asserts that these have a decisive influence on national processes.

*Director of the Review.

Overall view

1. *Frustrations of development*

Two high hopes of some decades ago have been frustrated in the subsequent course of peripheral capitalism. It was once believed that if the latter were left to be carried along by its own dynamic impetus, the penetration of technology from the industrial centres to the periphery would gradually disseminate its fruits throughout all strata of society; and that this would help to further and consolidate the democratization process.

The facts forbid us to go on fostering such illusions. Development tends to by-pass a large part of the population. It is primarily restricted to the upper income strata, where the consumption patterns of the industrialized centres are increasingly imitated. The consumer society has thus established itself in the peripheral countries, and the middle income strata, seduced by its allurements, are striving to participate in it, and are succeeding. All this is in sharp and

¹This article is a shortened version of a larger-scale work on peripheral capitalism. Several motives have induced me to present it here. Firstly, the wish of expressing appreciation to Enrique Iglesias for his gesture in inviting me to direct this Review: a responsibility which I accept with an enthusiasm and a conviction undimmed by the years. Secondly, an intellectual necessity: I have written extensively on the subject and this summarized version has obliged me to make a rigorous and purgative review of my material. And finally, I hope that these pages will provoke healthy controversy which will doubtless be of great value in the prosecution of the task I have undertaken.

glaring contrast with the sub-consumer society in which the lower strata of the social structure struggle to subsist.

The consumer society has an immense social and political cost: the social cost of injustice and the political cost of shattering that high hope once cherished. The progressive development of the consumer society would in fact appear to become, in the long run, incompatible with the advance of democracy, since it tends to create an increasing disparity between the economic and political processes which it attempts to correct by setting back the latter rather than changing the former.

The consumer society could not work its way up to the proportions it has attained in peripheral capitalism without a very uneven distribution of the fruits of the technology that penetrate to the periphery from the centres. The implantation of the consumer society is commonly attributed to foreign enterprise, and, in particular, to the

transnational corporations. True, they do help to exalt it; they sow in the periphery with clear intent, and reap abundant harvests. Nevertheless, the consumer society could not have developed without the upper income strata's capacity for primary appropriation of the fruits of higher productivity².

It would be intellectually irresponsible to make assertions of this kind without producing sound supporting evidence. This I shall attempt to do in the course of the present study. In the meanwhile, I will venture to offer some foretaste of the conclusions I have reached after long reflection on peripheral capitalism in the Latin American sphere. These ideas spring from sustained observation of events in the course of my long journeyings through Latin America, with a view to interpreting their meaning and thus helping to work out a theory of change in the existing order of things.

2. *Centre-periphery power relations and their contradictions*

If I restrict myself to the Latin American sphere when referring to the periphery, it is because this is the sphere in which I move most easily. As for the centres, I intend to refer to them as much as is necessary in order to undertake a critique of capitalism in this region of the American continent which is part of a global process embracing both the industrial centres and the vast periphery of the world economy.

This concept of spatial globality is not, of course, the same as that which mistakenly arose some time ago, and

which has still not wholly died out, despite subsequent experience. We now know that the power of expansion of the centres is not sufficiently strong to bring with it the development of the periphery

²Their ownership of the means of production enables the upper strata to be the first to lay hands on a large part of the fruits of technological improvement and higher productivity. A smaller share then passes to the middle strata. The former process is referred to here as "primary appropriation"; the latter is "secondary appropriation".

through the spontaneous play of economic forces. This has not been so. Development, as an integral phenomenon extending with industrialization far beyond primary production, has been possible only when the periphery, during successive crises in the centres, has been able to prevail over the play of world market forces, which reflects the power relations between the centres and the periphery. And although those relations have become more complex, they continue to develop, as in the past, under the hegemony of the centres, in particular the principal dynamic centre.

The power relations in question, however, are very precarious and unstable because of the underlying contradictions.

In the first place, there is a contradiction between the participation of the centres in the industrialization of the periphery and their reluctance to adapt their structure of production to the inescapable demands of such a process. In this and other aspects of centre-periphery relations, a narrow outlook prevails in which the immediate interests of the centres tend to obstruct a longer-term view. Secondly, certain ingrained manifestations of the hegemony referred to are in contradiction with the growing sense of national identity and increasing freedom of decision-making which accompany the development of the periphery.

3. *Imitative capitalism and its contradictions*

In its struggle to develop, the periphery tends to follow in the tracks of what is done and thought in the centres. Thus, in contrast to the innovative capitalism of the centres, peripheral capitalism is essentially imitative. We adopt the same technology, we imitate the centres' consumption patterns and life styles. We copy their institutions; and their cultural manifestations, ideas and ideologies are constantly gaining ground in our countries.

Access to what has cost the centres centuries of effort is certainly of immeasurable value. At the same time, however, imitation involves great contradictions with the actual circumstances of the periphery, and this gives rise to basic flaws.

Whichever way one looks at it, peripheral development lacks authenti-

city. No means have been found of overcoming the contradictions, and indeed no serious attempt has been made to do so. The penetration of technology from the centres requires more and more capital, which is not available, while it tends to absorb less and less a labour force which is relatively abundant *per se*, and is, moreover, growing at an exceptional rate: another consequence of scientific and technological progress.

By virtue of the continuous growth of productivity it brings with it, however, the technology of the centres offers a growing potential for capital accumulation. But it is not exploited as it should be. Its proper utilization is hindered by the imitation of the consumption patterns of the centres and by the fact that the latter, thanks to

their power, withdraw a substantial part of the income of the periphery. In consequence, a considerable proportion of that potential is wasted.

While the imitation of consumption patterns is based largely on inequality of distribution, the mass media play an

increasing part in aggravating its harmful effects on development. The techniques of mass communication are powerful agents of the propagation of demand for the more and more diversified range of goods which modern production technology offers.

4. *Technological penetration and structural changes*

The penetration of the production technology of the centres plays a dominant role in peripheral development.

The rise in productivity that accompanies it brings changes in the structure of society, in the course of which the upper income strata increase their power by concentrating most of the means of production in their own hands, with the result that they have institutional capacity for primary appropriation of the fruits of technological progress. The middle income strata also strengthen their position as they expand with the development of industry and other

related activities, but the lower strata remain largely excluded.

In turn, these structural changes affect power relations and the income distribution deriving therefrom.

The so-called free play of economic forces is in fact subordinated to these power relations and the interests and stimuli which govern them: relations that demonstrate the complexity of peripheral development, in which the economic phenomenon of the penetration of technology from the centres is accompanied by social, political and cultural phenomena, all linked together in close interdependence.

5. *The primary appropriation of the surplus*³

What is signified by the capacity of the upper strata for primary appropriation of the fruits of higher productivity? This is a point which must be cleared up if peripheral capitalism is to be understood.

It is common knowledge that the increase in productivity, with the resulting reduction of costs, is not passed on to the economy as a whole through a downward movement in prices. This is

because demand persistently tends to exceed the available supply of final goods, owing to the very nature of the production process.

Let us explain this in simplified terms, to some extent sacrificing the strict rules of demonstration for the sake of comprehensibility.

We are concerned with an essentially dynamic concept, conceivable only in a situation of rising production where the time factor is of crucial importance.

³This subject is discussed in greater detail in chapter III of the present article.

A period of varying length, during which the many stages of the production process are carried out, elapses between the incorporation of the fixed capital and the appearance of the final goods. Two contrary movements occur during this period. On the one hand, there is the rise in productivity. Technological progress reduces the labour force needed to obtain a specific quantity of goods; thus the corresponding fall in costs tends to lower prices.

On the other hand, in the dynamics of development the employment of labour with rising income must increase faster than productivity. Growth of productivity and growth of employment and production are basic characteristics of development.

Thus, the employment of labour required to produce an increased quantity of final goods after a given time, exceeds the employment which was necessary to produce the final goods that are currently being offered on the market.

In other words, the income paid out to the labour force which is being expanded in order to obtain more goods in the future is greater than the income

contained, so to speak, in the present final goods.

Now, in order to pay out this income recourse is had—in wholly orthodox fashion—to monetary expansion; and that expansion is converted into demand which exceeds the supply of the aforesaid final goods.

This excess demand allows the primary appropriation of the fruits of increased productivity by the owners of the means of production. Thus we can speak indiscriminately of appropriation of the fruits of the increment in productivity or appropriation of the fruits of technological progress, or appropriation of the surplus, although in this last case there is some risk of confusion with another concept of surplus.

This is the very simple explanation of a complex phenomenon to which much attention is paid in this study because of its profound significance for capitalist development. It is an essentially dynamic phenomenon. Thus it eludes static equilibrium theories, as well as the complications of an outdated theory of value which, although superseded some time ago, continues to be of outstanding political importance. I hope—and suspect—that my thesis will give rise to salutary controversies.

6. *The inadequate rate of capital accumulation*

The surplus has an increasingly great potential for capital accumulation, which is far from being fully exploited.

The accumulation effort must be more strenuous in the periphery than in the centres. In the latter, technological development takes the form of an increasingly high density of capital per person employed, in close interdepen-

dence with the growth of income and the capacity for accumulation. This correspondence obviously does not occur when the same technology penetrates into the periphery, where incomes and the capacity to accumulate capital are relatively low. Thus, a greater proportion of total income is needed to absorb the same amount of manpower on the

periphery, where, moreover, the labour force grows at a higher rate, so that the accumulation effort has to be stepped up more vigorously still.

Nor is this all. The faster productivity rises, the higher the rate of capital formation must be, and the greater will have to be the proportion of total income devoted to it.

This essential requirement is not being met in peripheral capitalism. It would appear to be incompatible with the widespread growth of the consumer society, which could not exist, as pointed out above, without the considerable economic and political power of the upper strata, which ensures their primary appropriation of the fruits of technological progress.

Furthermore, in its desire to tackle certain manifestations of this limited dynamism, the State, likewise under the influence of power relations, helps to make matters worse by withdrawing resources from the accumulation potential in order to finance spurious, not genuine, absorption of labour, principally from the middle strata.

Finally, the play of power relations at the international level enables the centres to take a disproportionate part in the gestation and appropriation of part of the peripheral surplus, with consequences which in the long run help to aggravate the insufficiency of the dynamism of development.

Unfortunately, the neo-classical economists are wrong. If in the free play of economic forces a spontaneous

accumulation mechanism were inherent, the problem of peripheral development would largely, although by no means entirely, have been solved. But there is no such thing. No mechanism exists to ensure that the rate of accumulation meets the requirements imposed by the growth rates of productivity and of the labour force. Nor is there any clear indication at the periphery of any sustained and deliberate effort to solve this problem by adopting a criterion of collective rationality.

We have just mentioned three phenomena which are typical of the periphery and help to explain the inadequate rate of capital formation. Power relations appear in them all: in the excessive consumption indulged in by the upper strata, which would be inexplicable without the inequitable distribution deriving from those relations; in the spurious absorption of labour, influenced above all by the power of the middle strata; and in the disproportionate incomes the centres extract through the play of power relations at the international level.

There are those who still see inequitable distribution as a factor favourable to capital accumulation. They are overlooking the consumer society. At the other extreme, there are many who assume that the problem of insufficient dynamism is essentially one of distribution. They are overlooking the unavoidable necessity of accumulation.

7. Insufficient dynamism and the absorption of labour

The insufficient rate of capital accumulation holds the key to the insufficient

dynamism of peripheral capitalism, i.e., of its inability to absorb, in conditions

of ever-increasing productivity, the continuous increment in the labour force, steadily raise the latter's income levels and lessen the serious income disparities linked to the structure of society.

An effort must be made to interpret these phenomena within a historical perspective. Integral development, extending beyond primary production, is a late arrival on the periphery. To make up for lost time is a task of enormous proportions. Even if the capital accumulation potential is exploited to the full and the most suitable production techniques are rationally adopted, the economy will still take some time to acquire sufficient dynamism. The less the accumulation potential is exploited and the more irrational the adoption of technology, the longer this lapse of time will be.

Absorption and the improvement of the income position of the lower strata in relation to the upper are, of course, two closely-linked aspects of the same problem, as technology from the centres penetrates into the periphery. This penetration is effected through the continual super-imposition of new layers of higher-productivity technology on those of lower productivity.

In the course of this process, the labour force employed in the lower layers tends to move upwards, attaining greater productivity and higher income levels.

The faster the rate of capital accumulation, the more pronounced this upward movement will be. If the rate is high, from each stratum a sufficient proportion of the labour force will move upwards to promote an improvement in the lot of those remaining in the same occupations

as before. On the other hand, a low rate of accumulation not only weakens upward mobility, but also results in redundant labour which is not genuinely absorbed by the system. In the periphery, insufficient and tardy capital accumulation is responsible for the continued survival of very rudimentary or pre-capitalist technological layers.

The existence of redundant manpower is not peculiar to the lower strata. It is to be found in all strata, although its implications are different in each.

The political power of the middle strata enables them to find their way into the State services in greater numbers—sometimes much greater—than are really required. This is spurious, not genuine, absorption, which also occurs as a result of the action of organized labour power⁴.

As already stated, the resources which are diverted from capital formation in this way accentuate the economy's insufficiency of dynamism, to the detriment of the lower strata. These have not enough power to share in the spurious absorption of labour, and are thus left in occupations where productivity is very low and wages are meagre—providing unskilled or almost unskilled personal services—, or simply remain unemployed.

Unemployment is also found in the higher strata, since the capacity for

⁴By organized labour power we mean the power acquired by more or less sizable groups in all strata of the labour force, through their organization in various types of association, to push up their salaries and wages above the level that would be determined spontaneously by market forces.

spurious absorption is not of course unlimited.

Rightly considered, spurious absorption is an integral part of the system and of the play of its power relations. It is, in reality, inconsistent to criticize this role of the State without at the same time attacking the prestige of the consumer society, in which a large part of the potential for capital accumulation is wasted.

If the nature of these phenomena is to be fully understood, the ambivalence

of development must be taken into account. Redundancy of labour and the hardship it implies for the lower strata are compatible with a high rate of development for the upper strata and for that part of the middle strata which actively shares in the fruits of technological progress.

In all this is reflected a sharp rise in productivity, which does more to foster the consumer society than to step up the rate of capital formation and the labour-absorbent capacity of the system.

8. *The distribution struggle*

As already noted, the fruits of higher productivity are primarily appropriated by the upper strata, where ownership of most of the means of production is concentrated. I say primarily, because at the same time a complex redistribution takes place, promoted by the increase in demand for labour which accompanies capital accumulation. The redistribution which occurs under the influence of this demand is very limited, and the greater the absorption problem, the more slowly is it brought about. It particularly relates to the labour force that possesses the wide range of skills required by the superimposition of new technological layers, extending from organization and management qualifications, which necessitate long training and experience, down to quickly-learned practical skills.

The scope of this partial redistribution is still further limited by the social power which —according to the way income is distributed— enables some to take advantage of the training opportunities offered mainly by the State, while

the broad masses have no chance of doing so. I refer, of course, to social groups, not to individuals.

The higher up the skills ladder we look, the greater is the influence of social power. At the bottom of the ladder there is the simple unskilled labour force. Spontaneous redistribution scarcely reaches it, since the wages of the labour which is absorbed are heavily affected by the low wage level of the labour which remains unabsorbed because of inadequate capital formation.

Hence the importance of political and organized labour power, which attempts to remedy the deficiencies of this spontaneous redistribution. This power is generally found in the middle strata, which —genuinely or spuriously— expand with the advance of industrialization and urban concentration.

Their ever-increasing political power enables these strata to secure, through the State, diverse forms of social consumption, while organized labour power enables them to improve their

share of total income and increase their private consumption. The power within these strata is not evenly spread, however, and large groups are more or less left behind, just like the lower strata which have little or no power. The social consumption of the privileged is thus achieved, in part, at the expense of the private consumption of those left behind. This results in redistributive reactions which soon generate the well-known inflationary spiral.

The upper strata play an active part in the spiral, by raising prices and through monetary expansion, after having given up a part of the surplus which is continually renewed. Thus, their power is not weakened, but rather takes a new turn.

As the democratization process advances and political and organized labour power is strengthened, the distribution struggle waxes fiercer and inflation becomes an inherent part of development, with all the more intensity as power reaches the groups that were left behind and the lower strata.

In this distribution struggle there is no trend towards equilibrium, no regulating principle: on the contrary, it progressively builds up its own dynamism.

Nor is this all. Unlike the inflation of the past, redistributive inflation is beyond the control of the monetary authorities, so that in Latin America we have witnessed their veritable dethronement.

Attempts to put matters right prove self-defeating when the monetary authorities decide to apply credit restrictions which were effective in the past. Such measures bring economic recession and unemployment in their train, with the consequent aggravation of the distribution struggle, and this sooner or later leads to a fresh upsurge of inflation.

It must therefore be recognized that these are relatively new phenomena which call for measures of a different kind, but for just as much discipline as is demanded by the exercise of monetary authority.

9. Inflation and political power

In such conditions, the advance of democratization would appear to lead inevitably to a distribution crisis.

Understandably, therefore, there is some inclination to lay the blame for the crisis at democratization's door.

This attitude fails to consider that under the existing system the political and organizational power of the labour force are the only means of counteracting the economic and political power of

the upper strata and sharing out the fruits of rising productivity.

This is another manifestation of the imitative development of the periphery. The unconditional transplantation of certain institutions also creates very serious contradictions. The upper strata's hold over much of the means of production and the institutional machinery, which permits their primary appropriation of the surplus, is in the long run incompatible with institutions

which, with the advance of democracy, increase the redistributive power of the middle strata; and this is even more true as democratization extends to the lower strata.

It has been possible to mitigate this incompatibility, if not to eliminate it altogether, when the development of democratization has been restrained in one way or another. All the more so if it is stifled completely, especially when the distribution crisis leads to economic disruption and becomes socially intolerable.

When the democratization process is merely restrained, representative democracy functions formally to a large extent, and the political and labour leaders are somehow incorporated in the system, linking up with the higher strata and sharing with them the advantages of development. This helps to moderate political and organized labour pressure so that it is possible, if not to prevent inflation, at least to keep it sufficiently within bounds to ensure regular development. The use of force in such a case is accidental or sporadic and is not a permanent feature of the system, except in latent form.

When the process of democratization develops unrestrictedly, however, the

upper strata turn in the last resort to the use of force to overcome the distribution crisis.

Once political and organized labour pressure is eliminated or reduced to minimal proportions, it becomes possible to lower real wages and then to curb wage increases, while monetary expansion and devaluations again raise prices and restore the surplus in full.

Clearly, then, the re-establishment of monetary authority is feasible only at a considerable political and social cost: the political cost is obvious, while the social cost resides in the fact that the restoration of the surplus once again stimulates not only capital accumulation but also the disproportionate consumption of the upper strata.

A developing system, whatever its nature, inevitably needs a certain amount of distributive discipline which, besides being equitable, must also encourage the efficient use of the capital accumulation potential. This must by no means be confused with another kind of distributive discipline of a coercive nature, which, achieved by sacrificing democratization, imparts great vigour to the consumer society while maintaining the anomaly of a coexistent sub-consumer society.

10. *Neo-classical reasoning and the peripheral reality*

It is not surprising that the contradictions of peripheral capitalism and of its relations with the centres fail to figure in the reasoning of the neo-classical economists and of those who dogmatically follow their teaching and attempt to

interpret peripheral development in its light. They have distorted the facts of the case. I must confess that in my salad days I allowed myself to be seduced by their air of strict logic and the mathematical elegance of their theories of

economic equilibrium. It has taken a great intellectual effort for me to throw them overboard in order to gain a better understanding of the real phenomena.

Those theories maintain that in a régime of free competition, income is distributed according to the marginal productivity of the various factors which enter into the process. They implicitly contain some sort of ethical concept which enhances their prestige, despite the decisive role they ascribe to economic interest at the expense of other human motives. I shall attempt to show elsewhere that this is not the truth of the matter, and that distribution is in the last resort the arbitrary result of the play of power relations.

The market mechanism is absolutely powerless to settle problems of this kind, however much it may be the fashion to speak of the social market economy. It cannot spontaneously raise the rate of capital formation to resolve the contradictions of imitative capitalism, nor can it modify the power relations which are the origin of tremendous distributive disparities. It does not prevent, but rather promotes, the adoption of certain kinds of technology which militate against collective rationality, since they sacrifice employment without contributing more than any others to the growth of the product.

This induces us to look with new eyes at the so-called market forces. It is argued that these forces, in a régime of free competition, make for an equilibrium in which resources are allocated in the best possible way. But the best possible way from what standpoint?

Here a value judgement is inevitably implied and should be made explicit.

I have no doubt that such an allocation is the best possible from the standpoint of the consumer society. Given the income distribution on which that society is based, individual initiative tends to respond fully to the exigencies of demand. But since income is distributed arbitrarily, the allocation of resources to satisfy that demand is also arbitrary. Market forces alone cannot rectify income distribution. Other measures are needed to correct it, and, if it were so corrected, the market forces would generate results very different from those obtained at present.

Nor is the market able to cope with the two-edged nature of technology. What production technology has contributed to human welfare is incalculable. At the same time, however, the evils it brings with it are increasingly obvious and disquieting. I am referring not only to the anomalies of the consumer society but also to pollution, the deterioration of the environment and the irresponsible exploitation of non-renewable natural resources. The market mechanism cannot be expected to deal with these aspects of the seamy side of technology.

Production technology really responds to the requirements of demand. It tends to move upwards, not downwards. It is not concerned with improving the productivity of the lower technological layers until a more rapid rate of capital accumulation makes it possible for them to be superseded by others in which productivity is higher. For example, new technology does not spontaneously reach the agriculture of the poor. If the yields of their land are improved, this is fundamentally due to the almost

invariably haphazard action of the State.

Furthermore, the free play of economic forces at the international level does not ensure the best allocation of productive resources from the point of view of the periphery, even if it is favourable to the centres. This is largely the consequence of the long-standing time-lag with which productive technology is making its way into the activities of the periphery, although, of course, the play of power relations at the world level must not be overlooked.

As already stated, relations with the centres develop under the hegemony of the latter, and particularly of the principal centre. Thus, the interests of centres tie in with those of the upper

strata of the periphery, and participate with them in internal power relations, by virtue of the considerable influence they also exercise in the centres themselves. These interests are subject, therefore, not only to the distribution struggle but also to political pressure that increasingly reflects the feeling of autonomy which is in fact inherent in the advance of democratization. Only if so happens that this political pressure and the distribution struggle in the periphery are liable to provoke unfavourable reactions in the centres which may also lead, as in the internal sphere, to the use of force. It must therefore be concluded that the advance of democratization likewise calls for fundamental changes at the international level.

11. *The positive role of the market*

I believe, however, that the market is irreplaceable, both for economic reasons and on account of political considerations which I shall examine on another occasion. It is the expression of individual enterprise, which would be so essential in an ideal competitive system in order to produce efficiently and satisfy the aspirations of consumers; especially if mass communication techniques were oriented towards accurate information on the goods being offered, rather than towards the abusive manipulation of what has come to be called the sovereignty of the consumer.

In addition, there is no other efficient mechanism for responding selectively to the demands of technological progress throughout the entire range of skills, from the complex organization and management of the production process to the handling of the machines.

But I am far from considering the market as the supreme regulator of development. Nor has the State often shown in peripheral capitalism any great aptitude for taking deliberate steps to influence the forces of development. Governed as its action also is by the play of power relations, it has shirked the fundamental changes without which it will be impossible to infuse sufficient dynamism into development. In default of such measures, it has come to interfere in the market, to hamper its movements, and to attack only the outward symptoms of deep-seated ills.

If nothing is done to combat the evils themselves, then the scope of planning is always extremely limited. At best, it enables the existing state of affairs to be put in order. But by itself it cannot change that existing order of things.

Chapter II

Technological penetration and the insufficient dynamism of the economy

1. *The relations of mutual dependence in development*

As a first approximation to reality, we would consider peripheral development as consisting in penetration by the technology of the centres, accompanied by changes in the structure of society. This changing structure in turn affects the kinds of technology introduced and the intensiveness and extensiveness with which they are adopted.

The structural transformation is varied and complex. The changes which occur in the income strata as technological penetration brings about a rise in productivity are of great importance for our analysis.

The strata change according to the rate at which productivity increases and the way in which its effects are distributed. But as this happens, changes also take place in the social, political and organized labour power of the different strata and, consequently, in the relations between them.

Now, the power relations which derive from the structure of society ultimately determine the distribution of income, and the pattern of this distribution conditions the penetration of technology and the ensuing rise in productivity.

This influence of distribution (and

therefore of the structure of society) on technological penetration is discernible mainly in the capital accumulation the latter requires, in the kinds of technology adopted and in the patterns of consumption. All this acts in turn upon the social structure.

These are the links of mutual dependence which characterize the technical, economic, social, political and cultural elements involved in development as a global phenomenon.

It is also global in that peripheral development should not be interpreted in isolation from the capitalism of the centres. Not only does imitative capitalism borrow a great deal from the latter, but also there is a special articulation of interests whereby peripheral development takes place under the long-standing hegemony of the centres.

The content of the present chapter will be confined to an explanation firstly of the structural changes which occur with the gradual penetration of technology in successive layers of increasing productivity and efficiency, and secondly of the absorption of labour which capital accumulation brings about in different ways.

2. *The delimitation of strata*

A few preliminary clarifications are called for before we can enter upon the

substance of this chapter. We have been referring to upper, middle and lower

strata without establishing exact dividing lines, but this rough approximation suffices for the purposes of our analysis.

The upper strata concentrate in their hands most of the means of production, whose various types and ways of utilization characterize the different groups that make up the strata. It is their ownership of the means of production that gives them their capacity for primary appropriation of the fruits of technological penetration.

In addition to the groups which actually own the means of production, the upper strata comprise groups which receive relatively high incomes for various types of work: above all, the labour force which directly serves the owners in their enterprises and has management, organizational or technical skills. There are also those who, through different kinds of links, such as banking, financial and professional services, or through the important part they play in the State machinery, in one way or another favour the interests of the upper strata and are thus incorporated in their ranks. Furthermore, they include dynamic individuals who have emerged from the political and labour organizations and who, when they join the upper strata, help to moderate the pressure of those farther below, thus contributing to the progressive development of the consumer society.

In the middle strata there are groups which also own a part of the means of production, but a much smaller share than that of the upper strata. Their income stems rather from their skills. For the sake of simplicity, I have not attempted to deal with complicated

questions of this kind in making the present synthesis of my ideas.

An essential characteristic of the middle strata is their effort to share in the upper strata's enjoyment of the fruits of growing productivity. The results depend on a power combination.

In the first place, the penetration of technology demands increasingly superior skills from the labour force. Success in acquiring these skills is chiefly influenced by social power, which enables advantage to be taken of educational and training opportunities to a greater or lesser degree, depending on income distribution and the dominant influence of the social structure on general education and technical training. Those higher up on the ladder of skills are better placed to share directly in the fruits of increased productivity, while those lower down must exercise political and organized labour power to do so. This political and labour power progressively develops with the advance of democratization.

The result of this power combination depends above all on the rate of capital accumulation and on the increasingly large investment required for the training of skilled labour.

Finally, there are the low income strata. The inadequate rate of capital accumulation and of provision for them to improve their qualifications cuts them off from all but an exiguous share in the fruits of technological progress; and any influence they can exert through political and organized labour power is generally too slight to counteract the effects of this situation.

Peripheral capitalism is showing a striking inability to solve this serious

problem of the lower strata; or rather, it is revealing its insufficient dynamism, not only in the lower but also in the

middle strata, and in the distribution struggle, which is waged without any regulating principle.

3. *The dichotomy of production technology*

A little while ago we referred to the penetration of technology in successive layers of increasing productivity and efficiency. These last two concepts must now be explained, since they are of great significance in what we have to say.

The concept of productivity relates to the steady diminution of the human effort required to produce the same quantity of goods and services, thanks to greater investment in physical production facilities and in the training of skilled labour.

Increased efficiency requires an accompanying increase in the amount of capital per person, not, however, so as to reduce the labour force needed, but to create new goods or new variants of goods which are more efficient either because they are of better quality or give better service than their predecessors, or because they meet the demands of ostentation or social status. We shall simply speak of increased efficiency or more efficient goods, dispensing with value judgements: not because these are of no importance to development, for important they certainly are in a critical appraisal of the consumer society and of the values on which it is based, but because we are concerned with another aspect of the question, which we shall now take up, in view of its great relevance to our analysis.

Increased productivity and increased efficiency of the goods produced are two

of the forms taken by technological development, and they are closely linked. The production of more efficient goods has continuously developed thanks to the increase in capital per person employed, which in turn has primarily been due to the rise in productivity, in other words, to the form of technological development first mentioned. It is the higher income stemming from higher productivity that enables an increasingly large amount of capital to be accumulated, and this is devoted both to further improvement of productivity and to the constant diversification of goods and services.

This conceptual dichotomy should not lead us to think that it is a matter of two separate technologies. They are united in their development. A product which requires more capital to improve its efficiency usually also requires more capital to increase productivity per person employed.

As will be readily understood, this dichotomy is not merely of a formal nature, but is of great importance in peripheral development.

Higher productivity means an increase in the potential for capital accumulation. One of the key requisites for development is precisely that as much of this potential as possible should be devoted to capital accumulation, in order to absorb more manpower and

raise the income levels of the labour force.

However, imitation of the consumption patterns of the centres, along with other factors, prevents this from being done to the extent that would otherwise be possible. This imitation not only diverts into consumption resources which could be accumulated, but also channels capital towards the production of more efficient goods and services, despite the fact that the supply of capital is inadequate from the social point of view. The use of capital in this last form may be rational when development has acquired sufficient dynamism, but not while it is still far from that stage. The consumer society has its own rationale, however, and this is certainly not one which is consonant with the interests of society as a whole.

A further observation should be made on technological development. The dichotomy we have discussed concerns all goods and services. It exists not only in the case of final goods but also in that of the primary and intermediate products which precede them in the production process. In the latter instance, however, the replacement of

primary products by synthetic goods and the diversification of intermediate goods are ultimately a response to the dichotomy of final goods and services.

The dichotomy is also found in the three large sectors into which the economy may usefully be divided for the purpose of our analysis. These are the production sector proper, the personal services sector and the State sector. Productivity technology and efficiency technology—if I may be allowed to simplify this—are very unevenly distributed between these sectors, however.

In the production sector proper, capital accumulation is directed towards both these manifestations of technological development.

In personal services and State services, in contrast, the development of capitalism tends to place the accent on the technology aimed at increasing efficiency. This is what is meant by the post-industrial stage spoken of in the centres. But the fact that in the periphery the personal services sector and especially the State sector have expanded in spite of the distance of the economy from that stage is partly explained by insufficient economic dynamism rather than by the vigour of development.

4. *The concept of insufficient dynamism*

The penetration of technology, as has been pointed out, occurs through the superimposition of new layers of higher productivity and efficiency upon previous technological layers. Thus the new layers tend to displace their predecessors and absorb the people employed in them, as well as the increment in the labour

force. The strength of this dual absorption process depends above all on the rate of capital accumulation and of the training of skilled labour.

The existence in the periphery of pre-capitalist or semi-capitalist technological layers where productivity and incomes are very low demonstrates that

capital formation and training of skilled labour have been insufficient to eliminate them or to absorb their labour force more productively. It also reveals that the process is not developing altogether rationally, for while these layers of meagre productivity and very primitive efficiency subsist, higher layers with greater productivity tend to weaken or disappear prematurely.

Let us now see what requirements must be satisfied if the superimposition of technological layers is to correspond to a concept of sufficient dynamism, so that we may compare them with what is occurring in peripheral development.

There are two main requisites. Firstly, the entire increment in the labour force, in addition to the manpower displaced from less productive and less efficient layers of technology, must be genuinely absorbed in technological layers of greater productivity and efficiency; secondly, the different strata must increase their income, and the lower their position on the income ladder, the greater this increase must be. In other words, the income gap between the top and bottom strata must be reduced and the wide disparities characteristic of insufficient dynamism must be progressively corrected.

This reduction of the income gap derives both from progress in manpower training and from the rate at which the labour force in the different income strata moves upwards, thanks to capital accumulation.

This last aspect of the question calls for further explanation. Any delimitation of strata, as pointed out above, involves a measure of arbitrariness which may be tolerated for the purposes of our

analysis. If there is sufficient dynamism, part of the labour force passes from lower to higher strata, while another part remains in the same relative position but with higher income, because of the effect of this very movement on the demand for labour. The greater the proportion of those genuinely shifted upwards, the stronger will be the tendency towards an improvement in the lot of those who remain in the layer where they are. Thus the level of all strata will rise, although to a differing extent.

The degree of sufficiency of dynamism—in other words, of upward mobility—may differ according to the rate of growth of the labour force, the rate of capital formation and the rationality of the kinds of technology adopted. We shall revert to this subject later⁵.

For the moment, let us examine the nature of insufficient dynamism. This phenomenon occurs when productivity or efficiency increase through the incorporation of new technological layers in the whole or much of the economy, but the rate of capital accumulation is not sufficient to bring about an upward movement, both of the labour already employed and of the increment in the labour force, that will really narrow the income gap. On the contrary, there is a manifest deterioration of the position of the lower strata in relation to the higher. If the insufficiency is very great, as usually happens, redundant manpower is left, either wholly or partially unemployed.

The meaning of this should be carefully considered. Insufficient dynamism

⁵See the following sections of the present chapter.

mism does not imply absence of technological progress. On the contrary, such progress may be very great in the new technological layers. But, as will be seen below, the more productivity increases, the higher the rate of capital accumulation must rise. Otherwise, the absorption process slackens, while the incomes of the privileged strata may attain high rates of growth.

The effects of insufficient dynamism are not spread evenly throughout the labour force. An important distinction must be made here. Technological progress brings with it increasingly exigent requirements in respect of skills, and for that very reason the growth of demand for labour generally gains all the more impetus the higher the skills involved. At the other end of the scale is unskilled labour, demand for which tends to increase at a relatively low rate.

Consequently, the effects of insufficient dynamism are mainly felt by this unskilled labour force.

Insufficiency of dynamism also affects the higher strata, but there the redundant labour usually avails itself of its social or political power in order to become absorbed. This, however, is not genuine absorption responding to real needs, but spurious absorption, primarily in State services. Similar forms of absorption achieved through the exercise of labour power, may also be seen in the production process but usually to a lesser extent.

This explains the disproportionate growth of State services in some countries, both in the government proper and in public enterprises. Public enterprises, in some cases, represent an alternative

to transnational corporations, while in others they may be justified because of the monopolistic character of the service concerned. It cannot be denied, however, that underlying certain ideological reasons for which the functions of the State are extended is the desire to find sources of employment which the economy has been unable to provide because of its insufficient dynamism.

The spurious absorption of labour cannot fail to defeat its own ends, since it signifies a diversion of resources that could be devoted to capital accumulation, and the insufficiency of dynamism preventing genuine absorption will thereby be accentuated.

Care must be taken, however, not to draw partial conclusions from this. Reflection shows that the consumer society also produces these effects, with their harmful implications for the rate of capital accumulation. Basically, therefore, this is a similar problem.

To this phenomenon of spurious absorption of redundant labour must be added another which is by no means unimportant. It is to be seen in personal services, demand for which is maintained or increased precisely because these services are so ill-paid. Thus, the upper strata—in addition to retaining part of the fruits of technological progress—benefit from the widening of the income gap at the expense of the lower strata. The same advantage is enjoyed by the middle strata.

This is a phenomenon which is characteristic of regressive absorption of labour, in contrast with the progressive absorption which takes place by virtue of the growing demand for labour caused by technological penetration and

the exercise of political or organized labour power.

Our next step is to consider the main factors of insufficient dynamism, namely, the inadequate rate of capital accumulation, which has been mentioned several times in passing; the adoption of unsuitable kinds of technology; the

influence of consumption and investment patterns; and the contradictions in the training of the labour force.

All these factors are related to the structure of society and the spontaneous play of economic forces, rather than correcting the insufficiency of dynamism, tend instead to aggravate it.

5. *The rate of capital formation*

The intensity of the absorption of labour and of its upward mobility depends fundamentally on the rate of capital accumulation, the rate of increase of per capita productivity and the growth rate of the labour force.

After a long period of evolution, the technology of the centres, as is well-known, has come to require a high density of capital per person, in mutual relation with the growth of income. Since the periphery has a much lower income, the transfer of this technology compels it to devote a far higher proportion of its total income to the absorption of a labour force having the same rate of growth. The growth rate is higher in the periphery than in the centres, however; and, in addition, productivity should also increase faster if the great centre-periphery disparity is to be progressively reduced. Thus, the scale of the capital accumulation effort the periphery must make to infuse sufficient dynamism into its development is plain to be seen.

Nor is this all. The more the growth rate of productivity rises, the more the rate of capital accumulation must be speeded up to absorb the labour force available; in other words, the more the coefficient of investment in relation to

the product or to total income must increase⁶.

This is far from happening in peripheral capitalism. A factor which works against it is the imitation of the consumption patterns of the centres due mainly to the primary appropriation of most of the fruits of technical progress by the upper strata.

Thus, while the growth of productivity carries with it a great potential for accumulation, the progressive development of the consumer society, along with other factors, wastes a more or less substantial part of this potential.

⁶To illustrate the workings of the process, let us take a simple example. Let us suppose that the labour force grows at a rate of 2.5 per cent, that the rate of increase of productivity is 5 per cent and that three units of capital are needed for one unit of product. In such a case, the absorption of the entire increment in the labour force calls for a capital investment coefficient of 22.5 per cent. If the coefficient were lower, 19.5 per cent of the product, for instance, only a 1.5 per cent increment in the labour force would be absorbed.

Let us now suppose that the growth rate of productivity rises from 5 per cent to 6 per cent. This would call for an increase in the rate of capital accumulation until a coefficient of 25.5 per cent were reached, in order to absorb the increment of 2.5 per cent in the labour force.

The advance of the consumer society is notably assisted —as has already been pointed out— by the continual diversification of goods which accompanies progress in production technology and which in particular takes the form of innovations enhancing the efficiency of goods. While primary production, particularly in agriculture, has a very narrow margin of diversification, the tendency of industrial production is towards unlimited multiplication of the diversity of goods, a fact which is of great importance in internal development and in trade with the centres.

Production technology thus responds to the growth of productivity and income by generating new kinds of demand, which spread very rapidly, owing to the advance of mass communication techniques.

This movement extends to the middle strata, with their ever increasing eagerness to participate in the consumer society, to which end the forms of credit characteristic of the centres are also imitated. Consumption runs ahead of savings, to the detriment of capital accumulation. This development should not be judged in isolation, however, but in the context of a critique of the consumer society.

In the last analysis, it is one of the ways of maintaining the concentration of capital and the corresponding appropriation of the fruits of technological progress in the hands of the upper strata, while relieving the middle strata, with their natural approval, of any responsibility for capital accumulation in the production process.

There is nothing in the spontaneous play of economic forces which makes for

adjustment of the rate of capital accumulation to the dynamic requirements of the economy. In actual fact, the sort of use made of the market mechanism, through which the forces in question operate, simply reflects the structure of society responsible for the power relations which determine the uneven distribution of income. Without that structure, there would not be the exaggerated imitation of the consumption patterns of the centres, which has such manifestly adverse effects on capital accumulation.

From another point of view, insufficient capital accumulation leads to the spurious absorption of labour mentioned earlier, in which the play of power relations likewise finds expression as the political influence of the middle strata increases. This gives rise to a veritable vicious circle, in which absorption withdraws resources from capital accumulation, while inadequate capital accumulation is a contributory cause of spurious absorption.

Finally, another factor helps to weaken accumulation: power relations at the international level. The superior power of the centres enables them to extract from the periphery an over-large proportion of the fruits of technological progress, to which their enterprises have unquestionably made a highly effective contribution, particularly from the standpoint of the consumer society. We shall return to this point later⁷. Here we will only make special mention of the negative effects exerted on accumulation by the

⁷For a more thorough discussion of this important question, see chapter VI.

technology aimed at improving the efficiency of goods and services.

It has already been pointed out that this increased efficiency is obtained through a rise in the density of capital per person, which can be achieved only by stepping up productivity. This makes sense in the centres, but entails a patently irrational state of affairs at the periphery.

It is worth repeating that while there is not enough capital for the economy to acquire sufficient dynamism, capital is invested in the production of highly efficient goods, when there are others which could satisfy demand with less capital, although with less efficiency.

Here again we encounter another of

the important consequences of uneven income distribution. The more the income of the privileged strata increases in the course of development, the more pronounced is the orientation of demand towards more efficient goods, to the detriment of those produced in preceding technological layers.

The same occurs in respect of services. The more efficient services generally require growing amounts of capital investment to give the labour force the necessary training.

It should be noted that in this as in other cases, the market mechanism does no more than respond to a demand which reflects distributive inequalities deriving from the structure of society.

6. *Kinds of technology and the rate of absorption*

The rate of capital accumulation has already been discussed. We shall now deal with its influence on the rate of absorption of labour, which depends on the kinds of technology in which capital is invested, as well as on certain forms of consumption and investment.

In considering this subject, the explanations given with respect to technologies that increase productivity and those that increase the efficiency of goods and services should be borne in mind.

Let us take a look at the implications of the productivity technologies, as we termed them, for the absorption of labour. There is frequent discussion in the periphery about technological options which, while signifying less product per person employed, make it possible to absorb more labour and

ensure a larger total product for society as a whole.

Except in some specific cases, however, this subject has not been explored as thoroughly as it deserves. The centres have naturally taken no interest in such technological options, because their innovation efforts, in addition to seeking new forms of efficiency, are directed more and more towards the goal of reducing the use of labour.

In any case, the spontaneous play of market forces does not lead enterprises to search for and adopt such options as those, but rather to look for kinds of technology which increase productivity at the expense of employment.

Now, taking the economy as a whole, if the labour force grows by, say, 3 per cent, then enterprises, guided by the profit motive, will prefer kinds of tech-

nology which give an average increase in productivity of, say, 9 per cent, but with an increase of only 1 per cent in employment, rather than technologies which can absorb the entire 3 per cent increment in the labour force but give a rise of only 7 per cent in productivity. In both cases, the growth rate of the total product would be 10 per cent.

It might be inferred from this that, since the rise in the total product would be the same, it would not matter to society as a whole whether enterprises adopted the technologies affording greater productivity and less employment or those resulting in higher employment and lower productivity. This is not the case, however, since apart from the obvious social considerations, persistent unemployment or redundancy of a large part of the labour force would lead to the spurious absorption to which we referred above, and insofar as this occurred, the State, in order to deal with the problem, would have to tap in one way or another a part of the resources accruing from the productivity increment, at the expense of capital accumulation. I do not think this is far removed from what actually happens in the periphery.

It thus appears that even if the growth of the global product is the same, rationality for the enterprise does not necessarily coincide with rationality for the economy as a whole.

The followers of the neo-classical doctrines usually assert that if the laws of the market were respected, the price of capital and the price of labour —if I may be forgiven the term— would adjust themselves in such a way as to favour the options that were most suitable from

the standpoint of collective rationality. We shall discuss this subject on another occasion, when examining theories which, formulated in the centres, fruitlessly dispute the interpretation of peripheral development. Suffice it to say here that, contrary to the neoclassicists' belief, the laws of the market are interfered with not only by the rise in salaries and wages brought about by organized labour pressure, but also by the primary appropriation of the fruits of technological progress. For although the surplus is the most important medium of accumulation, it does not manifest itself in market demand for investment funds, and consequently tends to depress the price of capital.

In view of the existing ignorance regarding technological options, it is impossible to assess the influence of collective irrationality in the introduction of new layers of technology. What can be asserted is that this irrationality has some responsibility for the premature displacement of preceding technological layers.

Thus, it often happens that physical capital whose useful life could be prolonged for some time more, perhaps with a few adjustments, is replaced, out of amortization funds accumulated by the enterprise, with other forms of capital through which it is possible to reduce the labour force and obtain more efficient goods and services. Rationality for the enterprise is here in conflict with collective rationality, which would choose to prolong the working life of physical capital and use the amortization funds for new investment that would provide more employment.

In addition, as pointed out elsewhere, technological layers which produce goods of higher efficiency may displace others producing less efficient goods. The attitude of consumers is very important here. As per capita income rises, demand tends to be diverted primarily towards more efficient goods, at the expense of the technological layers which create goods of lower efficiency. The greater the inequity of distribution, the more marked this tendency becomes.

In this way the labour which was employed in the lower technological layers is reduced or eliminated, with the resultant loss of income and savings capacity and without the generation of other forms of absorption of labour. The consequences are even more serious if the physical capital employed in such enterprises is largely provided by other enterprises of similar productive rank.

These are technological layers which cannot defend themselves through the dynamics of the market. When the growth of demand is diverted away from them towards goods from higher technological layers, not only is unemployment generated, but there is also loss of the multiplier effect which might otherwise have been brought about in the labour force by virtue of the growth of any demand oriented towards their products and not towards more efficient goods. Furthermore, if this multiplier effect were secured by protecting such activities, it would not be at the expense of the goods and services produced by the higher technological layers. Demand would ultimately be directed towards them, whether they were final goods or primary or intermediate products,

although its composition would be different.

I repeat, therefore, that we are dealing with an irrational phenomenon, in which new technological layers prematurely eliminate preceding technological layers to the detriment of employment and the total product. Sooner or later the previous technological layers must be eliminated, but in a rational order: in other words, as capital accumulation makes it possible to absorb the labour which is thereby being displaced.

This tendency for demand to be diverted towards more efficient goods and services goes beyond the scope of the domestic economy. It is a factor of great importance in the external bottleneck, a phenomenon which we shall be discussing later⁸. The contrast between the high income-elasticity of imports and the relatively low growth rate of exports is mainly attributable to the evolution of the technology of the centres and the backwardness of the periphery in this respect. In the centres, new technological layers are continually being added which are the source of those more efficient goods for which demand tends to develop at high speed in the periphery. Much import substitution activity relates to such goods and to the raw materials or intermediate products which are used in their manufacture.

From this standpoint, the effect of protection for import substitution industries is definitely positive, if it is kept within certain limits, since in addition to counteracting the bottleneck

⁸See chapter VI.

it enables the labour which is not required in export activities to be absorbed. Substitution also has multiplier effects on domestic demand, since taking capital accumulation into account, it enables the rate of development to be higher than would otherwise correspond to the growth rate of exports.

There is also, however, a negative effect which has already been pointed out elsewhere. The establishment of industries to produce more efficient goods means using more capital per person, and this capital, from the point of view of the economy as a whole, could be used to greater advantage to absorb manpower and raise the income levels of the labour force.

This would appear to be the meaning of Mao's thesis on the two legs of technology: one leg in its more advanced and the other in its less advanced forms, until sufficient capital can be accumulated to permit rational elimination of the latter. It would be better, perhaps, to

speak of a number of legs, one in each layer of technology.

The emphasis Mao has placed on agricultural productivity —both through the use of generally very simple physical capital and by increased yields from the land— generates redundant labour which is employed either in the rural infrastructure or in the small or medium-sized industries with low capital density organized in the communes. Such capital as these require is produced, in part at least, in the communes themselves; and all these activities are protected against competition from the more advanced technological layers.

This is in noteworthy contrast with what occurs in the Latin American region of the periphery, where redundant agricultural labour is not fully absorbed for want of sufficient capital accumulation; some of it is simply shifted from redundancy in the countryside to redundancy in the cities through the free play of market forces.

7. Forms of investment which reduce the rate of absorption

So far, we have studied the influence of capital investment on the absorption of labour according to the kinds of technology adopted. Now let us consider another aspect of investment which is also important, and which does not necessarily relate to technology.

In this sense, two broad categories of investment may be distinguished: on the one hand, investment in goods providing a service in themselves, which, once made, entails only relatively little use of labour; on the other, investment

which must be supplemented by labour in the production of goods or services.

The greater the proportion of total investment represented by investment in goods which provide a service in themselves, the lower will be the rate of absorption of labour. Housing affords a typical case in point.

There is, of course, a considerable difference between the relatively modest capital required for the makeshift housing of the lower strata and the very large amounts invested in housing for

the upper strata. The density of capital for housing therefore depends on the structure of society and the income strata which determine demand, taking into account considerations of social hierarchy.

Thus, inequitable distribution brings with it a type of investment that also imitates to an increasing extent the patterns of the centres. I am not referring to the upper strata only, but also to a large proportion of the middle strata.

There is another aspect of investment in housing, in addition to the question of the very scanty absorption of labour once such investment is made. If, instead of the excessive investment poured into housing by the upper and middle strata, savings were devoted to giving stronger impetus to capital accumulation in the production process, the rate of absorption of labour and the rate of development would rise. But the consumer society does not spontaneously respond to motivations of this kind.

A point that might cause confusion must now be cleared up. Housing construction is an effective means of combating unemployment, since it stimulates overall demand and employment with multiplier effects. A distinction must be made, however, between this conjunctural or anti-cyclical role, and the role it may be allotted—mistakenly, in my opinion—in remedying the insufficient dynamism of the economy.

Housing has been mentioned as an example within the category of goods which provide a service in themselves. This category is a very broad one which includes State construction projects and infrastructure works in general. Here there is a great difference from fixed capital investment in the production process. The latter is determined by technological considerations which, given demand and the profit incentive, do not allow a wide margin of variation; whereas this discretionary margin may be very great in the case of investment in goods which provide services in themselves.

8. *The effects of demand on absorption of the labour force*

Another aspect of the absorption process should now be discussed. We have mentioned the need for labour with different skills, entailed mainly by the superimposition of new technological layers. This is closely linked to the strength of the demand which results from income distribution and which in turn reflects the changes that are taking place in the structure of society and in power relations.

Frequent reference has been made

to the diversification of goods and services. They are not all diversified in the same way and to the same extent. In contradistinction to what happens in the production of industrial goods, where technology increases their efficiency (in the sense explained above), in agricultural production the possibilities of diversification are limited. True, the market for every industrial product sooner or later reaches saturation point; but technological

innovations are continually translated into new goods, or new variants of goods, which awaken and stimulate demand.

At the other extreme, in contrast, the demand for agricultural goods generally grows less rapidly than income. This is also of great significance in relations between the centre and the periphery. For the time being, however, we will confine ourselves to its effect on demand for labour.

Given the relatively low income-elasticity of demand for agricultural products, labour tends to shift towards other activities. This movement is accentuated as productivity increases, especially when mechanization is introduced.

It is here that industry, skilled personal services and the State, by virtue of their diversification, play a dynamic role: that of genuinely absorbing the labour eliminated from agriculture and other labour-expelling activities.

If the labour-absorbing activities do not grow sufficiently —because of the inadequate rate of capital accumulation and the particular nature of the technologies adopted— part of the displaced labour will remain redundant in agriculture or transfer its redundancy to the cities. Failure to absorb it thus

becomes an obstacle to raising rural incomes notwithstanding the rise in productivity, except for the portion of the labour force which meets the new technical requirements of agriculture.

In this event, the income relation discussed in the context of sufficiency of dynamism, so far from improving, will deteriorate, prejudicially to the rural labour force. The fruits of technological progress thus remain in the hands of the landowner, if land is scarce. If it is not, or if production can be increased beyond certain limits through improved yields, these benefits are transmitted to domestic or foreign consumers through lower prices, insofar as they are not appropriated by transport operations or the action of middlemen. It should be borne in mind, in this respect, that remunerations in these latter activities are usually higher outside the rural environment than in it.

Insufficient dynamism also worsens the relative income position of unskilled labour in the cities, since the adverse effects of insufficient capital accumulation on their own redundancy are combined with the impact of the displacement of redundant manpower from agriculture.

9. *The contradictions in the training of skilled labour*

Over and over again we have remarked that the superimposition of new and increasingly advanced technological layers in the periphery calls for more and more training of skilled labour to meet its requirements.

This training involves considerable capital investment which is guided only to a slight extent by market forces. In the main, it requires deliberate and far-sighted State action.

Obviously, such action exceeds the

scope of development considerations, however important these may be. It begins with basic education and continues up to higher forms of intellectual and artistic activity.

This cultural grounding, however, like training⁹, depends to a large extent on the play of power relations. In the past, the demands and aspirations of the upper strata carried by far the greatest weight, followed by those of the middle strata. As is shown in CEPAL studies, the investment made to this end is relatively high, considering the makeshift nature of basic education in much of the Latin American region of the periphery.

This is yet another proof that the structure of society leads to the imitation of patterns current in the centres which require high capital density per person, in the educational sphere just as in economic activity proper. Here again it is at the expense of the lower strata, which are largely deprived of practical possibilities of access to training opportunities, especially higher up the skills ladder. Such are the consequences of the great disparities in social power.

But this problem, serious as it is in itself, is not the only one. Despite the efforts that are being made, training is far from consonant with the requirements of development. It is often insufficient or ill-suited to meet the needs of the new technological layers, while for the preceding technological layers it is superabundant.

⁹We are using the term "training" in a very broad sense which includes the skills needed both in the production process and in personal and State services.

What is more, there is a persistent tendency to overdo the conventional training which corresponds to earlier technological layers, whose requirements are what might better be described as vegetative, in contrast with those of the new technological layers.

There is another point, however, which is a matter of common knowledge; namely, that this conventional training is strongly influenced by considerations of upward social mobility. It is a characteristic cultural phenomenon, lying behind the social and political pressures that lead to the spurious absorption of labour by the State.

It would be a mistake, however, to attribute the existence of this problem to misguided forms of training: its roots lie in the insufficient dynamism of development, in the system's incapacity for genuine absorption of the increment in the labour force at steadily rising income levels.

We referred a moment ago to another instance of the relegation of the lower strata: the deficiencies of basic education. I am inclined to agree with those who are in a position to advocate new approaches in this and in other fundamental aspects of the process of "learning to be". But this is not a problem to be tackled outside the framework of development. Basic education is inevitably a factor in the social integration of the lower income strata, but so is the rate of development too. If there were serious discrepancies between these, further elements of frustration would be added to those which have been making themselves felt in Latin America with such serious consequences.

Chapter III

Primary appropriation of the fruits of technical progress

1. *The dynamic nature of the surplus*

I shall now deal with the mechanism for the primary appropriation of the fruits of technical progress through the formation and appropriation of the surplus, go on to consider the process of redistributing those fruits and, lastly, discuss the distribution crisis.

The formation of the surplus is an essentially dynamic phenomenon accompanying the production process in the course of development, i.e., in an economy which is increasing its production. To understand this, the time factor must be taken into account.

Between the installation of the fixed capital and the production of the final goods, a fairly long process takes place whose point of departure is primary production. During the whole of that time and throughout the successive stages of the process, entrepreneurs pay the income of the growing labour force engaged in productive activities. Through the sale of the final goods obtained at the conclusion of the production process, the entrepreneurs recover the income paid out during those successive phases. If actual conditions were static, as certain theoretical arguments assume for simplicity's sake, the income recovered by the entrepreneurs would serve to continue the production process indefinitely.

This does not happen in a growing economy, however. In order to increase

production the income paid out to the labour force must be higher than the income that is being recovered. To put it roughly, the income paid today is higher than that paid yesterday and recovered today at the end of the production process. The faster the growth rate of tomorrow's final goods, the greater is the amount of this excess income payable.

How, then, is it to be paid? Herein lies the key to our concept of the surplus. Monetary expansion is inherent in the production process, which is inconceivable without it. This expansion finances the circulating capital represented by the goods being processed in the successive phases of production.

Obviously, therefore, the amount of income created through monetary expansion exceeds the amount of income which constitutes the total cost of production of the final goods coming on to the market; and the excess income thus paid to the labour force is converted into excess demand for those final goods.

This is one aspect of the problem. The other —which ties in with this— is the reduction in costs by virtue of the increase in productivity. If there were no such excess demand, the prices of final goods would drop in proportion to that increase. This would be one of the ways —implicit in neo-classical

reasoning— of transmitting the fruits of technical progress to the community. It is precisely this excess demand resulting from the production process itself that prevents a fall in prices.

This, then, is the explanation of the surplus. In the economy as a whole, it represents the difference between the total price received by the enterprises for the final goods, by virtue of the aforesaid excess income, and the corresponding cost of production represented by the income already paid out. The surplus comprises the profits of enterprises, the interest paid on capital, and amortization of fixed capital.

Through appropriation of the surplus, the owners of the means of production achieve primary appropriation of the fruits of technical progress.

The fact that prices do not come down does not necessarily imply price

stability, since there is no mechanism in the system, however well managed, that can bring the excess demand strictly into line with the drop in production costs.

No mechanism exists for simultaneous adjustment, but only one for correction. If prices rise above the international level, allowing for customs protection, the reason is that the excess demand is more than is required to offset the decrease in the cost of production. In this event the disparity between domestic and external prices causes an external disequilibrium which will sooner or later compel the monetary authority to curtail the expansion of money. Conventional theory is sound on this point, and if the monetary authority is far-sighted it will start to curb expansion as soon as it sees the first signs of disparity.

2. *Circulating capital and the surplus*

As noted earlier, in a growing economy enterprises pay the labour force engaged in the production process a total income higher than that recovered through the sale of the final goods produced.

The scale of this monetary expansion inherent in the production process depends on the duration of that process and the growth rate of production. At all events, it represents an amount of excess income several times larger than the income which the enterprises are recovering.

In other words, the amount of circulating capital constituted by goods in course of processing, up to the final

stage, exceeds the amount represented by the final goods emerging from the production process.

Thus, while at one end of the process these final goods are coming on to the market, at the other the production of larger quantities of future final goods is being started. This bigger output is gradually produced in the successive stages of the process by means of continuous increases in the labour force and in the income it receives.

It is of interest to see what happens to the surplus in those successive stages. There is a significant contrast here: while the various phases of the produc-

tion process progress in a forward direction, the formation of the surplus moves backward.

The pressure of excess demand manifest in the production process appears first at the final goods stage. With demand for final goods exceeding supply, the surplus is created, and demand for goods in the preceding stage increases. Part of the surplus there is transferred to the stage before that, and so on back to the primary stage. There is, therefore, an internal backward movement of the surplus.

This is one of the key elements that were lacking for a clearer understanding of the nature of the production process. Thus far we have referred only to the income paid to the labour force employed in each stage. We now have to add the surplus corresponding to each stage.

This makes greater monetary expansion essential, and to the total income contained in the circulating capital the amount of the surplus must be added.

If the different stages of the production of each good were carried out in a single enterprise, the surplus would arise only once at the end of the process, however it might be distributed later, on an accounting basis, among the different phases. The circulating capital would represent only the income paid out in the course of the production process.

The last element that was lacking consists in the taxes and social security payments affecting the cost of production. They are really income paid to the labour force employed in the various government services, but of course they are of a different nature.

3. *Money circulation*

The foregoing explanation is merely a first approach to the subject. I should prefer not to go into complexities here that might bring us closer to the real situation; but a few of them need to be touched on.

Not all the money with which the enterprises pay the extra income reverts to them immediately when the final goods are sold. A growing proportion of it is spent on services. The demand which is thus temporarily diverted from the production process constitutes a buffer which eases the pressure on demand for goods. Part of it, for instance, is directed towards government services, personal services of different kinds, and other services.

The money which thus leaves the production orbit circulates in these other spheres, and is used to pay the income of the labour force employed there. In the course of this circulatory movement, however, the money gradually returns to the production orbit.

The demarcation of orbits is not purely formal; it is substantive. However great the need for investment in physical goods and in technical and vocational training in the three services orbits, circulating capital is not required on the same scale as in the production process. In other words, whereas monetary expansion is inherent in the production process, the same is not true of services; there are none whose

process is comparable in duration with that of production, either in government administration, or among personal services (except in a very few cases), or in communications and transport, for example.

I should now like to venture upon a digression. There is another form of diversion of demand, but this time it is within the production process itself and is a spatial diversion. I refer to

goods that have to be imported, in whatever stage of processing. Consequently, part of the monetary expansion is used to pay for these imports, whereby the countries of origin recover the income paid out in their own production process, plus part of the surplus, while the monetary pressure in the importing countries is eased. In contrast, monetary expansion increases with exports.

4. *Demand and price variations*

The monetary expansion inherent in the production process does not affect the various goods strictly in accordance with the differences in the increase in productivity. The composition of demand changes as per capita income rises, and its distribution also alters. It may so happen that brisk demand will push up the prices of goods where there has been little or no increase in productivity, so that part of the surplus is absorbed. On the other hand, in the case of goods where productivity is increasing faster than demand, part of the surplus is transferred to the consumers by means of a reduction in prices. What has concerned us thus far in our reasoning is the average level of prices and the total amount of the surplus. The same thing occurs with respect to services, depending how far they are affected by the increase in demand or the relevant decisions taken by the State. We are dealing here with internal shifts of monetary demand which do not alter the total amount of the surplus, but only its internal distribution. This brings us to a highly

important aspect of the question which is often misinterpreted.

It is sometimes maintained that if prices do not fall as productivity rises, this is due to the intervention of monopolistic or oligopolistic combinations which restrict competition, through customs protection, through patents or licenses whereby competition is barred, or by other well-known means. This is not my interpretation. What is involved is simply the same phenomenon of the internal distribution of the total surplus. Widely differing cases arise: prices which remain static or increase, despite exceptional improvements in productivity, or in the absence of any change in productivity at all. In all such instances, the monopolies or oligopolies appropriate a larger share of the surplus than they would otherwise have obtained.

The conclusion is perfectly logical. Monetary expansion is brought about not by the action of these combinations which restrict competition, but by the growth rate of production as a whole. With such combinations appropriating

a larger share than they would otherwise have had, a smaller share is left for other goods and services, owing to the corresponding shifts in demand.

To take the case of land: when additional demand for certain agricultural commodities cannot be wholly or even partly met because of the limited amount of land available, the prices of these commodities rise, and part of the total surplus thus shifts to the owners of the land, even if there has been no increase in productivity. Typically, this surplus takes the form of land rent.

A similar situation arises in respect

of urban land, except that here the increase in productivity derives from technical progress, particularly in construction and transport, and its fruits are transferred to land rent through the increase in monetary demand.

In the opposite event, when the increase in productivity exceeds demand, the surplus is transferred in the form of a drop in prices, whereby monetary demand shifts more intensively than would otherwise have been the case to other goods and services, with the corresponding effect on the surplus.

5. Absorption of final goods

Besides contributing to the generation of the surplus, monetary expansion must be sufficient to absorb the increase in the final goods coming on to the market. If instead of resorting to monetary expansion to pay the income of the labour force, enterprises make use of the surplus previously accumulated, the whole of the increase in final goods will not be absorbed. Some of these goods will pile up, and once certain limits have been passed, the enterprises will be forced to reduce production in order to liquidate their stocks. As a result of this contraction the surplus eats itself up, so to speak. That is why we have called the surplus an essentially dynamic phenomenon which is only generated under conditions of growth.

A few words on economic contraction are called for at this point. When final demand is affected in the way that has just been described, stocks pile up, as already mentioned, since the final goods

are not absorbed at the increasing pace anticipated. This reduces demand in the preceding stages of the production process. The contraction is therefore transmitted in a backward direction, all the more intensively the greater the distance from the final stages of the production process. It should be borne in mind that what was being prepared in those distant stages was an increase in future production that would exceed the increase in the final goods whose insufficient absorption has started the contraction.

It was noted earlier that the diversion of the demand generated in the production process has some cushioning effects. This occurs not only when such demand exceeds the supply of final goods, but also in the reverse situation. When economic activity contracts and unsaleable stocks of goods accumulate, the return or reflux of demand from the services to the production sector helps

to liquidate those stocks and thus contributes to the system's recovery.

It should once again be noted, however, that this buffer role of the services sectors is due to the fact that their production process is not characterized by the monetary expansion inherent in the production of goods, or at least not to a comparable extent.

The question may now be asked: why should enterprises use the surplus instead of resorting to monetary expansion? The reason might be the adoption of a restrictive policy by monetary authorities who might consider the expansion to be excessive, or it

might also lie in the spontaneous operation of the system.

Part of the surplus goes into accumulation of fixed capital, and this takes place on a cyclical basis. During the upward phase the rate of growth is rapid, to make up for what has previously been left undone and to incorporate new levels of technology. For that very reason, however, this pace cannot be kept up indefinitely. As it gradually slackens, it is only logical that the entrepreneurs should have less need of monetary expansion. They then use part of the surplus to pay the increase in income, with the consequences noted above.

6. *Some comments on the cycle and the surplus*

We have already referred to the internal diversion of the demand originating in the production process. A similar diversion occurs in the relations between the centres and the periphery. Part of the income created in the process of producing goods for export is generated by the periphery. When the centres purchase these goods for their own production purposes, the peripheral entrepreneurs recover the income paid by them, plus the surplus transmitted backwards from the final stage. This movement of money between the centres and the periphery has the same cushioning power as was indicated in the preceding case.

The foregoing comments also hold good for cyclical movements, and I refer to them here in order to avoid oversimplification of my argument. The truth is that the cycle is the growth

pattern of the capitalist economy and we cannot omit some simple comments on it in the present article.

In reality, the peripheral cycle is virtually unexplored. In the days of outward-directed development it was a movement set going by the cycle in the centres, and particularly the main dynamic centre of that time. The progressive development of industrialization, however, has tended to generate certain internal movements superimposed on those of external origin, accentuating or attenuating them according to circumstances, with corresponding effects on the surplus.

The main manifestation at the periphery of the cyclical movement in the centres is an increment in commodity exports. The increase in the prices of these commodities, and also, although generally on a lesser scale, in their

volume, gives greater impetus to production.

The result of this intensification of the rate of internal expansion is an increase in the surplus, which in its turn stimulates the growth of investment, with a consequent rise in productivity. This is a conjunctural rather than a structural shift of the investment coefficient.

The upward swing is accompanied by an increase in imports, which, although it usually outstrips the growth of total income, lags behind that of exports. A net monetary expansion of external origin is therefore added to the internal expansion inherent in the production process.

The opposite situation occurs in the downward swing, and if the free play of the economic forces is permitted the contraction is further intensified. This is an image more properly belonging to the past, as will be seen below.

During the phase of expansion, the State normally increases its revenues at an exceptional rate: hence the irresistible temptation to step up its expenditure and investment, including

that determined by political pressure of a redistributive nature, the spurious absorption of labour, and other factors.

When the cyclical contraction supervenes, it not only has direct effects on employment in the production process, but also affects fiscal resources. Their reduction leads to a corresponding restriction of expenditure or investment, unless political pressure prevents this measure from being applied, at any rate as intensively as is required by strictly orthodox monetary policy. The contraction also leads to disruptions which accentuate the arbitrary nature of the distribution system. Here we have another of the consequences of the free play of economic forces, this time at the international level. We shall revert to this point in the following chapter.

Meanwhile, it should be noted that during the phase of expansion the surplus increases, owing both to the improvement in productivity and to the cyclical rise in prices; while the opposite occurs in the downward cycle. All this has its effects on the distribution struggle, as will be seen in due course.

Chapter IV

The free play of economic forces and the redistribution struggle

1. *The inherent inflationary propensity*

In the opening pages of this study a thesis was put forward which must have seemed somewhat surprising. It was stated there that the propensity towards inflation was inherent in a certain stage in the development of peripheral capitalism. I am not talking

about the old fashioned kind of inflation associated with the peripheral countries, but a new phenomenon arising out of the distribution struggle in power relations. The present chapter will be devoted to examining this question.

The days of the orthodox functioning

of the monetary system are long past. Its operation depended on two paramount factors: first, on the weakness of the lower strata compared with the power of the upper strata, and secondly, on the influence exerted by the monetary authority. Concerned as the latter was about the relative stability of domestic prices, it endeavoured—in order to avoid producing external disequilibria—to adjust monetary expansion to the genuine requirements of the production process.

This combination of factors enabled the upper strata to keep the cumulative surplus and relinquish only a proportion of the increment in it as demand for labour grew through the free play of economic forces.

This was the classic *modus operandi* of the gold standard. It had a golden age of its own, in which it was placed on a somewhat exalted pedestal by a theory which explained its operation without going into the question of the surplus or the complications of the cycle. That period was brought to an end by the First World War.

The Latin American region of the periphery often failed to comply with the requirements of orthodoxy, either because of the inflationary pressure of the upper strata, with their invariable propensity to appropriate more of the surplus, or because of the financial incontinence of the State. Another factor, of course, was the acute external

vulnerability of the periphery to the cyclical movements referred to above.

Be that as it may, the distribution struggle now poses a problem of inflation in terms very different from those ruling in the past, although this does not mean that the past trends have completely died out. They merely further complicate the present inflationary situation.

A little thought will show that the action of the monetary authorities both in the centres and at the periphery, in spite of powerful forces which have always tried to undermine it, is a unique experience in capitalism: a superior and impersonal regulating mechanism has prevailed over the free play of economic forces, however much its automatic nature may have been mistakenly exalted.

The monetary authority has lost its pre-eminence, and the Latin American periphery would seem to have the singular though somewhat dubious merit of being the forerunner in this vitally important development. It is becoming increasingly difficult for the monetary authority to fulfil its stabilizing functions, as the redistributive power of the labour force gathers impetus in the effort to share the fruits of technical progress with the upper strata.

Its dethronement, however, has not been followed by the establishment of any other regulatory mechanism in the distribution struggle.

2. *The pursuit of redistribution*

In the absence of such a mechanism, advancing democratization has brought with it an increase in the redistributive

power of the groups lower down the income ladder (mainly the middle strata), which are now vying with the

power of the upper strata to appropriate the surplus.

This redistributive power, which makes itself felt through political or organized labour channels, strives to achieve a progressive distribution of income, and to a certain extent it succeeds.

It is also exercised, however, to counteract certain regressive effects which likewise derive from the free play of economic forces, at both the national and the international level.

Let us first examine the development of this redistributive power and the regressive consequences it entails, which in themselves are enough to bring about a distribution crisis, particularly if they are added to the complications of the progressive redistribution process.

In chapter II we observed that the redistributive capacity of the free play of economic forces was very partial and limited owing to the weak competitive position of a large part of the labour force. We said there that the lower their position in the scale of qualifications required by technical progress, the smaller was the workers' share in the fruits of increased productivity, while the higher up the scale, the stronger was the influence of social power in the training of skilled labour. Such social power derives not from the free play of economic forces but from the structure of society.

Political power and organized labour power — as a result of democratization — strive to remedy this weakness in the competitive position of the labour force and to enable it to increase its consumption by sharing in the surplus.

Political power tries to improve

social consumption through the State, while organized labour power, sometimes supported by political power, endeavours to increase private consumption and prevent the growth of the former at the expense of the latter.

The increase in social consumption is manifested in a wide range of redistributive measures relating to health and education, social security and welfare, and housing.

These redistributive measures are decidedly unequal. The first to benefit from them was the traditional middle class, which has been joined, with the passage of time, by skilled industrial workers who are gradually being absorbed into the middle strata. The benefits concerned are now tending to spread to the lower-income strata. Nonetheless, even in the middle strata they are very unevenly distributed, in accordance with obvious disparities in power, as will be seen below.

If the increase in social consumption is to be genuine, it must be achieved at the expense of the surplus, either by means of taxes that will really fall on the upper strata, or through the redistribution of the surplus within certain limits.

It so happens, however, that the political power of the upper strata is generally strong enough to divert the burden to the labour force. In fact, a fairly large proportion of the expenditure and investment demanded by social consumption is covered by means of taxes or contributions which raise production costs or have unfavourable effects on salaries and wages.

If the enterprises absorb the higher costs by virtue of the surplus, or grant

compensatory wage increase (absorbed in the same way) by virtue of the organized labour power of those adversely affected, a real and genuine increase in social consumption will have been achieved, over and above the part covered by taxes levied on the upper

strata. If those higher costs are transferred to prices, however, an inflationary spiral becomes inevitable.

The same observation is applicable if organized labour power obtains wage increases which directly step up its private consumption.

3. *Limits to the reduction of the surplus*

All this leads to a vitally important question. To what extent does the surplus absorb the increase in social and private consumption? This depends on the following three factors:

the size of the increase in consumption sought;

the size of the surplus accumulated by the enterprises;

the monetary system's freedom to manoeuvre.

The size of the consumption increase sought is in keeping with the strength and scope of the political and organizational power of the labour force. The range of situations is fairly wide, since it extends from that of the groups wielding most power in the middle strata to that of groups holding minimal power in the lower strata.

The struggle to obtain increases in consumption is therefore very unequal. The most powerful forge ahead, while the other social groups with less power lag behind them.

Let us first of all consider the consumption increment achieved by the most powerful groups through salary and wage increases. Of course, the enterprises will endeavour to transfer these increases to prices in order to protect the surplus. This is where the

monetary authority comes in. It will try to prevent a rise in prices, but it has little room to manoeuvre beyond a certain limit. Two extreme cases will illustrate this point.

In the first of these, the growth of the surplus due to the improvement in productivity enables the enterprises to absorb some of the desired increase in consumption, while at the same time augmenting the cumulative surplus. This, however, means that the monetary authorities must be very careful not to carry monetary expansion further than will meet the requirements of the production process without raising prices.

In the other extreme case, the groups with most political and organized labour power try to obtain an increase in consumption which equals or exceeds the amount of the surplus. The monetary authority is then forced to expand credit further than in the former case, with the object of allowing prices to rise commensurately with the amount whereby the total increase in remunerations exceeds what is absorbed by the surplus.

If the monetary authority does not give way, a contraction will be inevitable, as we shall see later. Between these two

extremes there is, of course, a whole range of intermediate situations.

The first extreme case arises when the upper strata on the one hand and the monetary authority on the other have sufficient power to act in accordance with orthodox principles.

In the second case, whether the increase is wholly or partly transferred depends on the capacity of the enterprises to absorb the increase in remunerations without seriously sacrificing their accumulation potential, and on the degree of development of the consumer society.

It should be noted in passing that this accumulation potential is reduced only when wage increases are not transferred to prices, for when the surplus is invested or spent on consumption, it reproduces itself once again in the production process, over and above the increments generated by the growth of production. This propensity of the surplus to reproduce itself, as stated earlier, is not due to limitations of competition. With or without such limitations, it is a dynamic phenomenon inherent in the production process.

4. *The inflationary spiral*

The transfer of the increase in the remuneration of the most powerful groups to prices means that the part of the increase in their consumption not absorbed by the surplus is obtained at the expense of the consumption of the other less powerful groups in the middle strata and, particularly, in the lower strata.

Matters do not stop there, however, since the reaction of these adversely affected groups is not long in making itself felt. They try to regain what they have lost and also to share in the increase in consumption resulting from improved productivity. As they obtain salary and wage adjustments, the pressure on the surplus is accentuated. To the increase in consumption achieved by the most powerful groups are now added the efforts of the groups left behind. As a result, the monetary authority's room for manoeuvre is still further reduced and the adjustments obtained by these lagging groups are transferred to prices.

Thus the spiral develops. The new rise in prices reduces the consumption increase previously secured by the most powerful groups. Meanwhile, the most under-privileged groups, which have not yet received any adjustment at all, suffer a further contraction of their consumption. Their capacity for endurance is not unlimited, however. The disparity is accentuated with inflation and the political reaction of those affected finally forces the State to grant across-the-board adjustments which give added impetus to the inflationary spiral. In this manner, inflation spreads throughout the structure of society. It is a well-known fact, however, that some persons—especially those receiving fixed income—are excluded from such adjustments.

As inflation spreads, the intervals between adjustments become shorter and shorter, with the consequent acceleration of the spiral.

There is another aspect of the

distribution struggle which cannot be overlooked. Chapter II refers to the introduction of new and more productive layers of technology which are superimposed on the previous layers and afford a broader margin for the exercise of power by the more advanced groups.

The resulting increase in productivity makes it easy for the enterprises concerned to raise wages. The case is not the same, however, in the preceding layers of technology, which have a smaller margin of accumulated surplus. Across-the-board wage increases, unaccompanied by a comparable increase in productivity and, therefore, in the surplus, are yet another element in the distribution struggle.

All this concerns the distribution struggle proper, i.e., the efforts of the labour force to expand its private and social consumption by sharing with

the upper strata the fruits of the increase in productivity. The power of the labour force is also exercised, however, in order to make good the reduction in its consumption caused by structural phenomena which the free play of economic forces in the system is unable to correct. Nor can the play of such forces obviate the disparities in distribution to which its very nature gives rise, and which, as explained above, the labour force attempts to correct by using its political and organizational power.

Underlying these phenomena is the arbitrary nature of the distributive system of peripheral capitalism. I cannot believe that all this reflects a fatalistic determinism. I feel rather that the explanation is simply that the periphery has not succeeded in finding new formulas to tackle the basic problem of capital accumulation and income distribution.

5. *Structural and functional factors of inflation*

One of the structural phenomena is the concentration of land ownership, plus the traditional type of landowner's reluctance to make any great effort to introduce techniques designed to improve yields per unit of area. If, owing to the growth of population and income, demand increases faster than production, the prices of certain staple foods will tend to rise. This is sufficient in some cases to trigger off spiralling inflation, or to accentuate it if it already exists.

This aspect of inflation prompted some CEPAL economists, a few years

ago, to develop the structuralist theory, about which more will be said later.

Another structural phenomenon is connected with foreign trade. We have explained elsewhere that, given the production structure of the periphery and of the centres, demand for imports grows at a consistently more rapid pace than exports. With the object of correcting this disparity, the policy of import substitution based on protection was adopted. Through their political power, however, enterprises have generally abused this need for support, which has been obtained on an exaggerated scale

and for an indefinite period. This, too, has caused domestic prices to rise, with the consequent reaction on the part of the labour force.

Apart from these structural phenomena, mention must also be made of the effects of the cyclical movements on the surplus and the inflationary trend inherent in the system. The surplus tends to increase in the upward phase of the cycle and to contract in the downward phase. In the former, pressure for redistribution is eased, while in the latter it is intensified.

This increase in the surplus derives

not only from the rise in the price of exports, but also from the impact of new and increasing capital investment on productivity, and the fuller utilization of installed capacity as a result of the cyclical expansion of demand.

The situation becomes more complex when the rise in the price of exports adversely affects domestic consumption. Without going into too much detail, it does seem worthwhile to note one important consequence of the cyclical contraction. We will now complete although very briefly, the remarks on it already made in the previous chapter.

6. *Economic contraction at the periphery*

The progress of democratization prevents the contraction from developing naturally, as required by orthodox monetary principles, since political pressure intervenes in favour of anti-contraction measures. I do not say that this is the best course: it would seem preferable to adopt measures at moments of greater prosperity in order to mitigate later on the effects of the downward-phase contraction. But this is not the usual procedure. Boom periods do not seem to encourage farsightedness.

Be that as it may, the political pressure in question is not exerted only by those who have reaped the benefits of government expenditure and investment at more favourable times. This in itself would constitute understandable grounds for opposing cuts in such expenditure. In addition, however, political pressure is applied by the goods-producing sector, since it also suffers the effects of the decline. A

Keynesian deficit then becomes a feature of the public finances, and the monetary expansion to which it gives rise tends to counteract the internal contraction.

At the periphery, however, a Keynesian policy's room for manoeuvre is much more limited than in the centres, and especially the main dynamic centre. Although, admittedly, even there the deficit has the effect of increasing imports, it is nonetheless true that this stimulates the recovery of other centres and also of the periphery itself. The increase in imports is thus accompanied by an increase in exports, although only after a certain time-lag.

Keynes—as is the habit of many economists of the centres, although to a lesser extent now than before—has ignored the periphery. A peripheral country is not in a position to influence the recovery of the centres to any significant extent, even if it maintains

or steps up its imports from them: this is another typical manifestation of the passive nature of the peripheral economy. It does not generate and transmit stimuli but merely receives them.

The monetary expansion brought about by the internal deficit results in price increases, in addition to an external disequilibrium which necessarily leads to devaluation, even though this may be postponed by means of more or less dexterous contrivances.

As may be readily understood, devaluation makes it possible to combat the disequilibrium, but it does nothing to contain the rise in domestic prices. On the contrary, it helps to sharpen their upward trend.

Even when interests converge in favour of a monetary expansion policy to counteract the cyclical decline, it is not long before this convergence disintegrates as prices increase. While the upper strata protect or even augment the surplus through devaluation, those

lower down also strive to defend their remunerations, endeavouring to recover from the impact of price increases—caused or intensified by devaluation—on their consumption.

As these adjustments take place in the course of the distribution struggle, the external effects of devaluation diminish until another devaluation becomes necessary, and this process is repeated again and again, while inflation, accentuated by the continuing fiscal deficit, pursues its self-propagating course.

The conclusion seems very clear. In view of the cyclical pattern of peripheral development, so strongly influenced by the centres, the advance of democratization leads first to political pressure in favour of compensatory measures, and then to the distribution struggle. It is no longer just a question of increasing the share of the labour force in the distribution of income, but rather of avoiding the regressive effects of compensatory policy.

7. The monetary authority's dilemma

In another part of this chapter we maintained that when the increase in consumption which the labour force is trying to obtain amounts to more than the surplus would be able to absorb, the monetary authority is forced to intensify monetary expansion in order to prevent a contraction. It is, indeed, faced with a serious dilemma. Either, as we say, it decides to expand credit over and above that required by the production process, with the consequent amplifying effect on the inflationary spiral, or it refuses to do so, thus causing a contraction.

We will now try to explain why this necessarily occurs. Let us recall the role of the monetary expansion inherent in the production process. It is a dual role: the expansion generates a surplus by preventing prices from dropping as productivity rises, while at the same time it enables the increase in final goods to be absorbed. If it is restricted by the monetary authority, the market cannot absorb this increase in final goods, and stocks pile up in the final stage of the production process. That is how the contraction begins.

The initial fall in demand caused by monetary restriction gradually spreads to the earlier stages of the production process and leads to the accumulation of stocks, on a scale that becomes all the larger, the longer the distance between the stage concerned and the end of the process.

I say this to ensure that the nature and implications of the distribution struggle may be clearly understood. What is more, in the course of this struggle the adjustment —i.e., the amount of private consumption that the less privileged groups are trying to regain or gain additionally— increases in size.

Accordingly, a restrictive policy leads to a contraction whose severity depends largely on the disparity between the

dimensions of the surplus and those of the consumption increment pursued in the redistribution struggle.

Such, then, is the dilemma with which democratization inexorably confronts the monetary authority: a contraction of the economy, or the continuance of spiralling inflation with no possibility of containing its persistent spread as pressure from the groups left behind grows stronger and wage and salary adjustments become more frequent, to say nothing of the added effects of periodical devaluations.

Of course, neither alternative is socially or politically acceptable; but we will not embark on discussion of this problem until other complex questions have been clarified.

8. *Inflation and unemployment*

A case of counter-productive duality in monetary policy is frequently met with: credit expansion to cover the fiscal deficit, coupled with restrictive measures to combat the inflation inherent in the production process.

The factors causing the deficit are well known. Inflation itself is one of them, when power relations induce the monetary authority to adjust wages and expenditure in general without a corresponding tax effort, or when the authorities fail to make such an effort to cover the spurious absorption of the labour force.

The creation of money arising out of the fiscal deficit is generally considered to be sufficient to cover the monetary expansion required for production

purposes, and in order to slow up the rate of inflation, the amount of money needed for the expansion of production itself is restricted. This necessarily leads to a contraction, even though the total amount of money continues to grow on inflationary lines owing to the deficit.

The increased income which is essential in order to expand production —and which constitutes the working capital of the enterprises— calls for monetary expansion several times greater than the income which the enterprises recover when they sell the final goods.

The inflationary increase in the surplus caused by the fiscal deficit cannot act as a substitute for this monetary expansion, however, since

the surplus, as already explained, is generated in the final stage of the production process and passed back over the preceding stages, thus increasing the value of the goods in course of processing which form part of the working or circulating capital. Consequently, the surplus could not be used to pay the increased income required for the expansion of production.

Therefore, in view of the way in which the system operates, if the growth of production is to be maintained it is essential that the monetary expansion inherent in the production process should continue. It will have to be all the greater, the more vigorous the inflationary growth of the surplus due to the fiscal deficit. If credit restrictions prevent it from keeping pace, the result will be a contraction.

Let us take a careful look at what this means. On the one hand, the restriction of credit by the monetary authority leads to unemployment. On the other hand, the inflation caused by the deficit continues to push up prices and strengthen the pressure to increase the salaries and wages of those still employed. This explains the coexistence—far from peaceful, to be sure—of

unemployment and the all-too-well-known spiralling inflation of prices and wages.

It should be noted, however, that a contradiction of this kind does not arise only out of the duality of monetary policy. This is an extreme case. It is sufficient that monetary restriction should cause a contraction of the economy, even when there is no fiscal deficit. The contraction brings unemployment, but the spiral continues among those still employed, owing to the propagation phenomenon explained above. Indeed, those lagging behind will strive not only to catch up but also to make progress, and to the extent that they succeed through their political and organized labour power, the resulting price increases will affect those in the lead. The difference between this and the preceding case, where the effects of the fiscal deficit supervene, obviously lies in the intensity of the inflationary process.

It is generally believed that unemployment alleviates the distribution struggle. This supposition fails to take into account, however, the fact that the corresponding decline in production tends to militate against any such alleviation.

9. *The distribution crisis*

In any case, contraction rapidly becomes socially and politically intolerable. Thus, a further expansion becomes necessary, accompanied by a corresponding currency devaluation, until the surplus is re-established in full.

The system cannot function normally without the surplus, for this is the main

source of capital accumulation. The re-establishment of the surplus, however, also gives fresh impetus to the consumer society, which is the outward and visible expression of acute social inequality.

As explained above, expansion and the distribution struggle give increasing momentum to spiralling inflation, which

spreads faster and faster and entails more and more frequent salary and wage adjustments. The result, of course, is the disruption of the system. This disruption cannot be corrected by futile attempts to repress certain symptoms of inflation, which end by making the continuation of the process insupportable.

Such is the nature of the distribution crisis. It has no spontaneous denouement arising from the interplay of power relations. The denouement must be a political one: either a return to the smooth development of a consumer society, to the serious detriment of democratization, or a transformation of the whole system¹⁰.

Neither repressed inflation nor monetary therapy is the remedy for this disease. Monetary therapy assumes that the disease is the effect of a plethora of money. Therefore, by simply eliminating that excess the problem is solved. It is just a question of firmness of conviction, as in the classic case of the physician who diagnosed a plethora of blood. The patient therefore had to be bled. He languished on, but got no better. There was nothing for it but to bleed him again until the treatment was proved to be effective. Effective it was, to be sure, and, incidentally, it killed the patient in the process. Which does not necessarily lead to any loss of faith in the treatment¹¹.

¹⁰We will revert to this point in chapter V.

¹¹I am referring here to contraction deliberately induced by monetary policy, and not to that caused when an external deficit is not covered by credits or by the restriction of certain imports.

It was their reaction against this kind of treatment that prompted some CEPAL economists, some years ago, to challenge other economists from the International Monetary Fund who claimed that inflation could be eradicated by means of monetary restriction. The merit of the former —and I was not among them— was to point out that the remedy was counter-productive. Their contention was that inflation had its origin in structural and not in monetary factors. This set afoot the famous controversy between structuralists and monetarists; and the pendulum swung rather too far —as always happens in such cases— on the structuralist side.

I do not know whether after this exposition I shall be called a structuralist. I refuse to classify myself or be classified. I do, however, recognize that a thorough structural examination of peripheral capitalism is necessary.

The interplay of power relations really originates in the changing structure of society, without which there can be no explanation for the arbitrary distribution of income, the insufficient rate of capital accumulation and, therefore, the tendency of the consumer society to exclude large masses of the population from the fruits of development. The free play of economic forces reflects those relations and can neither prevent nor correct their effects at the domestic level. Nor can it do so at the international level, subject as the periphery is to the cyclical movements and other vicissitudes of the centres.

These and other flaws in peripheral capitalism need to be investigated in greater depth; their causes must be sought at the very roots of the system.

I am endeavouring to do so in this provisional document, and in the attempt I repudiate more firmly than ever any hankering after classification in pre-established categories.

As I said before, the market can become an effective technical mechanism if steps are taken to make the rate of capital accumulation truly dynamic

and radically change the distribution system. Perhaps conditions will then be propitious for the restoration of the monetary authority, but only as an integral component of a development discipline. This subject involves the theory of change and the political art of development, with which we will deal on another occasion.

Chapter V

The democratization process and the interplay of power relations

1. *The development of political and trade union power*

The democratization process at once accompanies and influences the course followed by development and the structural changes it brings with it. Its scope and ramifications are vast, but in this study we will limit our examination to its significance in the distribution process and in the crisis towards which this process tends in the more advanced stages of development, as already explained.

In the phase of outward-directed development, characterized by the penetration of the production techniques of the centres into primary production and related activities, the predominant political power was that of the members of the upper income strata, whose links with foreign capital were very strong. The middle classes were developing too, but their political power was very limited. Most of the population remained submerged in a layer of precapitalist technology, barred from the economic,

social, and political process and, of course, from the fruits of development.

The progressive expansion of the middle strata begins with industrialization. New elements are being incorporated into the original middle classes, alike in private and public activities and in the professions: the elements that possess the qualifications increasingly demanded by advancing development.

The necessary skills—in the broadest sense of this term—are, of course, very unequal. As explained elsewhere, the higher the skill, the greater the ability of its possessors to participate in the fruits of increased productivity, and conversely, as levels of skill descend, this ability grows weaker and democratic (political and organized labour) power makes itself felt, obtaining what is not automatically provided by the free play of economic forces.

Thus, as the economic process advances, the middle strata expand

in the two ways explained elsewhere: partly as a result of genuine absorption of the labour force, and partly by spurious absorption, mainly in State activities.

Once again we witness here the actions and reactions that go hand in hand with structural change. The political power of the middle strata gradually secures for them the general education and training which formerly were confined mainly to the upper strata. As this process continues, their political and labour power is intensified, together with other significant signs of democratization. In this way they develop an awareness of their own identity, of the role they play, of the social advancement to which they aspire, for the achievement of which economic improvement is an intrinsic element. The expansion of the middle strata and the march of democratization thus strengthen each other.

It is common knowledge that the characteristic phenomenon of urban concentration, which results largely from the growth of technology and from income distribution, is favourable to this multiform development of the middle strata.

The influence of mass communication media in this structural change is also very marked. It partly accounts for the fact that the democratization process tends to make itself felt at an earlier stage in the development of the peripheral countries than it did in the centres. This holds good not only for the middle but also for the lower strata.

In fact, the political movements which voice the interests and aspirations of the middle strata try to find support

by mobilizing the lower strata. In this way, they play a part in awakening and spurring latent aspirations, long bridled, and the distribution struggle thus acquires very significant new dimensions.

Hence a phenomenon of major importance emerges. The growth of democratic power in the middle strata and its extension to the lower strata—however limited it may be—results in a steadily widening gap between the economic process and the democratization process.

There is no need to repeat the explanation already given with respect to the main factors responsible for this disparity. What is important now is to draw attention to its serious consequences. The unchecked advance of democratization in the areas of both political and organized labour power, in opposition to the economic and political power of the higher strata, increasingly sharpens the inflationary trend inherent in peripheral capitalism, as the distribution struggle grows more strenuous. As a result, the rate of capital accumulation is affected and that of absorption of the labour force slackens.

There is no spontaneous mechanism to correct the disparity, and collective rationality would therefore seem to enjoin a deliberate effort to ensure a suitable rate of capital accumulation at the expense of the advance of the consumer society. If such an effort is not made, the development crisis sooner or later leads to a setback in the march of democratization, unless of course this process has already been contained.

This is a very disconcerting conclusion for those who believed in the

possibility of concomitantly attaining the major objectives represented by economic development, on the one hand, and social equity and the sustained advance of democratization on the other. Perhaps that is not the best way of expressing the incompatibility involved. Rather, the incompatibility is between the exaltation of the consumer society and the democratization process.

Clearly, a regression in democratization, in terms of both political and organized labour action, makes it possible to devitalize, if not altogether

stifle, the distribution struggle. This would appear to be inevitable as long as the distribution and accumulation system remains unchanged.

In the interplay of power relations, political and organized labour action is the only means at the disposal of the labour force (apart from their limited social power) for counterbalancing the considerable power of the upper strata. But if political and organized labour power is exercised completely without restraint, this brings the system to a crisis.

2. The containment and reversal of the democratization process

There are many ways of causing the democratization process to slow down, stop, or lose ground, and in given situations elements of force, manipulation, and persuasion can be combined in a variety of ways.

Very important and significant, however, is the type of political régime in which representative democracy develops in all its formal manifestations, but with very little substance. Great mass movements may take place, but only if they are directed from the summit of the system. There is no systematic use of force, which is kept in reserve, but it is available at any moment in cases of emergency.

The key to such a régime lies in its ability to incorporate those who may be called the dynamic individuals of the system, and who tend to emerge in all strata. These are the individuals who are distinguished for their imagination and initiative, their organizational ability, their fighting spirit, and their capacity for taking risks and assuming

responsibility. The vitality of these dynamic elements, however small a proportion of the whole they may represent, is two-edged, in that if they can be incorporated into the system and find opportunities for social advancement, its impact is positive for development, whereas it is negative and disrupting if this is not the case. The rate of development is of great influence in this connexion.

In any event, the attitude of such persons is in direct contrast to the passivity of the greater part of the labour force, who, irrespective of their level of technical and professional skills or intellectual qualifications, are not inclined to take an active part in the distribution struggle or in pressing political or other claims unless they are spurred on by the dynamic individuals. They are vegetative elements in the structural formation.

Among the dynamic elements, considerable importance attaches to those who emerge and rise by virtue of

their qualities in the course of the democratization process. Political and labour-organization leaders are a case in point. Their incorporation into the system and their possibilities of entry in one way or another into the consumer society facilitate some linking-up of interests with those who manage economic activity: a sort of alliance which is generally concerted under the aegis of the State in the interplay of power relations.

Other dynamic elements which could hardly remain on the sidelines are the members of the intelligentsia, whose innate tendency to criticize the system is likely to be further accentuated insofar as they are not or have ceased to be absorbed by it.

Such alliances or commitments naturally channel and moderate the intensity of the distribution struggle, and in this way they contribute to the smooth development of the consumer society.

It was explained elsewhere that the rate of absorption and upward social mobility of the lower strata which make up the sub-consumer society tends to slacken, so that they lag behind and achieve only a minimal rate of development, if indeed any at all, whereas for those higher up the rate of absorption and betterment may be very rapid. Deprived of their dynamic elements, the lower strata are not in a position to develop their democratization potential save through the typical forms of popular mobilization referred to earlier.

The whole question is so complex that these brief observations are inadequate to deal with it. The absorption of dynamic elements makes the

systematic use of force, even by authoritarian régimes, unnecessary, all the more so if such régimes are subject to regular periodic renewals, accompanied by some degree of movement of their dynamic elements, which reduces if it does not obviate the rigidity of the system.

The case is very different where the development of the consumer society is based mainly on the use of force. The collective weight carried by the dynamic elements in labour organizations and popular movements is lessened or nullified in one way or another, whereas the dynamic elements in economic activity are untrammelled by constraints on their initiative and freedom of movement.

Perhaps the use of force might prove much more effective in accelerating the rate of development of the consumer society than the alliances of dynamic elements referred to earlier, particularly if the doors were thrown open to foreign participation.

Such is the political and social cost of the consumer society around which peripheral capitalism has revolved, from its inception to the phase of exaltation it has reached in some places. Whether the consumer society is based mainly on the absorption of dynamic elements, the use of force, or a combination of both methods, no deliberate choice of models is made; it is simply the product of a complex of historical and political, geographical and circumstantial factors.

Neither the exacerbation of the distribution struggle through the advance of democratic power, nor the latter's containment or loss of ground, can solve

the basic problem of peripheral capitalism: that of increasing the rate of capital accumulation to counteract the insufficient rate of absorption of the labour

force. In other words, greater capital accumulation is needed to close the widening gap between the political and the economic processes.

3. *The democratization crisis*

This gap makes for a crisis in the democratization process even if the lowest strata remain passive. If they wake up and join in the distribution struggle, they give further impetus to this tendency and help to precipitate the crisis. Once again, however, I would stress the outstanding role played by the middle strata as technological penetration progresses. It is the gradual strengthening of their political and organizational power that incubates the crisis.

This explains the case of some countries —few in number to be sure— where even in the earliest days of industrialization the proportion of precapitalist and backward technological strata was not high, in contrast to the situation in most of Latin America. In these countries their flourishing primary exports had given a vigorous initial impulse to industrial development and to the absorption of the lower strata leading a hand-to-mouth existence. There, the distribution problem mainly affects the middle strata, who strive to increase their participation in the consumer society, since the favourable conditions for absorption have reduced the sub-consumer society to relatively small proportions.

In the interplay of power relations,

exacerbated by inflation, a vicious circle has been formed in which the distribution struggle weakens capital accumulation and accentuates the insufficiency of dynamism of the economy. This, in addition to the frustration that the struggle entails, provokes an increase in spurious absorption in the middle strata, with a further undermining of the capital accumulation process. All this is prejudicial to a faster rate of development than the basic conditions of the economy would have permitted.

It should be stressed here that the features of the distribution struggle which we have just been considering are the expression of advanced stages of development, when industrialization and the penetration of technology in general have given a strong impulse to the middle strata.

Therefore, such features are not present, although there may be hints of them, in those countries in which industrialization is in its infancy and a considerable proportion of the labour force is employed in agriculture. Their wretched social situation is unquestionably a major problem, but their organized labour power is negligible or nonexistent, and their political power is very slight, like that of the underprivileged masses in the cities.

4. *Emergence of new factors in the democratization process*

It should not be supposed, however, that such a state of affairs can continue indefinitely, either in these cases or in those others where development has left the lower strata far behind. For new factors are appearing on the social scene.

Outstanding among these are the mass communication media. Thanks to them, the awakening of the underprivileged masses is a development which to a greater or lesser extent is occurring everywhere. Their passivity or their resignation can no longer be relied upon as ballast for social stability.

Moreover, the alliance of dynamic elements or the use of force in support of the development of the consumer society cannot be lasting factors in a changing social structure where new and vital attitudes are emerging.

There are dynamic elements with a propensity to absorption, but there are also those which refuse to be absorbed, either on moral and humanitarian grounds, or because of their ideological beliefs or political aspirations.

The external situation is of great significance. There are some who have forgotten that the cycle is the natural form of capitalist development. Perhaps they thought the waves of prosperity would roll on for ever. But this is not the case. These waves flow towards the countries on the periphery and in one way or another stimulate their rate of development, but when they ebb, the

periphery suffers the consequences more than the centres.

Then it is that the dynamic elements which have repudiated absorption, or those which the consumer society has simply failed to absorb owing to the weakening of its dynamism, find the circumstances favourable for them to emerge and assert themselves, sometimes with impressive vigour.

Furthermore, no one can be certain that if force is applied it will continue to be used unconditionally in the service of the consumer society. Here, also, the consequences of structural change are seen, since the social origin of those who have to use force professionally has been sliding downwards, and although this is far from being a decisive factor, it nevertheless contributes to the formation of a new social awareness in the armed forces: an awareness which may assert itself when this or that set of external or internal circumstances reveals the flaws in the system. The direction may change, and the use of force may be directed upwards rather than downwards in the social structure.

This is a very delicate subject, but one that cannot be overlooked in a realistic study, even though such changes in attitudes are too complex to be covered by this simple and fleeting reference. This is also true of the change in the attitude of the Church, in which, in addition to the same structural shifts, hitherto unsuspected projections of its self-renovation can be glimpsed in all their breadth of scope.

5. *A brief elucidation*

On rereading these pages, I had some fear of misinterpretation, and I should therefore like to summarize the central idea contained in them, even at the risk of repeating myself.

In the free play of economic forces there is no principle which tends to regulate income distribution as the neo-classical economists had assumed. The fruits of the increase in productivity, which are appropriated largely by the higher income strata, are not spontaneously passed on to the remainder of society through a fall in prices or a rise in salaries and wages. Such rises are more apt to be partial and limited, and benefit mainly those with the social power to secure them. The distribution of the fruits of technological progress tends to be very slow in the context of the free play of economic forces. Hence the importance of the political and organizational power of the labour force as democratization advances.

It so happens, however, that in the evolution of peripheral capitalism—mainly because of the insufficient accumulation of capital—there is a widening gap between the advance of democratization and the progress of economic development, and this disparity inevitably causes the breakdown of the system, as the inflationary spiral grows.

Logically, there are only two ways of narrowing the gap: the transformation of the economic process to further the

advance of democracy, or the sacrifice of the latter in order to keep the economic process going and ensure the progressive development of the consumer society.

Advancing democratization demands a sharp rise in the rate of capital accumulation and a modification of the distribution system. This is needed in order to accelerate the absorption of the labour force with increasing productivity, and to ensure the steady narrowing of the income gap between the top and bottom brackets throughout the structure of society.

This, however, is incompatible with unrestrained imitation of the consumer patterns of the centres, based on the upper strata's appropriation and retention of a major share of the fruits of technological progress.

Peripheral capitalism is more inclined to sacrifice democratization in one way or another for the sake of defending and promoting the consumer society; and possibly to exalt that society, if this permits the concerting of new ways of linking up with the interests of the centres, which make for the continued exclusion of the sub-consumer society from development. I suspect, however, that this is not a lasting phenomenon in the development of the periphery. What is of concern to me here is the nature and rationale of a transformation which is perhaps inevitable.

Chapter VI

Centre-periphery relations

1. *Some preliminary reflections*

The relations between the centres and the periphery develop under the hegemony of the former. This hegemony is of very long standing, and although it has undergone great changes in the passage of time, it continues to satisfy a combination of economic, political and strategic interests which are of enormous influence in the development of the periphery.

In the course of these changes in capitalist development, the principal centre has shifted and other centres of hegemony and other systems of development have emerged. The latter are of little economic importance in the Latin American region of the periphery, but their ideological influence is considerable, and this is how the Latin American countries are drawn into the conflict of the centres: yet another example of the periphery's propensity to imitate and its lack of authenticity.

The capitalist hegemony, particularly in the case of the principal centre, finds expression in power relations in which the technological and economic superiority of the centres, backed up by their political power, exerts an influence on the periphery which is generally unshakeable.

Under the influence of this power, the centres link up with the periphery in a combination of interests with the latter's upper strata so that, in addition to their own power, which is in itself

considerable, they share to a varying extent in the economic and political power of these strata.

Of course, the relations between the centre and the periphery are not static. They are subject to the effects of trends in the centres and changes in the structure of the peripheral society.

Whatever the nature and intensity of these changes, the centres always seek to defend the aforesaid economic, political and strategic interests, which sometimes coincide and at other times conflict with the interests of the periphery.

The area in which they coincide is increasingly that of the consumer society, the conspicuous expression of the imitative capitalism of the periphery. Transnational enterprises exploit their innovations there in addition to pressing on with their long-standing exploitation of natural resources in their own interests. In fact, they exalt the consumer society, and those who benefit from its prosperity and sometimes even opulence end up persuading themselves that by now capitalist development in the image and likeness of the centres is irreversible in the periphery. This is a form of seduction which has very serious implications.

It does not matter that the centres are themselves going through a profound crisis in which their human values are at stake. The capitalism of the centres, like a mighty torrent, has overflowed its banks.

Nor is a moment's thought given to the incompatibility of the consumer society of the periphery with the social integration of the underprivileged masses and with equitable distribution of the fruits of development.

Moreover, the centres contribute to the tendency of peripheral capitalism to exclude the great mass of the population which is left on the sidelines of development, for in their relations with the periphery they have been unable to correct the contradictions by which its development is checked. They have done nothing of consequence to enable the industrialization of the periphery to play an active part in a new international division of labour which will help it to make up its historical leeway, nor to resolve the serious problems of primary exports; and the haphazard and stopgap financial co-operation provided is far from what is needed to meet the requirements of Latin American development.

The significance of the power of the centres is something quite different. They are not motivated by the idea of eliminating those contradictions; rather they are impelled by their consciousness of their technological and economic

superiority, the source of their ability to appropriate an excessive share of the peripheral surplus—to the generation of which, it is true, they make an undeniably effective contribution. All this is done with the political support of their governments.

Similarly, the free play of economic forces can hardly be expected to put an end to these contradictions. We have already seen that at the domestic level the interplay of such forces merely reflects power relations, and this is also true at the international level. The centres withdraw from this free play of forces when it suits their interests, as do the peripheral countries. But this does not prevent both the centres and the peripheral countries from continuing to sing the praises of the system's regulatory virtues.

If the peripheral consumer society takes a shortsighted view, so do the centres in their relations with it. Two centuries of belief in the virtues in question blind them to the truth that development is intelligent foresight, that it is the ability to influence—with a conscious and deliberate view to the attainment of great objectives—the forces than can make or mar it.

2. The lag in peripheral development and its consequences

The evolution of production technology and the distribution of its fruits gave rise to spontaneous concentration of industry in the centres. The industrialization of the periphery has not been a spontaneous phenomenon, however. It was a late starter, and this delay has

brought and continues to bring very serious consequences in its train.

Up to a while ago the idea was current that the dynamism of capitalism would lead to its spontaneous self-propagation in the periphery. Marx himself assumed that it would spread

throughout the world following up the prototypical experience in the United Kingdom.

This did not happen, however. Historically, capitalism penetrated spontaneously into the periphery only in order to supply itself with the primary products it needed. It showed no plain intention of promoting the periphery's integrated development, in which industrialization would be bound to play a leading role.

The industrialization impulse gathered strength in the periphery when the dynamic impetus of the centres was dramatically interrupted by successive crises (such as the two World Wars and the Great Depression).

The centres became involved in peripheral industrialization later on, particularly after the Second World War, being attracted largely by the incentive of industrial development for import substitution purposes, which was strongly supported by protectionist measures. This development was part of a deliberate effort to weather the crises, no matter how makeshift and inexperienced its manifestations may have been.

The concept of spontaneous industrialization was based not only on the supposed expansive force of capitalism, but also on the theory that the low wages in the periphery would of their own accord attract enterprises and capital from the industrial centres. Events have not confirmed this theory either. Only in a few cases does the assumed attraction of low wages offset the considerations which lead to concentration in the centres, although these low wages ranked as an important

factor in that outdated concept of the international division of labour which permitted the centres to obtain supplies of primary products from the periphery at low cost.

A closer look will show that these explanations do not cover the whole truth of the matter. The fact that the centres showed no spontaneous interest in the industrial development of the periphery does not explain why the periphery did not start industrialization on its own account, by its own deliberate decision. Why did it have to wait so long to begin the process? The answer must be sought in the structural formation of the periphery and in the way it has linked its interests with the centres. The higher strata in the periphery, who derived their income from primary exports, had no interest in industrialization. Indeed, they were opposed to it, since it would push up the prices of the goods so freely imported from abroad, and they were also afraid that it would have in adverse effect on commodity exports.

The theories of free trade and the international division of labour were deeply entrenched in the periphery. This is one proof, among many that could be given, of the coincidence of certain ideas with the dominant interests in power relations. These theories came, of course, from the centres themselves, where the immediate interests of the exporters of manufactures would also be damaged by the industrialization of the periphery, if market laws were so flagrantly violated.

The crises in the centres finally imposed industrialization on the periphery. Although during the two

World Wars there was no need for protection, owing to the very scarcity and rising prices of such manufactures as it was possible to import, there was need for it indeed when the crises ended. The peripheral countries' late arrival at the industrialization stage, their lack of technical capacity and know-how, and the narrow limits of their markets forced them to have recourse to protective measures, although these arguments do not justify the frequent application of such measures in excess.

Such was the policy of import substitution: a policy that was at first severely criticized, both at home and abroad. But what was really being criticized was industrialization itself. It was a long time before its necessity and inevitability were understood.

With respect to import substitution, subsidies would undoubtedly have been better than protection, mainly because they would have made industrialization more rational, since they would have provided incentive for both import substitution and industrial exports.

But rationality is not enough to win acceptance of a good idea. Although protection was opposed by the centres (and within the periphery itself), its adoption depended solely on the decision of the country concerned. In the case of subsidies, in contrast, the centres might have taken compensatory measures to protect themselves against the competition of the periphery, and this was, and still is, to say the least, a strong deterrent.

Moreover, no-one would have seriously believed that the successive crises in the centres would offer promising op-

portunities for industrial export from the periphery.

It is not our purpose here to make a historical study of industrialization—although this would be very interesting—but to present it in a perspective which will shed light on certain significant aspects of the process in the relations between the centres and the periphery.

Though there had been times when there seemed to be no definite possibilities of industrial products being imported from the periphery by the centres, this was certainly not true of the two decades which preceded the current world crisis. It is of interest to refer to these facts.

In the boom in world industrial trade during the last quarter of a century, the participation of the periphery has been very slight. As regards Latin America, which has a vital need to export industrial products at the present stage of its development, the minor role it has played is explained by the influence of a series of adverse factors:

- the industrial development of the centres;
- the reluctance of the transnational corporations to develop peripheral exports of their own accord;
- the protectionist policy prevailing in the centres;
- the indifference of the periphery, the errors committed there, and its lack, up to recent times, of an efficient promotion policy for industrial exports.

The boom in trade in manufactured goods was largely the result of the development of production technology in the centres, of their innovations, of

the constant diversification of their products. The periphery was not in a position to take part in this movement, because of its own retarded development.

This phenomenon is closely linked with the impressive development of the transnational corporations. As mentioned earlier, these enterprises —attracted by protection and the bright prospects it held out— have made every effort in recent decades to take a steadily increasing part in the industrialization of the periphery, and they have succeeded. Their reluctance to export, however, is well known. Their plants have taken advantage of the domestic market but have not sought export opportunities of their own accord. A definite policy of subsidies has been necessary to overcome their reluctance, and has done so only in part. Their interest lies in the exploitation of their continuous innovations on the domestic market rather than in competing with their parent firms on the international market.

Motivated as they are by the desire to introduce new and complex layers of technology which can take advantage of the growth of domestic demand, the transnational corporations are not interested, generally speaking, in those industries where the periphery has competitive ability, or could acquire it in a short time. Such industries, having deep national roots, could play a major role in exports, and in many cases are already doing so. But it is precisely in these areas of production that the centres usually take protectionist action to avoid competition from the periphery.

The techniques prevailing in industries like these are less complex

and more accessible to the periphery. As has so often been repeated, if the centres practised those principles of comparative cost which they have preached to us so assiduously, they would open the doors to such exports and thus increase the periphery's capacity to import, with manifest advantages for their own more advanced industries. Hence, the consumer society would become more rational for those benefiting from it in the periphery, although not necessarily for the community as a whole.

I should not like to say whether, once the current crisis in the centres is overcome, the policy of preferences which is being initiated will represent the beginning of a fundamental change in this vital matter.

Not all the responsibility lies with the centres, however; the Latin American countries must also bear a large share of it.

The encouraging results of the export policies of some countries show what has been lost by not having ventured in this direction long ago. Chronic overvaluation of currencies and needless impediments have done serious harm to the export trade. In particular, not enough determination and foresight has been shown, or is being shown even now, in the application of measures to stimulate reciprocal trade within the Latin American periphery: a policy which, by reducing costs, would also have encouraged industrial exports to the centres and the rest of the world.

It is common knowledge that primary exports also have to overcome obstacles in the centres which are sometimes considerable. But even if they

were to some extent removed, this would not solve the basic problem, which is to increase the periphery's capacity for payment sufficiently to meet its development needs. Herein lies the crucial importance of industrial exports.

This is the root of one of the most serious contradictions in centre-periphery relations. CEPAL has long drawn attention to the tendency of peripheral development towards an external bottleneck, which seems to vanish in phases of external prosperity, only to return —perhaps with greater intensity— in the unfavourable phases. As we know, in spite of import substitution policies, imports tend to grow more rapidly than exports as development proceeds, although their composition is different.

This disparity between exports and imports is structural in nature, and is basically due to the lag in industrialization. It is true that an underlying factor is the marked difference between the income-elasticity of demand for industrial goods, which are constantly being diversified, and that of demand for primary products in general and agricultural commodities in particular, in respect of which the scope for diversification is very limited.

However, if the industrial development of the periphery had been parallel to that of the centres, it would have been possible to meet, through its own diversification and industrial trade with the centres, the requirements in respect of manufactured goods which the high income-elasticity of demand for them would have entailed.

This is a phenomenon of timing which is by no means part of a natural order of things. It could be corrected, particularly if the efforts of the periphery were accompanied by co-operation from the centres. It should be borne in mind that the protectionist barriers which the latter set up to defend themselves —so to speak— against peripheral exports increases the disparity between exports and imports referred to above, whereas peripheral protection tends to smooth it out. The more the centres protect themselves, the more the periphery has to protect industrialization for import substitution purposes, notwithstanding its higher cost.

If I stress this old CEPAL thesis, it is because now and then and here and there reactions emerge which are inspired by a timeworn concept of the virtues of the free play of market forces.

3. *The terms of trade*

The great influence also exercised by the structural backwardness of the periphery on the terms of trade is a very controversial theme that deserves to be clarified once again.

It was shown in chapter II how insufficient dynamism in the economy makes for a persistent deterioration of the

income of the lower strata in relation to that of the higher strata, and particularly those groups among the latter whose power enables them to appropriate a major share in the fruits of technological progress.

It was also pointed out that when the relatively low income of the labour force

coincide with an abundant supply of natural resources, the deterioration in income relationships was reflected in a deterioration in producer price relations. This is particularly the case with tropical products.

The phenomenon is not confined, of course, to the context of domestic development, but also influences relations with the centres.

Now, an increase in productivity per unit of lands has consequences similar to those stemming from an abundant supply of land.

This is also an old CEPAL thesis. Attempts have been made to interpret it as an assertion that primary products have an inherent and irreversible tendency towards price deterioration, but it should be clearly understood that the deterioration occurs when the increase in production, owing to the combination of factors just explained, outstrips the growth of demand both at the domestic and at the international level. Of course, this happens only if there is no interference in the free play of economic forces through devices to restrict production or exports.

The cyclical fluctuations of international demand are wont to lead to certain misconceptions. A situation in which growing demand coincides with rising relative prices is all that is needed for it to be assumed that deterioration is at an end.

It really will end some day, when the insufficiency of dynamism in the peripheral economy is remedied and a lasting improvement in income relations between the lower and upper strata is achieved. In this, industrialization, with its capacity to absorb the labour

force, has an important role to play. This is another point in the CEPAL thesis. Similar effects would be produced by an increasing shortage of a natural resource, provided that they were not countered by technological progress.

Hence a further important conclusion can be drawn. It was stated a moment ago that a sufficiency of dynamism in the periphery's development would narrow the income gap. It is not enough to prevent the gap from widening. Demonstrating that income relations have not deteriorated does not mean that there is no problem. Development does not signify perpetuating defects, but correcting them. The same could be said of the terms of trade. Some price relationships have always been unfavourable, ever since the periphery was incorporated in the international economy. Industrialization would help to make them favourable, but only with the passage of time: possibly a very long time, if no shortages supervene. Meanwhile, only an enlightened policy on the part of the centres would shorten the path towards an objective so vital to the periphery.

But such a policy does not interest the centres. Far from it. While I was working with UNCTAD some years ago, I began to suspect more and more that the opposition to stabilization agreements on primary commodities did not stem only from reluctance to interfere with market laws; perhaps there was also the fear—not altogether groundless—that the success of such agreements would pave the way for later efforts to achieve a steady improvement in price relations between primary commodities and manufactured goods.

4. *The capitalistic expansion of the centres in the periphery*

A little thought will show that the concept of peripheral development through the spontaneous expansion of capitalism inflowing from the centres still survives.

The key to this concept lies in foreign private investment, and particularly that of the transnational corporations. I am convinced of the importance of these enterprises in the dynamics of development, but I am concerned about their ambivalent nature, about the negative and disrupting features which accompany their considerable development potential.

Those who believe that this form of participation of the centres in peripheral development is going to contribute fundamentally to the strengthening of capitalism in the periphery and to guarantee its steady and vigorous development are making a serious mistake.

What they are forgetting is that, quite apart from the negative aspects of the transnational corporations, the relations between the centres and the Latin American periphery continue to be hampered by the great contradictions and incongruities which seriously limit the social scope of capitalist development. No long-term policy has been formulated in the centres to counter these faults.

The main dynamic centre has never been anywhere near seeing matters in this light, even at the height of the ideological contest between the hegemonic powers. This contest has thrived in the broad and favourable field of Latin America: a further manifestation of the imitative propensity of the periphery. In this battle of ideologies, the main dynamic centre is joined by

others in trumpeting the virtues of its own system. These centres are seduced by the sometimes impressive development of the consumer society in the periphery, because they see therein a projection of their own image, as well as finding a copious source of profit. But they have not yet done anything serious and lasting to help the periphery to correct the contradictions referred to above; and even if something were done, it would redound primarily to the benefit of the peripheral consumer society, unless the Latin American countries decided to pursue their own economic and social transformation¹².

Foreign private investment and the financial facilities which usually accompany it undoubtedly afford some relief from the contradictions. But this relief is only temporary, since with the passage of time—and not much time at that—the profits and service payments which have to be remitted abroad, as well as other transfers, tend to exceed the inflow of new resources, thereby aggravating the external bottleneck and adversely affecting the rate of development.

If those profits and service payments were invested mainly in the periphery,

¹²The Declaration and Programme of Action on the Establishment of a New International Economic Order contained in resolutions 3201 (S-VI) and 3202 (S-VI) of the General Assembly of the United Nations could mark a turning-point, if translated into concrete measures and if at the same time the peripheral countries recognized their need for a new internal order to change their own order of things.

such ill-effects would be mitigated; but this could not be expected to continue indefinitely. Indeed, even in so far as it did occur, the disproportionate growth of foreign investment would create another very disturbing contradiction, to which we shall be referring later on.

But this is not all. There is another aspect of the problem which deserves much greater attention than it usually receives. There can be no doubt that foreign private capital, on suitable terms, could be an important factor in stepping up capital accumulation and the transfer of technology, just as the capital accumulation potential of loans from abroad also has to be recognized. But the consumer society of the periphery has its own peculiar features. Often these financial contributions simply make it possible —particularly for the upper strata— to avoid facing up to the inescapable necessity of accelerating the rate of accumulation by making better use of their own potential.

It is a well-known fact that the country which throws wide its doors to foreign private capital and openly encourages the consumer society finds ample possibilities of securing diverse forms of international co-operation. Powerful and efficient machinery is set in motion on its behalf, one of the motive forces being the prestige acquired abroad by the drive towards the consumer society; all this with the aid of prolific publicity which serves as a manifest incentive to other investments.

Foreign capital then frequently and easily extends its activities from the mere introduction of new forms of production and consumption to the

takeover of financial or other enterprises which play an important role in the country's economy. It is true that this brings with it an improvement in productivity, thanks to the introduction of new layers of technology and also to the premature renewal of physical capital whose useful life could be extended.

From the point of view of the profits and the increasing power thus gained by the transnational corporations, such activities are perfectly rational. But this is not the criterion of collective rationality in the light of which the periphery should approach the matter.

There is a further point. The transnational corporations have almost always been reluctant to allow national capital to participate in their business enterprises. It must be acknowledged, however, that if this had been tried, the results would have been rather limited, not only because of the unwillingness of the upper strata to make full use of their accumulation potential, but also owing to the lack of any efficient system of foreign financing for national entrepreneurs, in contrast with the facilities that transnational corporations enjoy, in their own countries for their investments in the periphery.

It would be incorrect, however, to assume that there are no thinking persons in the centres who take a very different view of peripheral development. There undoubtedly are. They are concerned about the growing social inequalities, and ask themselves, for example, if the relative stabilization or even improvement of commodity prices would not aggravate inequity, instead of alleviating it. And with the same basic concern in mind, they are apt to question

the policy of financial co-operation, however scant such co-operation may have been. When attitudes like these are not a mere pretext for shirking what ought to be done, they must be taken at their full value. And value they certainly have. It would be a great mistake to despise them.

It was noted earlier that inflows of financial resources from abroad often tended to exempt the upper strata of the periphery from any effort to use their accumulation potential more effectively than at present. To induce them to do so, it has been suggested on more than one occasion that international financial institutions should undertake to lend financial resources during the life of a plan, provided that a parallel guarantee to raise the rate of domestic capital accumulation is obtained from the peripheral countries seeking to obtain such loans. This proposal has come up against major obstacles, however. On the one hand, the institutions concerned are not inclined to commit their financing for several years, as a sound development plan requires. On the other hand, there are some in the periphery who feel that the guarantee requested would be a violation of the sovereignty of the country, even though they are not always so concerned at certain incursions of foreign capital by which it really is compromised.

As already noted, the technological and economic superiority of the transnational corporations and the actual or potential political support they receive from their home countries enable them to secure a disproportionate share of the surplus which —with unquestionable

efficiency— they help to generate in the periphery. The problem is a long-standing one, though new and important aspects of it have emerged. There has been a certain change in attitudes as regards the exploitation of natural resources, after a long and fluctuating struggle on the periphery's part. This can be seen from a comparison of the meagre proportion of the value of the natural product which formerly remained in the periphery with the increasing share now generally obtained. But the distribution of the surplus is not everything. Years ago in CEPAL we introduced the expression "enclave", to express the significance of the transnational corporations in the exploitation of natural resources. For these enterprises are like an over-large body lodged in the periphery but isolated from the rest of the economy, with economic and political implications of undoubted importance.

Today, in addition to the development of natural resources and the accompanying complex of activities, innovations are exploited. These innovations, and, of course, the transnational corporations which introduce them, play a dual role in development. On the one hand, they make an effective contribution to technological progress, which is of such great importance, particularly in those basic activities which would have to be kept up in any event, even if development were to acquire a pronounced social significance. On the other hand, they carry on activities primarily of interest to the consumer society, where they generally obtain substantial profits, through the constant introduction of their diversifying technologies. But

what is good for the consumer society is not necessarily good for development.

In either case, it is the transnational enterprises that introduce the most advanced technology, produce a bigger surplus, and exercise considerable magnetism over the dynamic elements of the peripheral society. Moreover, the innovations which they introduce are usually for their exclusive use during the term covered by the patents, licences or trademarks, so that they enjoy the privilege of restricting competition.

Those who confuse development with the consumer society forget this dual role of technological penetration. They do not object to the disproportionate costs of diversifying technologies or of the transfer of trademarks and licences, which are usually purchased less for their intrinsic importance than in order to ape certain forms of conspicuous consumption for the sake of their prestige.

To this must be added the acknowledged skill of the transnational enterprises in the use of the mass communication media: a skill which national enterprises are also learning. Both thus acquire that marked aptitude for manipulation which, for the neo-classicists, would appear to be compatible with the so-called sovereignty of the consumer.

All this is more the fault of the periphery, which opens its doors unconditionally to transnational corporations, than of those enterprises themselves. It is also imputable to the excessive protection which they enjoy

along with national enterprises, notwithstanding that they need it less or not at all.

There are also other very important sources of income which the transnational corporations may add to those on which they can properly draw by virtue of their technical efficiency. I refer both to the manipulation of prices between parent firms and subsidiaries, and to various ways of restricting or eliminating competition.

Let us now give some thought to the dilemma with which this confronts the periphery. If the aforesaid disproportionate participation in the surplus is translated into big financial transfers abroad, the tendency towards an external bottleneck is accentuated with the passage of time, while if those transfers are reinvested, the power of the transnational corporations increases, to the detriment of the host country's sense of national identity and autonomy in decision-making.

In this, as in the examination of other aspects of development, certain generalizations must be avoided. The appropriation of the fruits of technological penetration, as well as the restriction of the periphery's scope for decision-making, vary greatly in degrees of intensity from country to country, depending on each one's basic development conditions, on its bargaining capacity, and on the changing circumstances that influence centre-periphery relations.

5. The constellation of interests in the centres

The state of affairs just outlined occurs within a peculiar constellation of interests,

in which the international credit institutions have assumed great importance.

Even if its accumulation potential were efficiently used—which is not the case—the periphery would continue to need temporary assistance from these institutions and external capital in general in order to intensify its own accumulation process.

It should be stressed that some of the leading figures in such institutions have a sound concept of development and genuinely try to promote it. However, their work is inevitably done within the existing constellation. The institutional loan funds depend on the centres, their governments and their financial markets; and in all this the weight carried by the big enterprises is considerable. In actual fact, the latter constitute a relatively small group of highly influential bodies, linked in one way or another by bonds of interdependence and solidarity.

It is common knowledge that the power of the constellation of interests in question is considerable, but in the centres potent internal counterbalancing factors have also been emerging which limit and at times offset their influence. These counterbalancing elements do not exist in relations with the periphery. A few expressions of opinion by dissident intellectuals and sporadic criticisms in the political field and in publicity media are a far cry from what is needed to constitute a substantial counterweight, however heartening they may be for the non-conformists of the periphery.

In short when a peripheral country openly welcomes the transnational corporations, and at the same time shows—admittedly—imagination and efficiency in promoting the consumer society, the power constellation offers

its determined support, as well as its effusive admiration, for that society's prosperity.

This is even more markedly so when the centres are also influenced by political or strategic objectives. I mention both these concepts together, although political objectives are usually temporary or circumstantial, whereas the strategies of the centres are generally projected far into the future—except in economic affairs. In fact, under the aegis of the free play of economic forces it would appear that the conception of a strategy is essentially military and enters into the purview of staff officers of the armed forces alone. There is no strategy for development in centre-periphery relations.

It will now be understood that when foreign private capital makes its way into the structural formation of the periphery, it carries with it considerable external power which exceeds and bolsters the internal power it acquires on entry. It thus shares with the upper strata the economic and political power that these possess owing to the concentration of most of the means of production in their hands.

By sharing this power, foreign private capital also sways certain internal currents of opinion, thereby gaining a stronger influence over the State itself, in addition to that usually acquired by the transnational corporations through their marked ability to attract dynamic members of the peripheral society. The attitudes of these enterprises throughout coincide with or differ from those of national enterprises, according to circumstances and combinations of interests.

These differences may be substantial. If the ambit of the transnational enterprises in a peripheral country extends to embrace strategic points of the economy, the country is exposed to the danger that their influence may result in the taking of important decisions abroad—either by the States or by the parent firms—which frequently run counter to national interests.

These are well-known facts, and others are coming to light concerning certain transnational corporations which, overstepping the strict bounds of their business sphere, have fallen into very shady manoeuvres involving domestic politics. However rare such

instances may have been, they project their tarnished image on other enterprises, thereby helping to detract from the positive aspects of their ambivalent role and making it more difficult to find new formulas for their co-existence or co-participation with the State or private enterprise in the periphery.

But this is a matter for the future. It is much more difficult to deal with cases that have been dragging on for some time, in which the hegemony of the centres and certain outward symptoms of the weakness of the peripheral countries have led to situations of great political vulnerability.

6. *The crisis in centre-periphery relations*

In the previous chapter we attempted to explain the internal interplay of power relations stemming from the structural formation of the peripheral society and the continual changes it has undergone in the course of its development, limiting our brief analysis to the distributional aspects of those relations. But there is something more than this—something of great importance both from the domestic point of view and from that of the relations between the centre and the periphery.

When foreign capital shares economic and political power with the upper strata it also participates fully in the distribution struggle, and, as we have so often stressed, this struggle increases in intensity as the democratization process develops and grows in strength.

This political phenomenon has to

do with more than distribution alone. In the heart of peripheral society is emerging a full awareness of national identity and the need for autonomy in decision-making, as well as the highly understandable aspiration to do for itself what is at present being done by outsiders. These feelings mesh with the distribution struggle and the two are mutually reinforcing. Indubitably, the battle of ideologies is apt to exacerbate these tendencies, but it is not responsible for provoking them, since their roots are to be found in the changes in the structure of society.

At all events, this new consciousness and these new attitudes now developing—especially in that sector of the middle strata not directly drawn into the sphere of influence of foreign capital—constitute a latent force which quickly manifests

itself when circumstances are favourable to its eruption. One such circumstance is the distributional crisis discussed in the preceding chapter. Moreover, it sometimes happens that in the heat of the distribution struggle the solidarity between the interests of the upper strata and those of the transnational corporations is jeopardized.

Although this phenomenon has its own dynamics, the tendency towards the eruption of a crisis is intensified by unfavourable shifts in the external economic situation. The periphery is always exposed to the vicissitudes of the centres, and while their waves of prosperity relieve the tensions of peripheral development, the opposite trend increases them, particularly when the difficulties caused by the external bottleneck become more acute.

Irrespective of the external situation, however, the unrestrained advance of democratization may in propitious circumstances lead to the strengthening of attitudes hostile to foreign capital in general and to the transnational corporations in particular.

When this happens, the great disparities in centre-peripheral power relations become of crucial importance. It is then that the entire constellation of interests of the centres clustered around the transnational corporations is set in motion. This solidary movement finds expression in various kinds of punitive measures; external credit restrictions, trade barriers, and others of which, since they are so well known and widely practised, no reminder is needed here. What must be recalled, however, is the use of force as a means of exemplary punishment when certain

emotional reactions—even in the great powers—rashly abandon all self-restraint and unimpassioned visualization of a different future.

On more than one occasion a peripheral country has been forced to bow before such punitive measures and to give way farther than it should in negotiations which are always difficult owing to the imbalance of power. And when this happens, attitudes are often adopted that run counter to the deep feelings and aspirations which prompted the crisis in relations.

However, all this should be viewed in a broader perspective. Sometimes, extremist attitudes which entail immediate consequences detrimental to a peripheral country prepare the terrain, intrinsically difficult though it is, for subsequent realization of the aspirations of the periphery. I have reason to believe that if it had not been for the impact of the Mexican oil company expropriations of 1937 the transnational corporations would not have reached agreement with Venezuela on the fifty-fifty formula which paved the way for the increasing participation of the producer countries in oil income.

Undoubtedly, the world of today is very different from that of yesterday. Development cannot be understood outside the context of the changing currents of ideas and ideologies, of feelings and aspirations, which development brings with it and which act in turn on development itself. This holds good even for those countries in which the democratization process is contained, either through the absorption into the system of the dynamic elements in

political and organized labour movements and their incorporation into the consumer society, or through the use of force.

7. *Hegemony and dependence*

If "dependence" is thought to be a better name for these phenomena of hegemony as manifested in the new forms which the evolution of capitalism has brought in its train, I have no objection whatever. Dependence is an inherent characteristic of the periphery. This concept was introduced in the earliest writings of CEPAL, and subsequently enriched with the valuable contributions on the subject made by various economists and sociologists. These contributions provided a clear idea of the real significance of the economic and technological superiority of the centres and their power to extract income from the periphery in excess of what their enterprises contributed to the production process. They likewise challenged the outdated concept of the international division of labour which served as a pretext for rejecting the industrialization of the periphery. Moreover, it was CEPAL (later followed by UNCTAD) which first drew attention to the serious political consequences of certain forms of trade dependence. I am not referring only to those existing between the centre and the periphery, but also to certain overt or covert attempts to divide trade vertically into zones of influence. Unfortunately, the European Economic Community itself has not risen above this anachronistic concept.

Thus, under the aegis of hegemony,

the peripheral countries have been forced against their will to do or not to do certain things in the field of the economy and in that of international politics. Such is the inequality of their power relations with the centres. The *lex talionis* hardly applies in those relations, for the possibilities of retaliation by the periphery are really very limited and fleeting. That is what being on the periphery means; that is the meaning of dependence.

The concept of dependence, however, calls for study of the problem in depth, for an analysis of the underlying factors and the interplay of power relations. Moreover, this term usually covers other characteristic aspects of imitative capitalism. These are phenomena emanating from the centres, which neither subjugate the periphery economically or politically, nor force it to take or refrain from taking any given action in the interplay of power relations. This is a point that needs clarifying, in order to forestall unprofitable polemics.

For instance, much is said of technological dependence, implying that the periphery is forced to use the technology of the centres for want of its own. Let us now examine this concept. First and foremost, the transnational enterprises take pains to introduce advanced technologies, which are not

always compatible with conditions in the country concerned. As already pointed out, on the one hand there are technological advances which ought to be introduced, whatever the economic and social system, while on the other there are technologies which merely meet the growing requirements of the consumer society.

In the latter case, which is of considerable importance, the primordial factor is the very existence of the consumer society; and this is due less to the transnational corporations than to the inequitable income distribution resulting from the interplay of power relations.

These and other individually rational and collectively irrational lines of action, on the part of both entrepreneurs and consumers, have already been discussed elsewhere. If we recall them here, it is in order to stress the undesirability of trying to use a single term to cover phenomena of very diverse significance. And some among them are mainly the responsibility of the periphery itself: the responsibility of imitative capitalism.

There is also a good deal of talk about the need for the periphery to develop technology of its own. Of course, no one in his right mind would think of dispensing with the immeasurable advantage of being able to use technology which the centres have developed in centuries of tenacious effort. The problem is different: it is that of how to use the vast scientific and technological heritage of the centre to advantage by adapting this know-how to the factual conditions of the periphery, to widen the narrow sphere of technological

options, and to provide an impulse for our own innovative ability. In other words, to achieve authenticity by going a step farther than mere imitation and making a progressive creative effort. Something along these lines is being done in certain countries in our part of the periphery, but it is being done in watertight compartments, and the failure to take a view that is Latin American in scope leads to a waste of very considerable creative potential.

As regards cultural imitation, much could be said. But there is also a highly significant example of how it has been possible to advance beyond mere imitation to authenticity. I refer to literature. We received an immense cultural heritage from the West; but imitation has now given way to creative power.

Even so, this creative work sometimes rings with the echo of the ideological strife in the hegemonistic centres. To escape its influence is difficult, however great the risk of lapsing into proselytism, to the detriment of a genuine cultural contribution.

But it is in the sphere of development ideas and ideologies that the conflict is often heated. Intellectual dependence is very strong, and the centres' patterns of thinking are often adopted unconditionally, although they were originally worked out in a setting different from ours. The intellectual vigour, brilliance of reasoning and force of conviction displayed obviate the need to think for oneself, a proceeding which calls for much time and tenacity of purpose, as well as open-minded objectivity.

The imitation of ideas and ideologies usually makes headway in the periphery

just when in the centres whence they come, whatever the system in question may be, they are the target of searching criticism, although this is not always evident on the surface.

Strong as intellectual imitation is in the capitalist circles of the periphery,

the anti-capitalist circles do not appear to be proof against the temptation to imitate the centres, either. Here, too, there is need for an independent creative effort which, inspired by all there is to be assimilated from abroad, can help to unloose ties of permanent dependence.