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## CONTENTS

Reiventing development: utopias devised by committees and seeds of change in the real world <i>Marshall Wolfe</i>	7
The internationalization of the Latin American economies: some reservations <i>Héctor Assael</i>	41
Economic Policy: Science or Ideology? (Part One) <i>Carlos Lessa</i>	57
The Latin American regional market: the project and the reality <i>Germánico Salgado</i>	85
Regional Planning: What can we do before midnight strikes? <i>Sergio Boister</i>	133
The neoclassical theories of economic liberalism <i>Raúl Prebisch</i>	167
Notes and Comments	189
Thirtieth Anniversary Greetings	197
Some CEPAL Publications	203

# The neoclassical theories of economic liberalism

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In the present essay the author propounds his answer to one of the problems with which he has been most deeply concerned throughout his long life as an economist. Beginning as a firm upholder of neoclassical theories, he was convinced by the world depression of the nineteen-thirties and the Second World War that neither in theoretical nor in practical terms can the problems of our peripheral situation be resolved through economic ideas worked out in the centres; and this conviction was the starting-point of a long process of self-criticism and reformulation of theories.

There are many aspects of neoclassical theory with which he is dissatisfied. Outstanding among these are its explanations of income distribution, capital accumulation, and the role of the market in internal economic affairs and international trade. Still less is he content with the slight importance that this theory accords, for example, to the socio-economic structure, to internal and external power relations, to the surplus and to the time-lag in peripheral development.

Nevertheless, in his critique of economic liberalism he recognizes and asserts that the basis of this doctrine, the idea of economic freedom, must be upheld and prized as one of the greatest human achievements. But its defence must not be allowed to lead to the destruction of political freedom, to the grounding of economic liberty on authoritarianism. The great challenge consists, in his opinion, in reconciling the two liberties in a type of social organization which will be free and equitable both in the economic and in the political field.

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## I Neoclassical theories and internal development

### 1. *The frustration of neoclassicism*

In two earlier articles we have attempted to explore new paths in the interpretation of peripheral capitalism.<sup>1</sup> What is the point of doing this? Why not examine this system in the light of neoclassical teachings? And rather than in the contemplation of fundamental changes, will not the solution lie in abiding faithfully by those teachings, and leaving the market forces to operate without artificial interference, so as to ensure the most efficient allocation of productive resources and the rational distribution of the product thus obtained?

As I said in the articles cited, I was a profoundly convinced neoclassicist. I believed—and still do—in the advantages of ideal competition and in the technical efficiency of the market, as well as in its great political significance. But peripheral capitalism is quite a different matter. And observation of the real facts of the case has persuaded me that those theories do not enable us to interpret or to tackle the major problems deriving from the way the system functions.

I have made a strenuous effort to get away from the theories in question and to seek an intellectually independent explanation of the phenomena of peripheral development; and in this attempt I have met and continue to meet with strong opposition.

The aim of the neoclassicists was to systematize and give logical consistency to the essential ideas of their classical forerunners. Thus they formulated their great doctrinal conception of economic equilibrium and of the interdependence of all the factors intervening in the play of economic forces.

As I recalled on some occasion, in my

<sup>1</sup>See, "Critique of peripheral capitalism", *CEPAL Review*, N.º 1, first half of 1976, and "Socio-economic structure and crisis of peripheral capitalism", *CEPAL Review*, N.º 6, second half of 1978.

youth these theories seduced me by their precision and mathematical elegance; and also by their persuasive cogency. They showed that the free play of economic forces, subject to no interference whatever, led to the most efficient utilization of the factors of production for the benefit of the entire community, both in the international field and in internal development. Moreover, they incorporated an underlying ethical element which has undoubtedly contributed to their intellectual prestige.

But in their striving after rigorous consistency, in the contempt with which their adherents looked down upon what in those bygone days were styled literary economists, these theories shelved important aspects of social, political and cultural reality, as well as of the historical background of collectivities.

In making a tenacious effort at doctrinal asepsis, they evolved their arguments in the void, outside time and space. If at the moment when these arguments were formulated they seemed to represent a significant scientific advance, viewed in the light of the evolution of capitalism they involve a veritable scientific aberration, especially when they endeavour to interpret the phenomena of the periphery. Nevertheless, they contain positive elements which should on no account be despised.

I am not surprised that neoclassicism has bedazzled a pleiad of Latin American economist who, having been indoctrinated in certain schools in the centres, are now trying to apply their teachings to the praxis of peripheral development. And I also understand their repudiation of interventions which, far from correcting the system's faults, are liable to make them even more disruptive, and often lead to bureaucratic perversion of the system itself.

If the neoclassical economists were to confine themselves to building their castles in the air, without claiming that they represent reality, that would be a respectable intellectual pastime, apt at times to arouse admiration for the virtuosity of some

of its eminent exponents overseas. But the position is very different when an attempt is made in these peripheral countries to explain development without taking account of the social structure, of the time-lag in peripheral development, of the surplus, and of all the characteristics of peripheral capitalism with which I have dealt in the articles cited. For it then becomes convincingly evident that the spontaneous play of economic forces cannot conduce to equilibrium.

The neoclassical theories' capacity for intellectual survival is explicable enough, especially when their rigorous logic is demonstrated by means of the system of equations which Walras and Pareto introduced in their day, and which was the point of departure for the subsequent evolution of these theories. It is worth while to recall this at the present time, when such vigorous offshoots are springing up in some of the Latin American countries.

I sincerely regret that we cannot avail ourselves of these doctrines. It would be wonderful to allow the forces of the economy to lead spontaneously to the efficiency and equity of the system, without bothering about the highly complex task of deliberately influencing them. What is more, I confess that I should be prepared to justify, for the time being, certain collective sacrifices, if by their means we could definitively clear away the obstacles to development.

However, this is not the case; and I feel that to give the reasons that have induced me to abjure orthodoxy is an intellectual need and a moral responsibility.<sup>2</sup> But I am always willing and indeed anxious to engage in dialogue. And I should not hesitate to recognize that I was at fault, capitulate and mend my ways, if through dialogue I found good cause to do so.

The reasons why I have long been in

<sup>2</sup>This *volte face* should not be taken to be of recent date, as is sometimes believed. In reality my emancipation began during the great world depression, when I had to throw overboard much of what I had learned and had also taught as a young university professor.

disagreement with neoclassical theories relate to income distribution, capital accumulation, and the role of the market in respect of internal development and international trade; this last topic will be discussed in section II of the present article. While I assume, on what I believe to be solid grounds, that these theories are also far from explaining the phenomena of capitalist development in the centres, I will confine myself exclusively to the periphery, mainly because I think I know it better, and perhaps in order not to have to fight on two fronts at once, a risk which I should, of course, incur.

Let us now embark on a critical analysis of neoclassical theories *vis-à-vis* the real facts of peripheral development.

## 2. The system and its general equilibrium

The first point to bear in mind is the basic principle of neoclassical theory, according to which the economic system, left to its own free and spontaneous devices under an absolutely competitive régime, tends towards a position of general equilibrium in which the remuneration of each factor of production is determined by its respective marginal product, and the price of goods by their marginal utility. The marginal product is, of course, the additional quantity of product obtained by adding one more unit of the factor under consideration.

This means that whatever the level of productivity, the principle of equal pay for equal skills will prevail. To that end, competition is essential, both among the entrepreneurs employing labour and among the members of the labour force in their endeavour to obtain employment. How does this competition affect the movement of the system towards equilibrium? To reply to this question, the dynamic process must be examined in accordance with the neoclassical method of reasoning.

As was explained in the earlier articles referred to above, in the course of development, thanks to capital accumulation, new and higher productivity layers of technolo-

gy are continually superimposed on those below, with the concomitant demand for labour. The supply is provided by the labour force employed in preceding technological layers, and by the manpower looking for employment on reaching working age.

In the same articles it was also pointed out that in peripheral capitalism, while demand for labour is relatively limited because of the insufficiency of capital accumulation, the supply is relatively plentiful, both because a large proportion of labour is employed in low-productivity layers of technology and because of the rapid rate of growth of the labour force. It is not so abundant, of course, in the case of manpower possessing the increasingly high-level skills required by the propagation of technique and the advance of development.

Thus, however great the difference between the average productivity of the new technological layers and the marginal productivity of the unskilled or semi-skilled labour force in the lower layers of technology, the increase in pay will be very slight. In other words, the more limited is the marginal productivity of the labour force employed in the lower technological layers, the more difficult will it be for those with the same skills, absorbed in higher layers of technology, to raise their marginal productivity and their earnings correlatively with the increase in their average productivity, owing to the regressive competition of the labour force remaining in the low-productivity layers, as well as to its natural growth.

Obviously, this regressive competition dwindles as demand for labour requires skills of which the supply becomes more and more limited, the higher their position in the scale. And this means an improvement in the capacity of the labour force to raise its marginal productivity in accordance with the increase in average productivity.

The productivity increment which is not transferred to the labour force temporarily remains with the enterprises in the shape of profits. It is worth while to recall in passing that in neoclassical reasoning this temporary

character is ascribed to profits, in contrast with the persistent nature of the surplus in our argument.

The profit incentive leads enterprises that have made gains to expand production, and similarly induces other enterprises to follow in their footsteps by introducing the new layers of technology. This competition between enterprises is reflected, of course, in an increase in overall demand for labour; and in so far as the supply is comparatively plentiful and precludes the correlative rise in earnings, the expansion of production will mean that prices fall until the marginal product and the income paid out break even at the point of equilibrium. Profits will then have disappeared, and all that will remain will be remuneration for entrepreneurial activities.

This is a conclusion of maximum importance in neoclassical theory, since it implies that the productivity increment is transferred either through a rise in pay—in accordance with each individual's contribution to production as determined by his skills—or, in so far as this does not occur, through a fall in prices, so that in this way the fruits of development are disseminated throughout the whole community.

This explains what was said elsewhere, i.e., that in neoclassical theories there was an underlying content of equity, except in the special case of land rent. Even so, in this latter instance equity could be achieved through taxation, without upsetting the equilibrium of the system.

An essential aspect of this ethic is the concept of the temporary nature of profits, which is different from the concept of remuneration for entrepreneurial activities.

This remuneration too is subject to the principle of marginal productivity under a competitive system. Even when, as noted above, profit had disappeared at the point of equilibrium, entrepreneurial remuneration would still be left.

The neoclassicists, of course, draw a clear-cut distinction between the entrepreneurial function and the ownership of the

means of production, whether or not they are combined in practice. From the conceptual standpoint this distinction is very important, since in the position of general equilibrium, the owners of capital do not obtain profits but interest on their capital. This is a point to which we shall revert later.

The reasoning is accurate, but it overlooks two phenomena: the surplus, and power relations.

### 3. *Neoclassical theories and the surplus*

It seems needless to dwell on the structural phenomenon of the surplus, which has been analysed in detail in the articles mentioned above. All that is appropriate at the moment is to recall a few essential points of fundamental divergence from neoclassical reasoning.

First and foremost, the fruits of increased productivity are not reflected in a fall in prices in so far as they have not been transferred to the earnings of the labour force, but remain in the hands of the owners of the means of production in the shape of a surplus.

No such downward trend in prices has made its appearance in peripheral development, despite the steady rise in productivity. The surplus is left in the hands of the owners and tends to stay there, because, on account of the actual dynamics of the production process, the additional employment required to expand tomorrow's production generates a rise in income today, which is the source of the increase in demand that allows the productivity increment to be absorbed. Otherwise, inter-enterprise competition would bring prices down as the neoclassical economists assume.

The successive increases in demand which accompany productivity increments ceaselessly accumulate and circulate within the system. They do not vanish into thin air. Only part of them is transferred to the labour force, and the rest goes to swell the global surplus.

Hence follows a conclusion of the

greatest importance. The concept of the surplus is similar to that of profit, since both have their origin in increased productivity; but while profits tend to disappear, according to neoclassical reasoning, the global surplus is persistent.

It is subject to two contrary movements. On the one hand, it increases through further improvements in productivity; on the other, it decreases as in one way or another the sharing capacity of the labour force is strengthened in its different forms.

The global surplus resulting from these two movements grows continuously at a rate exceeding the growth rate of the global product. If the aforesaid sharing capacity gains strength, and accordingly the growth rate of the surplus falls behind that of the product, the system reacts through price increases, with very serious consequences which, sooner or later, lead to its crisis.

#### 4. *The possibility of dynamic equilibrium*

Thus, even if competition is absolutely free and unrestricted, the system heads towards a crisis rather than towards the dynamic equilibrium that neoclassical theory assumes. This point needs stressing, because the neoclassical economists usually attribute the major defects of the system to the obstruction or elimination of competition—both among entrepreneurs and as regards the labour force—as well as to arbitrary intervention on the part of the State.

The fundamental cause of the crisis is that the capital accumulation potential of the surplus is frittered away in the privileged-consumer society and in the siphoning-off of funds to the centres. If it were devoted to accumulation, under a régime of austere capitalism, the possibility of a measure of dynamic equilibrium would be conceivable.

Now for a brief explanation. More vigorous capital accumulation would result in a gradual weakening of the system's tendency to exclude the lower strata from the benefits

of development. The layers of technology where the marginal product is low, and where the strata in question are found, would be progressively eliminated, and their place would be taken by those immediately above them. As the process continued on these lines, the disparities between layers of technology would diminish and, consequently, so would the differences in productivity. In this way, the system would be brought to the point of equilibrium by an increase in the marginal product and in earnings rather than by a fall in prices.

It is thus possible to conceive of a time when the whole of the labour force would be employed with great productivity in higher layers of technology. Homogeneity of technique would then have been reached, thanks to capital accumulation, after a more or less lengthy period of transition. Homogeneity, but not the suspension of the process, since new technological layers would go on being superimposed on one another, and capital accumulation would have to be continually increased in order to absorb the labour force employed in the preceding layers and the increase in that labour force: in other words, in order that the system should not revert to social heterogeneity.

As marginal productivity and earnings rose in the manner described, the surplus would tend to disappear; it would gradually eat itself up, so to speak, in the unrestricted interplay of competition. While the neoclassical economists of the periphery show little sign of concern for the dynamics of the system or for these harassing phenomena of heterogeneity, I do not find it hard to believe that they may perhaps have some such image in mind. This would account for their conviction that if the system were left to its own devices, without any interference whatsoever, the basic problems of peripheral development would be resolved. All the more so, inasmuch as they assume that in the process the system would draw closer to the distribution ethic of which something has already been said.

### 5. *The tendency of the system is not towards equilibrium*

But as far as the periphery is concerned all this is remote from reality. Not only because the capitalism of the privileged-consumer society is anything rather than austere, but for another reason of transcendent significance in the dynamics of the system, which we will go on to recall.

The tendency of the surplus is not to peter out but to grow faster than the product. This growth makes it possible to imitate more and more closely the consumption patterns of the centres and at the same time to continue accumulating enough capital for the process in question to be kept up under the rule of market laws.

As this happens, however, changes in the social structure are accompanied by an increasing capacity to obtain a share in the fruits of productivity on the part of the labour force disadvantaged by market laws. This power of participation counters the power of the upper strata, to the detriment of the global surplus. And a point is thus reached at which the latter tends to grow more slowly than the global product. It is the point at which, of course, entrepreneurs react by raising prices to recoup their losses. Thus inflation becomes inherent in the system in the course of structural change, and sooner or later leads to the use of force to restore the dynamics of the surplus.

The system does not function properly unless the growth rate of the surplus is at least equal to that of the product; it does not, therefore, tend towards dynamic equilibrium, as might be deduced from the abstract arguments of neoclassical reasoning.

### 6. *Distribution and power relations*

In the appropriation of the surplus is to be found the source of the great distribution disparities of peripheral capitalism. Let us now extend our critique to neoclassical distribution theory.

We said elsewhere that the higher the

level of the skills necessitated by the penetration of technique, the smaller was the difference between demand and supply, and the greater the capacity of the labour force to share in the fruits of technical progress.

But a little thought will show that this is not an entirely spontaneous phenomenon, since the acquisition of such skills is strongly influenced by the social power that enables those who are best-situated in the socio-economic structure to obtain effective access to training opportunities, which are also affected by political power.

It is true that as far as equality of training opportunities is concerned, great disparities can be seen, in keeping with the differences in individual ability and dynamism, and, therefore, aptitude for social mobility likewise varies widely.

In earnings, at all events, there is an element of privilege. Unquestionably, too, the pay incentive is a powerful spur to undertaking the effort that training represents. Consequently there is also a certain ethical significance in the neoclassical argument which attributes earnings to the contribution made by the individual to the production process. Ultimately, the market is the arbiter of his merits; but in the real possibility of making this training effort there is an element of social privilege.

As regards earnings, the labour force whose capacity to share in the fruits of higher productivity is weak, under market laws, has no means of improving matters other than its trade-union and political power. That this leads to arbitrary attitudes there can be no doubt; but the appropriation of the surplus is arbitrary too.

True, this redistributive power of the labour force means that its earnings may be higher than its marginal productivity, although not its average productivity, except when the above-mentioned limit in the dynamics of the surplus is overstepped. But the surplus too is higher, and in very great measure.

The responsibility for the evils of the system is often laid, at least in part, upon



trade-union intervention which distorts market laws with upsetting effects on the equilibrium of the system. Trade-union power is in the last analysis the counterpart of capitalist concentration and the appropriation of the surplus. I should not wish to underestimate the intellectual worth of the neoclassical writers of the centres—some of whom are very eminent indeed—by ascribing to them the simplistic attitude of regarding trade-union power as anathema. But this simplism does appear in some neoclassicists of the periphery, who do not hesitate to maintain that unemployment is the consequence of arbitrary trade-union or political intervention which prevents wages from dropping to their natural equilibrium level.

In conclusion, the fruits of technical progress are not distributed according to marginal productivity as is assumed in neoclassical theory, but mainly through the power of the various social groups. And as the play of power relations is governed by no regulatory principle whatever, far from conducing to the dynamic equilibrium of the system, in the course of time it brings about a crisis: essentially a distributional crisis.

### *7. Capital accumulation and the rate of interest*

We have argued that because of its continuous growth the surplus is the primary source of capital accumulation. It is therefore understandable that this structural phenomenon of the surplus oversets the abstract propositions of neoclassicism with respect to accumulation. Since according to them profits were transient in character, and the fruits of higher productivity tended to be widely disseminated, a mechanism had to be devised that enabled the savings necessary for accumulation to be collected from the whole community. This is the mechanism of the rate of interest. The movement of the rate would encourage savings to the extent necessary for the introduction of new and higher-productivity techniques; and as their fruits would be distributed among all, all

would be in a position to participate in the accumulation process in so far as they were prepared to defer current consumption.

The rate of interest, in the position of general equilibrium, is given by coincidence between the contribution made to the product by one marginal unit of capital and the marginal supply of savings.

It might be inferred from neoclassical theory that there is no element of privilege at all in the ownership of capital, since in view of the diffusion of the fruits of technical progress, interest is the reward of those who accumulate capital by abstaining from current consumption.

The role of the rate of interest has been much discussed, but it seems needless to dwell on this point, since it is not thus that the greater part of the capital accumulation of enterprises is effected.

Accumulation derives mainly from the surplus, either directly or indirectly. Under the capitalist system, in so far as the labour force saves at all, it does so to accumulate not capital in enterprises but chiefly various forms of consumptive capital.

The surplus is not accumulated in enterprises in response to incentive of the rate of interest. The incentive is much stronger, and is determined by the amount of the surplus itself that is expected to accrue from the introduction of new layers of technology. It might have considerable dynamic impact on accumulation if there were not a contrary incentive — that of imitation of the consumption patterns of the centres.

From another standpoint, if the surplus and the great distributional inequality it represents account for the evolution of the consumer society, this does not mean that an equitable redistribution of income will resolve the accumulation problem through the operation of the rate of interest. I think the propensity to consumption is very strong throughout the social structure; and if in the upper strata it is powerfully influenced by the imitation of the centres, at the other extreme of the structure, in the lower strata,

the growing propensity to consume as income increases is explained mainly by the privations of the sub-consumer society.

There is some right on the side of those who contend, therefore, that income redistribution would have adverse effects on capital accumulation: an idea which leads them to exalt the social role of those who appropriate the surplus. All of which is very much in keeping with a system based on the irrationality of appropriation from the standpoint of the collective interest. The problem consists, therefore, in finding some other way of appropriating the surplus in order to distribute it equitably and at the same time to raise the rate of accumulation. But let us not look too far ahead, since much remains to be said before this point is reached.

Another important role of the rate of interest on which stress is pertinaciously laid by the neoclassicists is that of efficiently guiding the selection of techniques. Though I consider, be it said in passing, that the technical options are fairly restricted; but this does not affect the argument under consideration.

Still according to the neoclassicists, the selection of alternative techniques would seem to be greatly distorted by the manipulation of the rate of interest, and the obstruction or suppression of competition in the determination of labour earnings. The monetary authorities, the argument alleges, induced by expansionist motives, generally establish a lower rate of interest than would be dictated by market laws, and this encourages forms of investment which involve excessive saving of labour and the use of more capital than the market would warrant. Whether there is manipulation or not, the surplus is overlooked. Moreover, the trade-union power of the labour force tends to push up wages above the level of its marginal product. Thus, market laws are distorted, and this precludes the selection of technical options consistent with a strict concept of economic efficiency. If the structural phenomenon of the surplus did not exist, if distribution were effected as the

neoclassical economists imagine and if accumulation were governed by the rate of interest, this line of reasoning would be valid enough. But obviously it is not thus that the system operates.

#### 8. *The regulatory role of the market*

Finally, this brings us to the concept of the market in neoclassical theory. As I have said elsewhere, the market lacks not only a social horizon—a horizon of equity—but also a time horizon.

It is a crass error on the part of conventional theories to assign to the market the role of supreme regulator of the economy. It is far from playing such a part, although this does not mean that it has not a value attributed to it by the same theories, i.e., that of bringing producers and consumers into contact with one another. That the latter are influenced by perturbing forms of collective suggestion, there can be no possible doubt; but this can be largely explained by the existence of distributional privileges which it is sought to exploit. In any event, the final decision of the consumers is of paramount importance in determining the behaviour of enterprises.

These are familiar arguments which fully justify the survival of the market as a technical instrument, as well as on account of its political significance. If the market were suppressed, decisions as to what is to be produced and consumed would be adopted exclusively at the top levels of the planning agency, which would have very serious political implications.

But the market must not be confused with the factors that push it from behind, nor should it be expected to do more than it can. The market cannot modify the social structure whence emanate the power relations that largely determine income distribution, nor can it establish the necessary rate of accumulation. But if these and other major defects were corrected with foresight and in a spirit of equity, the market would become an effective mechanism for the allocation of productive resources.

## II

## The significance of neoclassical theories on the international plane

### 1. *General considerations*

To understand neoclassical arguments on the international plane, a point which must always be borne in mind is the significance of the price-equilibrating mechanism under a régime of free competition. Let us recall, therefore, the basic assumption that the fruits of technical progress are distributed either through an increase in earnings or through a fall in prices. It does not matter that owing to the regressive competition of the labour force in lower layers of technology, earnings do not rise correlatively with productivity, for in so far as this does not happen, competition between enterprises will bring down prices until the residual fruits of progress are transferred to the entire collectivity.

If this argument were applied to centre-periphery relations, we should see that the problem of the effects of the considerable differences in productivity resulting from the great structural disparities would also be resolved through the price mechanism. The periphery's external bottleneck would disappear of its own accord if market laws were left to operate. If the lower level of productivity in the periphery prevents its exports of manufactures from competing in the centres, it is because earnings are higher than productivity. Consequently, if they are allowed to fall to their point of equilibrium, industries which were not competitive will become so. Nor is this all. For the drop in salaries and wages will also reduce prices in those export activities that were already competitive. Herein would lie the efficacy of devaluation of the currency as an equilibrating instrument, according to neoclassical reasoning.

If this argument were carried to an extreme, the conclusion might also be

reached that the advantages of the price decline in the aforesaid export activities would be diffused throughout the international community. For the reasoning to be correct, however, it would have to be shown that the price mechanism also spread throughout the international community the fruits of increasing productivity in the centres, in so far as they had not been reflected in a correlative rise in earnings. But this does not happen.

In any event, if the periphery's manufactures were to become competitive this would not be enough to correct the tendency to a bottleneck, since it is also essential that the centres should open their doors to such competition. But this does not happen either. The power of the enterprises and the power of the labour force combine to prevent it.

The fact that the periphery may resort to the well-known laws of the market in its endeavours to resolve this problem would certainly not have the merit of ensuring that the centres will do the same.

As will be remembered, the centres set up serious obstacles to imports of those manufactures in which the periphery has attained or may attain competitive capacity. They are usually manufactures for which demand grows relatively slowly and which trade liberalization policy seldom covers.

This policy, on the contrary, has been applied to the technically advanced industrial goods in which technical innovations are incessantly embodied. The centres' foreign trade in these goods has expanded to an exceptional extent, and here the participation of the periphery has been relatively slight, notwithstanding liberalization. The transnationals prefer to invest in the centres themselves in order to secure these innovations and put them into effect, although it is

true that they do also invest in those peripheral countries which attract them by offering them various facilities. But, generally speaking, they do so in order to produce goods which in the centres are giving way to other more advanced products resulting from further innovations. For that very reason, the transnationals have no interest in exporting peripheral manufactures to the centres, inasmuch as it suits them better to broaden the market for the newer goods by exporting them to the periphery.

Clearly, then, even if the periphery reduces its prices by means of currency devaluations or subsidies, the positive effects will be very limited as far as the centres are concerned.

Furthermore, the opposition put up by entrepreneurs and workers alike to the importing of such goods is notorious, and this undoubtedly constitutes an additional reason why in this respect the transnationals do not display the drive by which they are characterized.

Here again we encounter the effects of the structural disparity. Neither are the transnationals interested in internationalizing the production in which the dynamics of innovation is most manifest, nor is the periphery, technically and economically speaking, in a position to do so. And when it has acquired this capacity in the case of less technically advanced goods, the centres obstruct the corresponding imports.

I am trying to expound these facts as objectively as possible. I think, however, that despite everything the centres could have launched an industrial redeployment policy which would progressively open their markets to those imports in which the periphery had attained satisfactory technical capacity. Such a policy might have been hoped for during those long years of prosperity which preceded the crisis of 1973. But no such steps were taken.

In contrast, it is by no means uncommon for the centres to continue criticizing the very concept of import substitution in the periphery, and to lay insistent emphasis on

the supremely important role of the transnationals in the internationalization of peripheral production.

It is with deep concern that I underline these facts, for they indicate that the centres, with very few exceptions, are still viewing the great problems of the periphery in the light of immediate and circumstantial interests. They show no signs of a long-term outlook, a conception at once bold and realistic of their world responsibilities. All they do is to take spasmodic action during crises in the periphery!

This state of affairs is very serious, although more explicable today than a few years ago, since their own problems have now become so complicated. But on the other hand it is not so easily understandable that in the periphery itself the dogmas of neoclassicism should have distorted the interpretation of a reality which so greatly affects its fundamental interests. Import substitution is reviled, as if in order to export manufactures the mere intention of doing so were enough, and as if the industrial centres were panting to receive them.

There can be no doubt that in some cases protection has been excessive, and that many mistakes have been made. But a distinction must be drawn between the irrationality of protection and the rationality of import substitution. Substitution was in reality a necessity imposed by the crises in the centres, and I greatly fear that the difficulties which the periphery is at present experiencing will again necessitate further substitution when, in contradistinction to what happened formerly, a considerable industrial export potential is now available. The effort to persuade the centres must be perseveringly pursued. But we must also convince ourselves that in the use of that potential under new systems of reciprocal trade among peripheral countries a basic solution of the problem of the external bottleneck is to be found.

Two different motivations underlie economic theories: on the one hand, the zealous wish to find a scientific interpreta-

tion for real phenomena; and on the other hand, the quest and observance of certain principles which are in line with specific economic or political interests. It is not always easy to disentangle these motivations, which are often inextricably bound up with one another. Thus, the classical theory of international trade has scientific validity given certain assumptions, but it also served to formulate that outdated prescription for the international division of labour which accommodated dominating interests both in the centre and the periphery. And thus it has long provided grounds for opposing, in the name of market laws, the deliberate industrialization of the periphery.

We have already alluded, in other studies, to the way in which market laws are invoked to justify the present constellation of interests in the new centre-periphery relations, particularly with respect to transnationals. Even so, we cannot omit a brief comment on market laws with regard to primary commodities.

From the time of CEPAL's earliest studies we have made efforts to explain these commodities' weak capacity for retaining the fruits of their increases in productivity. What is involved is not a natural law intrinsically affecting the commodities in question, a law immanent in their future evolution, but the social structure of the periphery and its relation to the structure of the centres. Let us summarize the position. Primary commodities are generally characterized by a low income-elasticity of demand, so that when their productivity increases and the supply expands beyond certain limits, prices tend to fall. If the earnings of the labour force could appropriate the productivity increment (as it is appropriated by the landowners when land is in relatively short supply), there would be no such price decline, albeit other factors may exert influence in the same direction. But this does not happen, because of the large proportion of manpower in lower layers of technology whose regressive competition prevents earnings from rising

correlatively with the increase in productivity. Thus the internal terms of trade deteriorate, and so do the international terms of trade, in the case of exportable goods. This is bound to be the outcome of the play of market laws when they are not subjected to intervention in one way or another.

Generally speaking, the centres have opposed such intervention when it concerns goods of special interest to the periphery, although their attitude in this respect has been less negative during recent times. But when their own products are affected they do not hesitate to violate market laws; thus, we have witnessed what has sometimes been the deliberate restriction of production in order to force up the world market prices of certain goods, while in other cases internal prices were protected against an international slump by recourse to various types of manipulation or compensation.

In reality, the centres invoke market laws when a price decline does not affect their own production. Then they accept with approval the deterioration of the terms of trade for certain goods in which productivity is increasing. Moreover, to bring it about they advise the introduction of new techniques, just as they counsel devaluation as a means of achieving external equilibrium. Only their reaction to the effects of this measure is to reap the benefits of the fall in prices in respect of exportable goods where no devaluation was necessary, while withstanding imports of those goods which by virtue of devaluation become competitive.

The centres are well able to defend their own interests. They cannot be blamed for such an attitude as long as there is no world development policy. But at all events it is a flagrant contradiction to invoke market laws in one instance and to forget all about them in another: a contradiction, however, which does not fail to do them useful service in practice, as long as believers in the efficacy of market laws for regulation purposes still exist in the periphery. Only fidelity to market laws is not usually compatible with the interests of peripheral development.

In the light of what has been said above it is justifiable to take a closer look at the problems mentioned. We will begin with the persistent trend towards external disequilibrium.

## *2. The trend towards an external bottleneck and its spontaneous correction*

Needless to say, the growth of total income which goes hand in hand with development gradually modifies the composition of demand in favour of manufactured goods which are continually diversified in the centres. Thus a highly important alternative presents itself: either to obtain such goods by increasing exports of primary commodities so as to be able to import them, or to produce them at home.

For neoclassical theory the problem is very simple: a matter of trusting market laws to resolve it. It is true that domestic production is at a disadvantage in relation to the centres because of the time-lag in development. Well then, it should be left to market laws to depress wages until production achieves economic efficiency. The fall in wages will also encourage the growth of exports, and in this way the market will determine of its own accord how far the increase in demand will be satisfied by expanding imports and how far by expanding domestic production through spontaneous industrialization.

From the standpoint of development praxis, the problem might be posed in the following simple terms. How is industrialization to be tackled? Are market forces to be left to offset by the reduction of wages the differences between the cost of manufactured goods in the centres and in the periphery, or is protection to be invoked to achieve this end? Protection, of course, contravenes the conventional theories of international trade, not, however, because the latter are not strictly logical, but because they overlook the consequences of the structural disparity in the centre-periphery system.

To follow up these assertions, the effects of the disparities must be examined on a theoretical plane. Let us first do so with reference to the periphery as a whole in its relations with the centres.

Allusion must first be made to the well-known phenomenon of the differences in income-elasticity of demand, to which we shall continue to attach great importance. The relatively low income-elasticity of primary commodities in general, in comparison with that of the continually-diversified industrial goods, constitutes one of the elements in the congenital weakness of the periphery.

If primary exports expand disproportionately to the growth of income in the centres, their prices tend to fall, and this decline offsets, wholly or in part, the effect of the increase in volume on the total value of exports, or, worse still, actually reduces this total value.

## *3. Devaluation and protection*

This idea underlies the argument in favour of protection. For while it is true that protection means producing at higher costs what could be obtained more cheaply by buying abroad, it is equally undeniable that to encourage primary exports beyond a certain point causes a price decline which may be greater than the loss due to the cost difference.

All this depends upon the relation between elasticities. On the one hand the price-elasticity of demand for exports beyond the limit set by the growth of income in the centres; and, on the other, the cost-elasticity of the supply of import-substituting production. Let us look at one or two concrete examples to illustrate this point.

Be it assumed that there is an increase in productive resources which makes it possible to expand exports or import-substituting production.<sup>3</sup> Let it also be assumed

<sup>3</sup>To simplify the argument, the proportion represented by the import component in each case has not been taken into account.

that the cost of the import-substituting production is 40% higher than the price of the corresponding imported goods. To offset this greater cost the currency is then devaluated to the extent necessary to make import substitution possible and at the same time promote exports.

The upholders of the conventional theories usually consider that devaluation<sup>4</sup> is the instrument used by market laws to fulfil their purposes; an instrument which, to be sure, does not derive from the spontaneous play of market forces but from a deliberate decision on the part of those responsible for economic policy. But let us not dwell on these subtle issues. It should, however, be noted that devaluation causes a drop in real earnings, and to prevent them from rising again, is a requisite for the efficiency pursued.

A 40% increase in the value of foreign currencies, besides encouraging import-substituting activities, will push up the domestic prices of exports, thus encouraging an expansion of primary production for export.

Now, if the latter's elasticity was such that for every 1% increase in volume the decrease in prices caused a loss of 0.4%, the value of exports would also be reduced by 40%. From the standpoint of collective rationality, therefore, it would be a matter of indifference whether the increase in productive resources were devoted to exports or to import-substituting activity, or were distributed between the two. But this would be an accidental coincidence.

In reality, the downward trend of prices is usually much more marked than in the example given. It not infrequently happens that for every 1% increase in the volume exported over and above the limits set by the growth of income in the centres, prices tend to fall in a similar or even greater proportion,

<sup>4</sup>A distinction should be drawn between this devaluation and the devaluation imposed by inflation when domestic prices exceed those quoted on the world market.

so that the effects of the increase in volume would be cancelled out or a still bigger loss would be suffered. This would happen in all cases where the drop in prices was sharper than the fall that would have been caused by the aforesaid 40% reduction.

To state this argument in general terms, it might be said that substitution would be desirable whenever the cost-elasticity of import-substituting production were less than the price-elasticity of exports.

There is, of course, no selective principle in devaluation. All exports are encouraged by devaluation and the correlative rise in domestic prices, whatever the difference in elasticities. Thus if the price-elasticity of exports were higher than the cost-elasticity of import substitution, the reduction in the value of the former would be greater than the loss that would be incurred through import-substituting production.

It should be noted in passing that the loss or the reduction are not net, but relate to the increment in production exported or in import-substituting production.

Strictly speaking, this is the loss that the periphery must incur in order to step up its global product faster than the product of its exports and thus gradually absorb the labour force which export activities do not employ. The resulting increase in manufactured goods thus makes it possible to satisfy the growing demand for these which accompanies development.

The net advantage for the periphery consists in reducing to the minimum the loss in question as against the increase in the total product which industrialization brings about.

Hence the advantages of a form of protection which is established only in the degree required to cover the differences in costs. Nor would there be any reason for it to be accompanied by a deterioration in the terms of trade for exports. But the neoclassical economists cannot resign themselves to acknowledging the defects of market laws, and in order to ward off the negative effects of devaluation on exports, advocate taxation

to tap the increase in the prices of primary exports, since otherwise it would be lost through a price decline. Herein lies an astonishing inconsistency. They repudiate protection because it interferes with market laws, while at the same time they postulate a tax which is another way of violating them!

If we follow up the thread of the neoclassical arguments a further highly suggestive aspect presents itself. Devaluation, apart from its external effects, increases the surplus in all production for the home market. This should give no cause for concern, in the light of neoclassical reasoning, since competition will bring down prices. No such decrease would occur, however, in the case of goods where devaluation had offset the differences in costs between domestic production and imports; which means that in the last analysis the impact would be exactly the same as that of protection equivalent in effect to devaluation. Why, then, upset the whole internal system of costs and prices?

The hard facts, however, do not work out as these arguments suggest, since the surplus, thus increased by devaluation and the rise in prices, is not transferred to the collectivity, but remains in the hands of the owners of the means of production and of the strata that are gradually acquiring trade-union and political power.

In any event, what happens to the surplus when export prices fall? It is transferred abroad either through an increase in the proportion of it that goes to the enterprises using the primary commodities in question, or through price reductions, according to the respective income-elasticity of demand.

#### 4. *Diversity of peripheral situations*

Hitherto we have considered the periphery as a whole in order to explain the unfavourable effects on trade relations produced by the structural disparity between it and the centres. But naturally the situation varies greatly from one peripheral country to

another; there are some countries whose exports carry considerable weight in the world market and others whose influence is insignificant. The former are very much exposed to deterioration of their terms of trade, which is not the case with the latter, whose exports could undergo relatively intense expansion without ill-effects on their prices; although of course these countries cannot escape the adverse consequences of the deterioration affecting the first group. Between these extreme cases there is a whole range of intermediate situations.

These differences, however, do not mean that industrialization is any less an indispensable requirement of peripheral development in the case just mentioned. Rather do they affect the scope and pattern of industrialization.

Thus, for countries whose importance in the world market is slight the possibilities of expanding primary exports are greater than for the rest. But though great they are not boundless, since the countries' natural resources have their limits, however much technical progress may increase productivity. There comes a time when the expansion of production encounters the obstacle of rising costs which weaken the economic advantages of exports as against those of industrialization.

But there is a further powerful justification for industrial development. Export activities generally absorb a relatively small proportion of the labour force, especially when technical progress is propagated. Even though there may be no sign of a trend towards deterioration, industrialization is a necessity in order to absorb progressively, through the superimposition of new and higher-productivity layers of technology, labour from technological layers where productivity is much lower, with the consequent increase in the economy's global product.

If this is to be achieved in conditions of economic efficiency, it is essential that the rate of capital accumulation be speeded up in order not to divert resources from the



expansion of export activities, as long as these can continue to develop without rising costs or losses which exceed the cost of import-substituting industrialization. But so far we have said nothing of the penetration of technical progress in export activities. The increase in productivity which it implies strengthens the tendency to deterioration of the terms of trade; and this is due to the regressive competition of the large proportion of the labour force employed in lower layers of technology, under the rule of market laws, as has already been explained. To enable the producer countries to retain the fruits of higher productivity, it would be necessary to get rid of this regressive competition, which could be done only after a more or less lengthy period, through more intense capital accumulation whereby the manpower in question could be employed in industry and other labour-absorbing activities. But as long as this does not occur in a sufficient degree, the fruits of technical progress in export activities will tend to be transferred abroad, in accordance with market laws, always provided that demand has not increased enough to absorb the production increment.

The most important conclusion to be drawn in this deterioration thesis, which CEPAL expounded in its earliest years of activity, consists in the inescapable need for industrial development. Industrialization would gradually absorb, at rising levels of productivity and income, labour from the lower strata, while at the same time it would progressively correct the structural weakness of the periphery. And as this was achieved, the periphery would be able to retain a steadily increasing proportion of the fruits of technical progress, instead of their being transferred through deterioration of the terms of trade under the rule of market laws.

The shortage of land, in relation to the expansion of world demand, is also a highly important factor which in some cases helps to counteract the trend towards the deterioration of the terms of trade in the spontane-

ous play of economic forces. This is what has happened in certain periods in the case of some temperate-zone products; but the same is not true of tropical products, to which we will refer a little later.

When land is in short supply in relation to demand, an increase in productivity tends to raise land rent rather than transfer it through the deterioration of the terms of trade.

It may also happen that part of the productivity increment is internally or externally absorbed in transport and marketing activities, especially when trade-union power is also vigorously operative in these, in contrast with its weakness in productive activities.

But another and very important possibility is that technical progress may be so intense that despite the shortage of land the tendency to deterioration of the terms of trade reappears.

One aspect of the centres' experience may be highly significant in this connexion. The old United States policy of parity of agricultural and industrial prices was intended to offset deterioration; as were also, later on, the measures adopted to restrict production through the deliberate reduction of the land under cultivation. Moreover, the first International Wheat Agreement, during the great depression of the 1930s, was also supported by the United States as a means of counteracting the spontaneous play of market forces.

Familiar, too, is the European Economic Community's policy of opposition to the deterioration of the terms of trade occasioned by the considerable increase in agricultural productivity. In reality, the intense absorption of redundant labour from the agricultural sector did not suffice to counteract the trend towards deterioration.

The case of tropical agricultural commodities merits special mention. From the very earliest days of their large-scale exportation the abundance of labour and the plentiful supply of land made for unfavourable income relations with the centres. Even

in the absence of further deterioration, a serious problem is still posed, since the factors referred to have prevented the terms of trade from improving in relation to their poor starting-point, as they might do in the course of time if capital accumulation and the labour-absorbing capacity of the system are intensified, with the resultant rise in the income of the labour force in the producer countries.

What we have said of the congenital weakness of the periphery in international trade makes it possible to understand—conversely—the superiority of the centres. Demand-elasticity is in their favour; technical innovations and the diversification of manufactured goods enable them to develop their trade without the serious difficulties with which the periphery is faced in consequence of its structural time-lag. Any differences in elasticity that arise between the centres are smoothed out in a relatively short space of time, by virtue of the similar technological density and capacity for accumulation of the countries concerned.

This accounts for the renewed influence of conventional theory on international trade, which has led the centres to adopt a trade liberalization policy.

Let there be no misunderstanding, however, as to the true scope of our remarks. We do not mean that conventional international trade theories are valid for the centres and not for the periphery; their validity is universal. But if they are applied to centre-periphery relations, the effects of the periphery's structural weakness must be remedied by the establishment of conditions in which trade can develop with the reciprocal benefits that these theories imply.

##### 5. *The ideological hegemony of the centres*

I cannot conclude these remarks without recalling that CEPAL's original thesis on the deterioration of the terms of trade had in its earliest years a patently polemical significance. Upon it was based the unavoidable necessity of industrialization. But the old

prescription for the international division of labour was still current, and more than one eminent professor in the United States—not to mention governments—denounced our poverty of doctrine.

Under the rule of market laws, the periphery tended to transfer to the centres, wholly or partly, the fruits of the technical progress incorporated in export activities. An essentially structural problem. And there was no solution more economically acceptable than rational industrialization; not spontaneous industrialization, however, but deliberate, with the support of protection, without which the trend towards deterioration would be aggravated.

It was all the more necessary to defend this thesis, inasmuch as in the centres another form of peripheral development, based on the technical progress of export activities, was still being advocated: a new version of the old prescription for the international division of labour.

Nobody can deny, of course, the importance of incorporating technical progress into export activities. But we asked ourselves then, not without some anxiety, who would benefit by it unless concomitant measures were adopted to mitigate, at least, the transfer of its fruits abroad.

The position taken up by the centres, however, has not given way to the pressure of events. Even today new combinations of interests are still being sought whereby the periphery's natural resources can be developed so that the centres may obtain primary commodities at lower prices.<sup>5</sup>

<sup>5</sup>In this connexion it is worth recalling the idea for the creation of a natural resources bank presented by Dr. Henry Kissinger, then Secretary of State, at the fourth session of the United Nations Conference on Trade and Development, held in Nairobi in May 1976. Perhaps because it was presented at the last moment and without prior preparation, this idea was not considered by the Conference. Personally, however, I was convinced that it was not without merit, since, properly worked out, it might imply new methods of negotiation and of obtaining financial resources whereby peripheral production could be expanded and inter-

As a matter of fact, it is natural that the centres should almost invariably look at these questions from the standpoint of their own interests: interests of the moment rather than inspired by long-term criteria. For market laws, as we have already said, are lacking both in a time horizon and in a social horizon. It is true that in the academic world deep-rooted convictions are still cherished; but neither is there room for doubt that the prestige of certain theories is largely based on their congruity with dominant interests.

We have already mentioned that the centres have had to face their own deterioration problems, and have had to counteract the spontaneous play of market laws. But in doing so perhaps they were not aware of violating those laws; nor do the powerful show any such awareness in respect of certain economic principles which they proclaim: when these principles do not suit their convenience, they create other new ones!

I have also said elsewhere that some economists in the centres advocate devaluation in the periphery, not in this instance

to remedy the consequences of inflation, but as a means of achieving industrialization without impairing market laws: a line of policy which, besides apparently respecting orthodoxy, has for the centres the virtue of lowering the prices of their primary imports.

All this is very understandable from the centres' standpoint, as is likewise that other thesis of the internationalization of production by grace and favour of the transnationals. Demand is quickly internationalized, but production with much less ease.

In any event, the periphery has not yet learnt to evade the seduction of certain ideologies whose intellectual irradiation from the centres is still potent: spontaneous irradiation, and also propagation by deliberate action. Reflections of both are to be seen in the case of the neoclassical theories.

I trust that these pages will at least help to sow a few seeds of doubt as to the validity of these theories in the periphery. It would perhaps be one way of taking the first steps on a long and difficult road: the road to authenticity of development.

### III

## The contradictions of liberalism

### 1. *The conceptions of liberalism*

Political and economic liberalisms flow from the same philosophical source. They reflect human feelings and aspirations which for centuries have manifested themselves throughout the course of history, struggling ahead against enormous difficulties, surging forward and then ebbing back again. Full of

vicissitudes has this process been, and sometimes sanguinary, like the battle for human rights that is inseparable from it. And however much progress democratic institutions still need to make in the centres, what has been achieved is of such great human significance that it would seem to be definitive or irreversible, although always exposed to setbacks.

The ideas of political liberalism, which have so greatly influenced the constitutional organization of our countries, represent another of the valuable contributions made by the centres to the development of the Latin American region of the periphery.

The struggle waged by political liberalism throughout history reacts against the

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ests harmonized on equitable bases. For that very reason I could not help feeling disconcerted by a declaration on the part of Dr. Kissinger himself, when he no longer held office as Secretary of State, to the effect that his idea would enable the centres to obtain at low prices the mineral products they needed for their development. In other words, technical progress and deterioration of prices!

concentration of power and its abuses and arbitrary practices, in defence of the freedom of the individual and of respect and firm support for his basic rights.

The essence of economic liberalism too is the freedom of the individual—a freedom which, under the guidance of personal interest, would make it possible, according to the theorists, to attain definite objectives relating to the good of the community: productive efficiency and distributional equity on the one hand; and, on the other hand, the dispersion of economic power through competition among innumerable enterprises.

As they were originally conceived, the philosophical correspondence between the two currents of liberalism was in reality perfect.

Hence the fundamental importance of the concept of economic freedom and its political significance. The State did not need to intervene to regulate production or income distribution, since free enterprise and competition continually made for the most appropriate solution from the collective point of view.

Exempt from all responsibility in economic life, unless it were that of preventing the restriction or elimination of competition, the *laissez-faire* State could devote itself to the full discharge of the essential functions attributed to it by the political theory of liberalism.

But in the Latin American region of the periphery too political liberalism and its democratic evolution have had a long road to travel over very rough ground. There too liberal ideas had to overcome formidable obstacles and were and still are exposed to severe and painful vicissitudes. In all this there have been both illusions and realism, but also frequent and striking proofs of immaturity: anarchy and popular ferment, and repressive authoritarianism; a struggle for power in which lofty designs have been combined with eagerness to grasp at the advantages that power can give; a contest

that finds expression in electoral campaigning or in the use of force, either by those who wield it, or by others who make use of these latter to fulfill their aspirations or gratify their interests and ambitions.

There are important features in this historical background which are still projected into our own time. I have to stress this for the very reason that I am trying to show here the emergence of new structural phenomena which had not appeared in earlier days. And I think that until relatively recent times it has not been possible to form a clear picture of the contradiction between the advance of democracy and the accumulation and distribution patterns which characterize peripheral capitalism in the course of the changes in the social structure.

Some of the features perceptible in the historical background may possibly be attenuated, while others lurk beneath the surface of events. But the aforesaid structural changes play a dominant role; and when the system reaches a crisis they end by rendering democratic liberalism incompatible with economic liberalism.

Undeniably, in the periphery democratic liberalism has still a very long way to go. But it does not consist in the mere text of a constitution; it is something more. Its full realization calls for institutional changes, education of the masses and of leaders, and new attitudes as well. But a risk—a great risk—of succumbing to new illusions is incurred, if, in undertaking such reforms, we still shirk acknowledging the great flaws and contradictions in peripheral development. And we hardly could acknowledge them as long as we go on looking at the system in the light of economic liberalism; for in the renaissance of neoclassical theories the original concept has been adulterated in its very essence, and does not reflect the real conditions of the periphery. Nor do I think, moreover, that it ever has reflected them, although in other structural phases it has been possible to believe in some degree of consonance with reality.

## 2. *The adulteration of economic liberalism*

Economic liberalism has been adulterated in respect of three main issues, which are worth noting here, even though very briefly. I refer to the concentration of power and its serious consequences; to the regulatory role of the market; and to social mobility.

The concentration of economic power is imputable not so much to deliberate intention as to the actual operation of the system. It is a consequence of the penetration of the technique of the centres into the social structure of the periphery.

Hence emerge the surplus and the great distributional disparities which, in the framework of structural change, deprive the market of the regulatory role it is held to fulfill for the benefit of the whole collectivity. It does not regulate capital accumulation or income distribution; and these serious flaws are responsible for the exclusiveness of peripheral capitalism, as well as for its conflictive tendencies when, over against economic power, the trade-union and political power of the labour force rears its head. It is exclusive, above all, of the lower strata, which development bypasses. There economic freedom signifies freedom to be poor. Political freedom is nothing but freedom to decide without possessing effective means of discernment. And freedom of thought and speech, like other basic rights, are still a conventional flourish of rhetoric while there are social strata sunk in ignorance and penury, just as the vital concepts of equality of opportunities and social mobility are a chimera.

Social mobility, as liberalism conceives it, carries the most capable and efficient to the top of the system. This undoubtedly may happen; but a great mass of human beings are left on the sidelines, since economic and social power favours some to the detriment of others. There is no such thing as equality of opportunities. And those who surmount obstacles and strata, and find a niche in the system, look upwards, towards the advantages offered to them by the privileged-

consumer society, and not downwards, to the level whence they came.

In this context a distinction must be drawn between those fundamental human rights and the way in which their observance has been endangered or distorted owing to the social structure. And this cannot be divorced from the transcendent problem of freedom: freedom for people to do what they like so long as it does not affect the freedom of the rest. This is a time-honoured principle of inestimable human value; and when I say human value I am already defining its true significance — self-determination. Free determination of one's own line of conduct, not obedience to the orders of a superior or supreme authority.

Herein lies the great intellectual and moral tragedy of economic liberalism: not to have perceived that the economic freedom of the individual could not function as its theorists had assumed. One of the gravest mistakes of these theories — indeed, the gravest of all — consisted in accepting economic freedom in the abstract instead of in relation to the concrete system in which it evolves. A change is conceivable in which economic freedom acquires a completely different significance; a significance approaching the connotation ascribed to it in theory.

## 3. *Democratic liberalism in the centres and in the periphery*

In the centres the democratization process, in the light of experience, has been finding expression in institutional and juridical changes which attempt to make good undeniable deficiencies. But perhaps the most striking flaw in the process is to be found in the direct and indirect consequences of the interplay of power relations. There can be no doubt that the mechanisms of representative democracy operate with perfect regularity and that human rights are effectively respected. But equally unquestionable are the concentration of capital and the considerable influence on the formation of public

consciousness exerted by vast and complex interests, through their ascendancy over the press and other mass media, through subsidies to political parties and through the close liaison between these interests and the political leaders.

In the periphery, the concentration of capital, over and above that of land, gives considerable political power to the upper strata. This, as we have seen, is a phenomenon closely linked to the social structure and the changes therein. During the phases of outward-directed growth politics were a matter for the various groups of the upper strata, with some intervention by the nascent middle classes, combined with intermittent appeals by the rival factions to the relegated masses. In the subsequent course of development, structural changes have increasingly made for the sharing of political power with the lower and especially the middle strata. The upper strata will do everything they can to contain, manipulate and influence the political power of the middle strata and to co-opt their leaders. Nevertheless, the expansion of these middle strata, their increasing concentration in the towns and the development of the mass communication media will end by flinging wide the gates for the advance of democracy.

Through this gateway are released the feelings, aspirations and interests of the disadvantaged strata. All this gives impetus to the political dynamics of these strata and their aspiration to elect their representatives freely and to be elected. Nor does that impetus take long to acquire redistributive significance, with the development of the trade-union and political power of the labour force by which it is accompanied. And thus, essentially owing to structural changes, the institutions of democratic liberalism irradiated from the centres take on a new meaning, unfurl along a new social horizon.

In this, as in other respects, peripheral capitalism acquires some of the characteristics of the centres, notwithstanding the great structural disparities.

This process is apparent mainly in the

distribution struggle, and as time goes by gives rise to increasingly crucial political problems. What is more, the struggle is much grimmer in the periphery in view of the great disparities and the notorious insufficiency of material for distribution. And thus, the chronic inflation to which the conflictive tendency is leading breaks out in these latitudes with exceptional intensity. Indeed, in this respect we are ahead of the centres. So to Latin America falls the doubtful merit of being the forerunner!

Thus a very serious problem is posed which representative democracy has not yet been able to resolve. Those who regard democratization as the source of the distribution struggle in the middle strata and the social and political ferment in the lower strata are undoubtedly grievously mistaken. The source lies in the great flaws of the system. I would say rather that the march of representative democracy shows up these flaws, but has neither been able to correct them, nor given any sign of ability to tackle the accumulation problem. But at all events, let us beware in time of inferring that the trouble is due to defects in the democratic process, although they undoubtedly do exist.

#### *4. The use of force, and options in face of the crisis of the system*

And now we come to an aspect of the question which it is of paramount importance to understand in order to interpret the dynamics of peripheral capitalism. The distribution struggle cannot go on indefinitely, since the desire to share in the surplus can be satisfied only as long as its total amount increases at least as fast as the global product.

If this limit is overstepped, enterprises will try to raise prices in order to restore the surplus, with the result that the inflationary spiral will be triggered off, or accentuated if older forms of inflation were already developing; all this we know already from experience. And we also know that beyond that limit the surplus cannot be further

compromised, not because there is insufficient room to do so, but because the upper strata are not prepared to accept the disruption of the privileged-consumer society. In such circumstances the rules of the monetary game become inapplicable, for inevitably the monetary authority has to resign itself to the inflationary spiral, with all its increasingly disturbing effects, whatever attempts may be made to repress some of its more acute manifestations.

Sooner or later the use of force supervenes. Later, perhaps, rather than sooner, when the distribution struggle is mitigated by the availability of abundant funds deriving from the exploitation of natural resources. Only two major options are open to the use of force: to stifle the trade-union and political power of the masses in order to curb and eventually eliminate the inflationary spiral; or to concentrate the means of production in the hands of the State so that decisions as to the new system and the destiny of the surplus may come from the summit. Needless to say, both options are incompatible with the advance of democratization.

The two options are diametrically opposed, since the first draws its inspiration from the idea of re-establishing, if not exalting, the consumer society, and to that end has recourse to economic liberalism, sacrificing political liberalism. Whereas the second option sacrifices both forms of liberalism, under the guidance of ideas which are essentially divergent from the philosophical source whence they sprang, since the concentration of economic and political power in the hands of the State necessarily means the abandonment of the very principles of political liberalism and the democratic conceptions that stem from them. Accordingly, fundamentally different notions of democratization become inevitable.

Whatever their intrinsic value, however, the influence of these ideologies on the periphery clearly exemplifies the persistent historical phenomenon of ideological dependence upon the centres: a form of

dependence which precisely by its doctrinaire fervour helps to discourage the search for authenticity in the major decisions of development.

This is not merely an understandable phenomenon of intellectual irradiation, but also one of deliberate propagation, since in the periphery the broad field of the Latin American region lies wide open to the persistent effort made by both the hegemonic powers—although motivated by different interests—to disseminate their ideologies. That is, ideologies and information selected to bear them out. It is therefore very difficult to gain an objective understanding of the course of events and to comprehend their significance. At the international level we are witnessing the strengthening of the efficacy of the mass communication media, a process which once again brings to light the ambivalence of technique, its capacity to achieve not only positive results but others that are negative and disruptive.

It is by no means easy to overcome this and the other forms of dependence in the praxis of development. But let us also acknowledge that on the intellectual plane there are vast possibilities of seeking authentic options.

The use of force cannot be kept up indefinitely. What is to be done afterwards? Will institutional reforms in the political field be enough? As I have said before, institutional reforms are useless if they are founded on the system's basic flaws. It is essential to get at the bottom of the system, but invariably under the guidance of those major values without which development would be devoid of human significance.

Such is now the complexity of development and the interdependence of its components. What is needed is the transformation of the system. And the starting-point must be a synthesis in which, beyond the tide of ideologies, certain essential principles of political liberalism are combined with genuine forms of that economic freedom which is an integral and inseparable element in the fundamental concept of

liberty. Economic freedom for individuals and for enterprises — for great enterprises emancipated alike from the power of the owners of capital and from the power of the State, in accordance with new norms of community life. The fact that liberalism has been adulterated in the course of the development of peripheral capitalism must not on any account be taken as a valid

justification for sacrificing all it means in terms of human comity. In contrast —and this I have no hesitation in asserting— such lofty ends cannot be attained under a system of imitative capitalism which, as it seeks to develop in the image and likeness of the centres, can survive in the long run only by throwing human rights overboard and giving its blessing to social inequity.