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A historical turning point for the Latin American Periphery

*Raúl Prebisch**

In the face of the critical economic situation through which most of the countries of Latin America are passing, the author presents his interpretation of this and outlines the measures which should be taken to deal with it.

Right from the start he recognizes the existence of serious conjunctural problems —such as the reduction in the economic growth rate, the high rate of unemployment, the deterioration of the terms of trade, the high level of external indebtedness, etc.— which call for the application of a rapid and effective short-term policy, whose principal measures he outlines. He emphasizes, however, that behind these conjunctural problems are profound and serious structural imbalances, so that the conjunctural policy must not be viewed as something isolated, but as the starting point of a structural development policy.

The present crisis has brought to the fore once again both the external imbalance and its tendency to choke development, and the internal imbalance, the exclusive and conflictive consequences of which are reflected above all in the inability to absorb the entire labour force in a productive manner, and in social inflation.

To deal with the external imbalance, he suggests basically that industrialization should be promoted within a regional framework in order to surmount the limits of national markets and the serious restrictions resulting from the present relationship with the centres. In order to overcome the internal imbalance, he emphasizes that the problems of accumulation, redistribution and inflation inevitably call for the macroeconomic regulation of the surplus: the cost of the crisis and of the reactivation must be spread out in an equitable manner, and the labour force must share in the surplus and in the responsibility for accumulation.

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I

The swinging pendulum of development policy

The crisis of capitalism in the centres is spreading to cover the whole world, and its adverse effects are clearly visible on the periphery, where it is aggravating the disturbances which had already been occurring in that area's own development.

We are now at a crucial and historic turning point, as at the time of the Great Depression. At that time, by the force of circumstances, we had to follow our own road to development, but we departed from that great undertaking during the long boom years of the centres, which came to an end in the first half of the 1970s.

We Latin Americans should wake up to the facts. The centres are simply not interested in our achieving a socially satisfactory form of development. Our development only concerns them inasmuch as it affects their own development. It goes without saying, however, that the centres have great significance for us because of our technological and capital exchanges with them. The great problem lies in taking advantage of all this in a rational and independent manner.

This limited interest on the part of the centres is a consequence of their centripetal dynamics rather than of any ill intent. At all events, it is essential for us to continue the by no means easy quest for our own road to development.

When we set out along this road before, we had both success and failures. We did not fully recognize the structural obstacles, and much less the need for great changes, and in order to correct these errors we frequently committed others in the opposite direction. In reality, we were moving like a pendulum.

In this transition from one swing of the pendulum to another there has been a great deal of ideological influence. *The slow and precarious process of freeing ourselves from theories alien to our own reality which we began in the Great Depression gave way in more recent times to opposite concepts whose results are already beginning to be all too*

clear. Let us look at the most important of these:

—Although development has been vigorous, it has not been equitable. There have been great disparities in the structural distribution of income, and the economic efficiency of the market has not been accompanied by social efficiency. In the course of our development, attempts have been made to correct these disparities in the labour force's share in the fruits of development through labour's exertion of its trade union and political power and through State spending. Because of the nature of the system, private and social consumption have indeed been increased in this way, but not at the expense of the privileged consumption which the upper strata enjoy because of their power. Instead, this has taken place to the detriment of the rate of accumulation of the reproductive capital which serves to multiply employment and productivity. *This imbalance between the rate of consumption and the rate of accumulation inevitably leads to social inflation.*

Neither the market forces—which are of great significance in the efficiency of the system—nor the distributive struggle arising from the power play have imparted social efficiency to the system, *nor indeed could they ever do so. They have not shown themselves to be suitable mechanisms of distributive equity. In order to achieve the latter it is essential that the State should exercise its regulatory action in a manner compatible with individual enterprise, competition and the process of democratization.*

A clear and vigorous policy of redistribution and dynamic promotion is called for, but we have lost our way as regards the means, although not as regards the ends pursued.

We cannot and did not close our eyes to such errors. In our desire to correct them, however, we have fallen into opposite errors: hamstringing the trade union and political power of the labour force and dismantling the machinery of the State. And by seeking to attack social inflation through monetary approaches we have simply caused economic contraction and unemployment.

— *The State bears a fundamental responsibility in development* which it has not been

able to fulfil properly, possibly because of its own tendency towards excessive growth, due above all to its attempt to correct the social inadequacy of development. Inflation and external vulnerability have also caused it to intervene where it should not have done so, with negative results.

— For a considerable time past there has been growing recognition of the need for enlightened regulation of the banking system, as the essential instrument of monetary policy. *Inflation has adversely affected and complicated this regulatory action*, and the pendulum has swung to the other extreme, so that the importance of this action has been rejected in favour of total banking liberty, that is to say, freedom to create money *without observing the most elementary rules of discipline, and to the serious prejudice of financial solvency.*

— *This exaggerated liberty also extended to external operations*, and here too there was a swing of the pendulum. We rightly complained in the past about the IMF, which we accused of applying a set of technocratic rules in whose formulation the periphery had not been given any opportunity to participate, and the same complaints were levelled against the criteria of the World Bank: two organizations of States whose duty is to make loans mainly to States. On the pretext of the free play of the laws of the market in the international field, however, big private institutions rapidly developed their Eurocurrency operations, thus largely displacing these two organizations. Private enterprise, it was repeatedly argued, knew best how to make wise use of international financial resources, *and the incentive of massive gains prevailed over prudence and good sense, in a process of mutual harmonization of immediate interest in both the centre and the periphery.* The consequences of this swing of the pendulum are clearly to be seen.

— *The Great Depression and its prolonged aftermath brought home to us the unavoidable need to industrialize.* In a world economy shrunken and fragmented by the depression it was essential to embark on import substitution, and this somewhat unbalanced solution came to be a veritable dogma of development, so that we neglected our exports and sometimes even hindered them. We continued

in this way until, with the recovery and re-opening of the world economy, opportunities arose for the export of manufactures, particularly in the long years of prosperity of the centres. We finally learned to do so with such success that the pendulum rapidly swung to the other extreme and we looked down on substitution policies: now, development must be promoted on the basis of the powerful motive force of free trade. *However, we were not able to achieve a balanced combination of import substitution with the export of manufactures.* If we had done so we would now be able to face up better to the external vulnerability of our peripheral economies.

Are we going to continue indefinitely with this to-and-fro movement? What is involved is not, of course, the search for a golden mean, but the need to make fundamental changes aimed at correcting the great structural imbalances of our development: the imbalance with the centres, with the tendency towards an external bottleneck choking development, and the internal imbalance which is responsible both for

the exclusive tendency of the system, with its inability to provide productive employment for the great masses relegated to the bottom of the social structure, and for the conflictive tendency in the distribution of the fruits of development which gives rise to the grave problem of social inflation.

The consequences of these imbalances are combined with cyclical or conjunctural movements which generally arise from them, as the cycle is the characteristic form of evolution of the capitalist economy. This gives rise to intricate phenomena which are both structural and conjunctural at the same time, as we are witnessing now, when the serious decline in the growth rate of the centres is having troubling repercussions on the periphery which aggravate the effects of our own actions.

The following chapter will be devoted to this latter point, after which we shall deal with structural imbalances. The ultimate aim of all this is to reflect on the right road to follow in the development of the periphery.

II

Conjunctural policy

A distinction should be drawn right away between conjunctural and structural phenomena: this is a useful practical distinction, provided that we do not lose sight of the fact that conjunctural phenomena are almost always the result of structural imbalances. Thus, the adverse conjunctural effects of monetary policy stem ultimately from the structural faults in the system or, to be more exact, from the structural imbalances which occur in the course of development and the changes which take place in the power structure.

The correction of these structural imbalances is not something which can have immediate effects, but takes a certain amount of time. Indeed, there is by no means general agreement on the interpretation of these imbalances, especially as regards the imbalance between the rate of consumption and the rate of accumu-

lation on the periphery. These phenomena could hardly be tackled, then, without first of all trying to clarify and explain them.¹

However, the presence of structural phenomena does not justify the relegation to a lower level of priority of the need for a conjunctural policy. At the same time, the most important measures involved in such conjunctural policy should not run counter to those which would have to be followed in a policy of struc-

¹From the very first days of CEPAL it was stressed that the tendency to structural imbalance in the relations with the centres could not be corrected through the simple play of the laws of the market, and it was also noted that there were structural elements in inflation which, it was maintained, could not be combated with monetary measures. We were a little longer, however, in realizing that the inner logic of the system inevitably tends towards crisis, through its own dynamics.

tural changes, which, by their very nature, would have to be of a long-term nature. In the final analysis, the long term has its starting point in the present.

We now propose to engage in a brief discussion of the main elements of a conjunctural policy, its possibilities and its limitations. These are short-term possibilities, of course. Beyond them lie the limitations of a structural nature, the gradual reduction of which calls for a longer space of time. This latter element corresponds to structural development policy.

Of course the centres also have serious conjunctural problems arising from their own structural crises, the solution of which would reduce the seriousness of their repercussions on the periphery.

Let us now analyse the incidence of this crisis and its conjunctural consequences on the Latin American periphery. This crisis is manifested in very different aspects:

— There has been a sharp reduction in the extraordinary growth rate which the centres had previously achieved. The adverse effect of this on the growth rate of the exports of the periphery, together with the resurgence of protectionism, are aggravated by the deterioration in the terms of trade, accentuated by the rise in oil prices.

— These phenomena which are so adverse to the periphery have brought with them a considerable decline in the latter's rate of development, with a consequent drop in employment and income, all of which has brought about a conjunctural aggravation of the exclusive and conflictive tendencies of the system.

— The objective of correcting the fiscal deficit through extraordinary rises in interest rates has not only aggravated the effect of the structural crisis of the centres on the employment situation but has also helped to bring about a sharp rise in the already excessive burden of Eurocurrency credits on the countries of the periphery.

The IMF and the World Bank did not channel to the latter the floating assets from the Eurocurrency market, coming largely from the oil surpluses, in order to organize a sound and effective flow of resources to the periphery. It was the international private banking system which carried out this task, for which it was not

prepared, while the advanced countries managed to attract huge investments of the oil surpluses. Moreover, there has only been very scanty realization of the hopes that the oil-exporting countries would invest a growing proportion of their surplus resources in the development of the Third World.

— The decline in these surpluses, the high rates of interest, and the adverse consequences of the crisis in the centres are now revealing the serious effects of this imprudent indebtedness on the part of the periphery, only part of which has gone into reproductive investments.

Although the incidence of these events has been very unequal in the different countries of Latin America, all of them are suffering as regards the growth rate of their exports and the internal consequences, and all of them—albeit in different ways and to different extents—have to defend themselves with conjunctural measures. A distinction must be drawn, however, between the oil-exporting countries and the other countries of Latin America.

Let us consider the first of these. The abundant oil resources generated veritable euphoria, both at the State level and in private activity. They gave rise to very easy availability of credit, the expansive effects of which were accentuated by the flow of Eurodollar resources, and there was a very sharp upswing in economic activity and employment, above all in construction and various services not connected with the exterior, but at the same time the overvaluation of the currency adversely affected exports and import substitution activities.

In the case of the other countries, whose exports suffered the consequences of the crisis inasmuch as imports and interest rates went up, the increased inflow of external resources stimulated by the rise in domestic interest rates did not serve so much to improve domestic activities as merely to lessen somewhat these adverse effects. With the same objective of combating the latter, credit restriction measures were also sometimes imposed (to which we shall refer in the following chapter), the effect of which was to accentuate the economic contraction and unemployment, especially when it was sought to combat the domestic

consequences of inflation through overvaluation of the currency.

A conjunctural policy is therefore essential in order to face up to these problems, in view of the big differences between the countries and the degree of restriction inherent in their structural imbalances.

The starting point for all this must be the reactivation of the economy, which has two main aspects, namely, its domestic inflationary effects and its consequences on the balance of payments.

Above all, it is necessary to encourage enterprises to expand their production. This requires an increase in demand in order to give an initial impulse to the production mechanism, either by raising wages, when these have suffered serious deterioration, or through other promotional measures, in addition to the effects of increased exports and the adjustment of imports.

Very little can be achieved without sharply reducing the present exorbitant interest rates at least down to the international level. The risk that such a reduction and the easing of credit may stimulate the flight of capital to the exterior is of course a matter of great concern. *We are thus faced with a very difficult option as regards conjunctural policy, particularly in the period of transition: either the outflow of funds to the exterior must be temporarily controlled, which is a very difficult and frustrating matter, especially when there is no banking discipline, or else the contraction of the economy and the rise in unemployment will continue with increasingly serious economic and social effects.*

There is also the problem of the unpaid debts to the banking system due both to these high interest rates and to the serious state of the economy. This is not merely a question of isolated enterprises, which could go into liquidation without causing serious disturbances, but affects a considerable number of firms. A general wave of liquidation which would also shake the stability of banks and depositors is out of the question. It will readily be understood that if this problem is not solved, the reactivation policy will have very little effect. It is largely a question of stretching repayment terms and lowering interest rates: a problem

which is inherently very difficult not only because of the almost inevitable bankruptcies but also because of the need to spread out their effects in an equitable manner.

What inflationary effects could the expansion of credit bring with it? No matter how much idle capacity there may be in the economy, it would be impossible to avoid some rises in prices as employment recovers. Indeed, it is even desirable that this should take place up to a level which enables the economic surplus to be restored, and with it the potential for the accumulation of reproductive capital which will make it possible to set about the solution of certain structural problems. If this rise in prices is followed—above all if it has been necessary to devalue the currency—by a corrective adjustment of wages, however, the resulting inflationary spiral would seriously compromise the success of the reactivation policy.

This is a matter whose importance should not be overlooked. Here we encounter the question of the economic surplus once again. We already explained in another study why the continuous growth of this surplus is of great importance for the growth of the economy. A clear distinction must be drawn, however, between this dynamic significance of the surplus and its appropriation. This raises some very serious queries. Is the surplus going to be increased in order to restore and increase the privilege consumption of the upper strata as well as their capital accumulation? Will the accumulation continue to take place for their benefit? And would it be socially and politically acceptable to keep down the wages of the labour force in spite of the rise in prices so that the surplus can grow on such terms?

Getting to the bottom of the problem of the social use of the surplus is a very intricate and difficult matter which cannot be lightly improvised in the face of the urgent need for a reactivation policy. *The immediate containment of wages in order to reduce or avoid the inflationary spiral would have to be compensated, however, with some form of participation of the labour force in the growth of the surplus, not only in order to increase its inadequate consumption but also in order to enable it to share in accumulation.* All this must take place at the

expense of the consumption of the privileged strata.

In this way, it would become possible to reduce the inflationary effect of increased wages on costs and prices. Of course the reduction of interest rates would also have this effect by compensating to some extent for the repercussions of wage increases, as would the reduction in costs made possible by better utilization of production capacity.

There is usually a great deal of talk in this respect about income policy. The results of this would be very precarious, however, if the labour force were not made to participate in one way or another in the growth of the surplus. The same could be said of price controls, to which temporary recourse could be had in acute cases, although this could run counter to the need to restore the surplus.

Concern about combating inflation now brings me to the question of the fiscal deficit. The application of drastic measures would enable this to be reduced or eliminated, although they might at the same time cause or aggravate unemployment. On the other hand, it would be a very serious matter to add the expansion of credit for the purposes of reactivation to such a deficit. In undertaking such expansion, it would therefore be necessary to increase taxes and reduce expenditure in proportion as the economy is reactivated.

From the external point of view, the expansion of credit would bring with it an increase in imports, thus accentuating or provoking an external imbalance. Of course, where overvaluation of the currency had been corrected, the immediate effects of this would be favourable, but if the circumstances call for a very sharp reduction in imports, as might happen in certain cases, especially when the burden of oil imports is very heavy, perhaps this would not be sufficient, even if prudent use were made of the monetary reserves or external credits. It would therefore be necessary to apply severely selective measures through emergency taxes, rather than resorting to rationing, with its disturbing effects. All this should be accompanied by measures aimed at giving a strong stimulus

to exports. I do not believe that currency devaluation should be resorted to for this purpose.

In this respect, it is necessary to distinguish between two types of devaluation. There is one kind which must inevitably be applied—and the sooner the better—in order to bring the exchange rate in line with domestic inflation. The other type of devaluation is that resorted to as a means of securing external equilibrium, and this type is not advisable, for reasons which I shall set forth elsewhere.

We have spoken of the domestic and external possibilities and limitations of a conjunctural policy. We have noted that it is indispensable in order to increase employment and restore the surplus, the latter being the starting point for the vital growth of reproductive accumulation, which will subsequently open the way to a structural policy. We must not, however, fall into tempting illusions. Conjunctural measures are an urgent requirement. But they cannot serve as a substitute for a longer-term policy aimed at gradually correcting the tendency towards structural imbalances.

We noted elsewhere that the conjunctural policy is a matter which depends on our own decisions. Nevertheless, the co-operation of the centres would be of great importance in this respect. It is true that—jaded as they are by their own problems—they could hardly be expected to take a very different view from the very narrow one which they have displayed so far. There are urgent measures which they should take, however, especially as regards the external debt of the countries of the periphery. In spite of the seriousness of the problem, the broad solutions of elementary precaution which are called for if we are to avoid a ruinous financial collapse have not yet been achieved at the international level.

This must form the starting point for measures designed to support the domestic reactivation of the periphery. The policy of limiting imports will be very difficult in some cases, and until such time as it begins to show its effects the IMF could play a valuable and timely role by helping to reconcile the growth of employment with external equilibrium.

III

The structural tendency towards domestic imbalance

As we have already noted, the exclusive and conflictive tendency of development derives from structural factors whose manifestations are aggravated by conjunctural problems. No matter how much we try to attack these problems with measures such as those just mentioned, the effects of these measures will be limited by imbalances of a structural nature which call for thorough-going changes. Let us now consider the tendency towards domestic imbalance, by raising some important queries in order to guide our discussions.

Why is it that the great disparities in the structural distribution of income cannot be corrected beyond certain limits? Why does social or distributive inflation occur when these limits are passed? Why does monetary policy become ineffective and counterproductive?

Inequality is an essential element in the dynamics of peripheral capitalism, since the surplus from which the accumulation of reproductive capital derives depends primarily on this. At the same time, however, the surplus stimulates the privileged consumption of the upper strata.

Thus, the upper social strata, which have most of the means of production in their hands, appropriate a large part of the increase in productivity of the system, the fruits of which are only transferred to a small extent to the labour force, because of the heterogeneity of the social structure. This structure displays great disparities of productivity due to the different degrees of penetration of technology, so that those employed at the lower levels of technology and income are competing with others employed in higher-productivity strata, thus making it difficult to achieve an improvement in their wages with respect to the latter.

That part of the increased productivity which is not thus transferred to the labour force remains in the hands of the owners of the means of production in the form of a surplus, because of their power of appropriation.

At the same time, in the course of the struc-

tural changes the trade union and political power of the labour force gradually increases, thus enabling it to share in the fruits of greater productivity through higher wages. *The growth rate of the latter cannot exceed the growth rate of productivity, however, without causing disturbances in the system. This is not subject to any regulatory principle.*

This is where the monetary instruments are of great significance. They have a dual objective: to make possible the appropriation of the surplus and to defend it from the attempts to bring about its redistribution. Money is very far from being neutral, as is often claimed. On the contrary, it is a decisive element in social inequality. The theory of the neutrality of money merely stems from reluctance to recognize the social structure and the changes in it.

In order to understand this matter it is necessary to explain the monetary requirements of unfinished production. In the evolution of the latter, the production of final goods develops more rapidly than that of the employment which gives rise to it and the corresponding income, thanks to rising productivity. Consequently, if the demand for such goods came only from this income, prices would go down in proportion as productivity rose. In reality, however, demand does not result from such income previously paid in the course of the production of such goods, but from the larger income resulting from the as yet unfinished production of a larger quantity of goods which will subsequently come on to the market. Thus, the demand arising from this larger income prevents prices from going down.

The monetary authorities play an important role in this, since enterprises turn to the banking system in order to secure the expansion of the money supply with which to pay the income of the labour force. This expansion permits the enterprises to retain and increase the surplus. *The surplus is of a structural nature, whereas its appropriation is of a monetary nature.*

What happens when wages increase? The answer is that in order to meet this increase the enterprises will need to increase the flow of money which they had previously had at their disposal. If they succeed in doing so, then demand will rise. Thus, a moment will come when, thanks to the redistributive pressure, wages will exceed the increase in productivity, and the greater demand thus generated will cause prices to rise.

This rise in prices restores the growth of the surplus, which had been flagging to the extent that the higher wages had increased the labour force's share in the fruits of productivity.

Before we go any further with this line of reasoning it should be explained that *the labour force is not only struggling for higher wages but also seeks, when it has sufficient trade union and political power, to offset the factors which have adversely affected its real income*, the most important of these being the taxes and other charges levied by the State, which fall on the labour force's shoulders in one way or another. In response to them, the labour force seeks to recover the lost ground through an increase in wages. To the extent that it succeeds in gaining such an increase, it increases the tendency of wages to exceed the rate of growth of productivity. *It is hardly surprising, then, that in such conditions taxes or other charges become a source of inflation.*

The same occurs with other factors of domestic and above all external origin which, by reducing real wages, give rise to this action of seeking compensation.

The system lacks a mechanism which would enable it to deal equitably with these adverse effects on wages. In all this *there is a bias in favour of the upper strata, which obtain a considerable part of the fruits of technical progress*. When the labour force tries to gain a bigger share of these fruits beyond the limits mentioned, or to offset the adverse effects on its income, the system reacts with a rise in prices, thus restoring the growth of the surplus and the capacity for privileged consumption.

Whatever happens, every time that the labour force gains sufficient power in the course of the democratization process this means that every increase in prices is necessarily followed

by a rise in wages, in the all too well-known inflationary spiral, and the surplus swells and contracts alternately, to the detriment of its growth-producing role.

What can the monetary authorities do to check this spiral? *They must not resort to any of the actions which it was possible to carry out in previous stages of structural evolution, when the labour force lacked power or was only just beginning to gain influence. If an attempt is made to repeat this approach in later stages, the consequences are counterproductive.*

In those earlier days, the monetary authorities could simply refuse to grant firms a larger supply of money to pay the increased wages. This brought with it recession or contraction, with consequent unemployment. The unemployment eventually compressed wages, and the labour force was then not only compelled to retreat from what would otherwise have represented a real improvement, but also to bear the burden of the fiscal taxes and charges which fall upon it, as well as the other internal or external adverse factors referred to earlier.

Let us reflect on what all this means. *The labour force had to compress its consumption in this way in order to restore the surplus: not only the surplus as a source of accumulation, but also as the element making possible the privileged consumption of the upper strata.*

Those who believe that the free play of market forces tends towards distributive equity justify the drop in real wages by claiming that this merely corrects the harmful consequences of the violation of the market laws by the trade union and political power of the labour force, which they considered to be abusive. Of course they overlook the appropriation and retention of the surplus by the upper strata, which prevents the spontaneous social diffusion of the fruits of technical progress.

When the trade union and political power of the labour force is vigorous, however, and resists the drop in wages, a singular phenomenon of our days takes place: a rise in wages takes place side by side with recession or contraction of the economy. This is explained by the fact that the restrictive monetary policy obliges enterprises to divert part of their monetary flow to the payment of higher wages, to the

detriment of the growth of employment and of production in progress.

Unshakeable faith in restrictive policies leads some persons to advocate their persistent application until the labour force is completely mastered. Even if this took place and wages fell because of unemployment, however, the success would only be momentary, because with the subsequent improvement of employment the labour force would recover its trade union and political power and would again begin to exert pressure for higher wages. What use would the heavy economic and social cost of this policy then have been?

Monetary policy is also counterproductive when it is used to compensate for the creation of money caused by the fiscal deficit, which leads to a contraction in the amount of money available for the needs of private activity. If instead of this a more orthodox procedure is followed and recourse is had to taxes, the consequences are also adverse. If the costs fall upon the labour force and the latter has sufficient power to gain compensation for them, the taxes become inflationary, as already noted. And if they fall upon the upper strata, they have a negative effect on the accumulation of capital. There is yet another possible expedient: attracting public saving by raising interest rates, for which purpose bank interest rates are also raised, through credit restrictions. If this is done, then in the best of cases, even if it proves possible to reduce the fiscally generated inflation, this will only be achieved at the cost of compressing the global product and employment, as in the previous case.

Raising interest rates obviates the flight of resources to the exterior; moreover, in order to obtain Eurocurrency credits it is usual to place severer restrictions on credit in order to make these operations attractive.

This attraction of external resources obviously has inflationary consequences which counteract the domestic effects of the credit restrictions, as well as making the cost of working capital of enterprises excessively high and thus further accentuating the ill-effects. What is to be done, then, in order to contain price rises? The answer in the view of some, is simply to resort to overvaluation of the currency in order to stimulate competition from imports, to the

detriment of domestic production and exports. The effects of these monetary manipulations carried out under the aegis of the laws of the market are too well known for us to spend more time on them.

In short, although monetary orthodoxy and fiscal orthodoxy were effective in other times, they have now ceased to be so: the monetary authority has been knocked off his throne. This is the consequence of the changes which have taken place in the social structure as the technology of the centres has penetrated and the power relations have changed.

It will thus be understood that for those who attribute inflation to the trade union and political power of the labour force, it seems necessary to eliminate this power by interrupting the process of democratization and at the same time dismantling the State apparatus in order to make it "subsidiary". It cannot be denied that the restoration of the surplus in this way could have positive dynamic effects if the accumulation potential were devoted to productive investments. If this were done, it would gradually eliminate the exclusive tendencies of the system. Unfortunately, however, this has proved to be a tragic illusion, for in the very far from austere capitalism of the periphery, the restoration of the surplus flagrantly favours the privileged consumer society rather than the accumulation of reproductive capital.

There is no doubt in the minds of some that the use of the power of the State to compress wages can reduce domestically generated inflation. If such inflation continues, it is maintained, this is because the budget deficit persists, even though in these circumstances fiscal orthodoxy once more comes into its own. Other factors which frequently influence this state of affairs are the abuse of consumer credits or investments, or international inflation. In reality, the objective has usually proved to be not so much that of checking inflation as restoring the surplus through this compression of wages. Once this objective has been achieved, inflation once again becomes tolerable to the dominant groups, provided that the periodic adjustments of wages do not prejudice the surplus.

The power of the State is used in favour of the upper strata. This statement calls for an

explanation, because these strata include both productive entrepreneurs and financial entrepreneurs. An excessive rise in domestic interest rates over international rates considerably increases the power of the second group, and thus gives rise to an unusual dichotomy. On the one hand, the compression of real wages makes it possible to restore the surplus and favour productive capital, but on the other hand a frequently substantial part of the surplus is transferred to the benefit of the financial groups, thus strengthening their political weight. It can therefore be seen that the raising of interest rates is much more than a simple technocratic aberration.

The foregoing discussion on the ineffectiveness of monetary policy for containing the inflationary spiral leads us to emphasize the structural nature of the phenomena, which are beyond the reach of such policy in the course of the structural changes.

These changes and the changes in the power relations which accompany them increasingly tend towards a crisis of inflation. *In reality, the crisis is a consequence of the inner logic of peripheral capitalism, which does not obey any regulatory principle in the distributive struggle.* The counterpart of this struggle lies in the changes undergone by the social composition of consumption.

The increase in the private and social consumption of the labour force and the civil and military consumption of the State (and in its non-productive investments) do not take place at the expense of the privileged consumption of the favoured social groups, but are superimposed on it. Thus, the pressure of the labour force and of the State inevitably moves towards

a structural imbalance between the rate of consumption and the rate of accumulation of capital.

It will be understood, then, that although the crisis of the system is inflationary, it does not permit monetary solutions, as was possible in earlier phases of the structural evolution.

As already noted, monetary instruments are essential in the appropriation of the surplus and also in its defence, when that structural imbalance takes place. Their economic and social cost is considerable, however, since this defence requires unemployment in order to break the power of the labour force and make it shoulder all the consequences of the deficit: a solution which is not only not a real solution but also could not possibly last for any length of time.

Nothing lasting can be achieved without a rational transformation of the system in order to secure the macroeconomic regulation of the distribution of the fruits of technical progress, consumption and accumulation through proper planning of the use of the surplus. It should clearly be understood that it is not a question of restricting global consumption, but of changing its social composition. It is necessary to restrict it, it is true, in the privileged groups, so as to raise the rate of accumulation of reproductive capital and thus increase the consumption of the unemployed and of the strata of lower productivity. *This could not result from the market forces, but only from changes of great structural significance. There is no contradiction between these changes and the market. On the contrary, they could improve its economic efficiency and give it the social efficiency which it now largely lacks.*

IV

The structural imbalance with the centres

The rate of development of the periphery is limited not only by the insufficient accumulation of reproductive capital, as we have just explained, but also by the tendency to structural imbalance with the centres, with which we shall now deal.

This imbalance stems essentially from the historical lag in the development of the periphery, which, in turn, is explained by the centripetal nature of advanced capitalism.

Because of this centripetal nature, the centres are not interested in the achievement by

the periphery of development with deep social features; its development only affects them to the extent that it suits their own development, generally regarded from the viewpoint of the interests of their enterprises.

Such a downright statement calls for some justification. It is to be explained primarily by *the centripetal dynamics of capitalism in the advanced countries. In the final analysis, this dynamics comes from a persistent phenomenon in the development of the centres, where the fruits of their technical progress have been retained throughout their historical evolution.* No matter how these fruits may be distributed within the centres, they are in no case passed on to the periphery through the lowering of prices. *For better or for worse, capitalism has never functioned as conventional theories assume.*

This fact has had and continues to have profound consequences; in effect, the increase in the global product through unceasing increases in productivity gives rise to the expansion of demand within the centres themselves and continually stimulates the technical innovations which diversify goods and services. Likewise, these increases in productivity permit a considerable accumulation of capital in order to pay for all this. Thus, technical progress and industrialization have been concentrated in the advanced countries, leaving to the periphery the ancillary role of providing them with raw materials, with which the periphery pays from its imports of the manufactures it needs.

This is a very well known fact, but its consequences have not always been grasped in their true significance. *To begin with, the periphery remained on the sidelines of industrialization in the early development of capitalism and has since participated in the industrial trade of the centres only to a very limited extent. The periphery has not ceased to be peripheral, in spite of its industrialization.* It has still not been able to incorporate itself into the impressive technological advance of the centres. It is towards this goal that the progressive transformation of its production structure must be oriented.

The industrialization of the periphery was a structural requirement for development, al-

though it was initiated for conjunctural reasons mainly during the Great Depression, in order to counter the adverse consequences of the economic contraction in the exterior. *And it had necessarily to be carried out through import substitution. It could not be otherwise as long as the international system of trade and payments was split up.*

It was a structural requirement, because the exports of primary commodities could only absorb a relatively small part of the considerable proportion of the labour force which was excluded from the benefits of development.

There can be no doubt that if there had been any possibility of exporting manufactures, this should have been done at the same time as substitution, in those early days of industrial development. When this possibility did arise, however, there was generally reluctance to embark on exports, or even outright opposition to them: such was the inertia of substitution policy.

This inertia was finally overcome in the long period of extraordinary growth rates of the centres, which lasted up to the first half of the 1970s. It was then that the pendulum swung to the other extreme, as already noted. *There was noteworthy growth of exports of manufactures, while import substitution and the policy of developing trade in manufactures in the Latin America region lost momentum.*

This occurred in spite of the fact that the centres continued their determined protectionism against the manufactures which the periphery was now in a position to export just like its primary commodities. In contrast, the centres engaged in an intense process of liberalization of their industrial trade with each other over the whole wide range of goods which were continually being diversified through technological innovation.

Thus, just as the periphery had previously remained on the sidelines of industrialization, it was now barely able to participate in the flourishing mutual trade of those boom times of the centres. It was still far from being able to take advantage of the innovations of the centres in its own production, except in the case of a few goods where the innovations were no longer novel, since they had been overtaken by newer ideas.

It will be understood, then, that now that these times are over and the crisis of the centres has arrived, we are once again witnessing the persistent tendency towards structural imbalance. This tendency is explained by the relative slowness with which demand tends to rise in the centres for the primary commodities and industrial goods which the periphery could export on a large scale, in contrast with the ever-increasing intensity of the demand for the technologically advanced goods which we need to import from the centres.

Our own rate of development is now suffering the unfavourable consequences of the crisis which is affecting the centres. The growth rate of exports has suffered, and they are now insufficient to enable us to recover our growth rate and combat unemployment, while even less can we dream of raising this rate in order to absorb at a rising level of productivity the great human masses which have remained relegated to the bottom of the social structure.

Without prejudice to the conjunctural measures already mentioned, it is essential to impart new vigour to the substitution policy, while however seeking to overcome the fragmentation of our industrial process through trade. *It is not a question of reducing the imports from the centres below our capacity to pay for them, but rather of bringing them into line with the limitations of this capacity by changing their composition and eliminating from them those goods where we have already achieved or could achieve technological production capacity, so as to import other goods which, because of their advanced technological nature or because of our shortage of natural resources, are beyond our possibilities in our present stage of industrial development.*

Here we arrive at a very important aspect which is worth emphasizing because it continues to give rise to lamentable misunderstandings. *For a given rate of development of the periphery, the intensity of substitution policy depends fundamentally on the extent to which the centres respond to a sustained export effort on our part: that is to say, on their own growth rate and on the intensity of their protectionism.* Expressed in more recent terms we could say that the rational degree of openness of the periphery does not depend so much on its own

decisions as on the degree of openness of the centres.

The old principle of comparative advantages remains valid. From every point of view, it would be in the interests of the periphery to make a vigorous effort to export technologically less advanced goods in order to import other technologically more advanced products. This depends fundamentally, however, on the degree of receptiveness of the centres. When we only exported primary commodities, there could not be any comparative advantages in the export of manufactures, because there were simply no industries for producing them. Now that we are in a position to do so, however, *the limited receptiveness of the centres is a serious obstacle to the development of our comparative advantages.*

Development therefore calls for big changes in the production structure, and the question of whether these changes place the emphasis on industrialization for export as well as for satisfying domestic consumption, or on production for domestic consumption instead of promoting imports depends in the final analysis on the amount of our exports that the centres are willing to admit: that is to say, on our capacity for absorbing imports from the centres. In view of the limited nature of this capacity to import, we must use it in the best possible manner so as to make the changes in our production structure which are in keeping with the dynamics of our own development. *There is no question, then, of doing without the centres, since we need an enormous quantity of goods from them, as well as capital and technology, just as they need the periphery. But we must link ourselves with them in line with the requirements of our own dynamics and in keeping with our own decisions. This cannot be the spontaneous result of the action of the laws of the international market, where the technical and economic superiority of foreign enterprises is all too manifest.*

The historical lag in our industrialization, because of the centripetal dynamics of advanced capitalism and our technical and economic inferiority, prevented us in earlier times from developing our industrialization, and it is now preventing us from advancing in it unless there is reasonable protection for import substi-

tutes and a corresponding subsidy to promote exports of manufactures. There can be no doubt that this represents an economic cost, but it is more than offset by the fact that it makes possible a higher growth rate of the product than that which would result from the application of the laws of the market at the international level.

The belief has been spread around that it is better to seek this objective through devaluation of the currency within the play of the laws of the market. Devaluation is fully justified in order to take account of domestic inflation, but it is not a suitable instrument for industrial promotion, since it brings with it the relative deterioration of the prices of competitive exports. Moreover, it means altering all domestic costs and prices in order to influence a small proportion of foreign trade, while its effects can only be of short duration, because of the adjustments called for by the distributive struggle.

It is worth remembering that this deterioration has a structural explanation. It is due to the disparities in demand which go hand in hand with our backward level of development and have a decisive influence on the productive structure of the periphery. These disparities, in turn, are due to the great structural differences with the centres. This is why industrialization is indispensable. In earlier times it was thought—and there are some who continue to think this under the domination of the centres—that instead of industrializing to the full it would be better to increase productivity in primary activities. But what is to be done with the labour force which can no longer be absorbed by those activities? If it is used to increase primary production beyond the purchasing capacity of the external market, a tendency to a relative deterioration in prices will soon be shown. Industrialization is the prime form of avoiding this or at least reducing its seriousness. Protection, just like subsidies, helps to offset this tendency by diverting productive resources to industry.

A great contrast should be noted here. Whereas the centres retain the fruits of their technical progress, the periphery tends to transfer them because of its social heterogeneity and the disparities in the income elasticity of demand.

This tendency towards deterioration which is so adverse to the development of the periphery suits the interests of the centres, of course. Deterioration in other countries suits them, but not when it is in their own countries, because when it affects their own primary production they take resolute action to combat this tendency.

We noted earlier that the tendency to structural imbalance with the centres has once again begun to manifest itself with the adverse effects of the drop in their growth rate, aggravated by the high prices of petroleum imports. Moreover, as already noted, important conjunctural elements are in action in the centres, to which the periphery must reply with a similarly conjunctural policy. A clear distinction must be drawn, however, between this policy and the structural need to undertake a new policy of substitution of imports from the centres. The imports mainly concerned are intermediate and capital goods and certain goods resulting from technological innovations which are or could be accessible to us.

For economic and technological reasons, it is essential that this substitution should take place in a broader area than that of national markets. The centres have not favoured this type of co-operation among Latin American countries, and much less with other countries of the periphery. It is conceivable, however, that their enterprises might be interested in viewing it more favourably and in participating in this new and promising stage of industrialization of the periphery with their capital and technology, in line with suitable rules. Obviously, if they are given the choice between continuing to export certain goods and participating in their substitution, they will choose the first of these. But if there is firm determination on the part of our countries to formulate and put into practice substitution programmes aimed at broad markets, it is possible that the centres will not waste the opportunity to take part in this. The support of the Inter-American Development Bank and the World Bank would likewise be very important in this. As far as I can remember, the recent economic report of the latter organization represents the first time that it has mentioned the need for a substitution

policy and for the promotion of exports of manufactures.

It is necessary to take a broad view of these possibilities. These new forms of industrialization concerted between countries could constitute a very important step forward in our gradual incorporation into trade in technologically advanced goods with the centres. It should be remembered that import substitution was the prior step to the subsequent export of manufactures. Undertaking new forms of substitution and mutual trade within the Latin American area —without prejudice to certain trade possibilities with other countries of the Third World— could form the basis for this new type of international linkage. *Substitution industrialization, for all its faults, represented our response to the Great Depression. Industrialization in broader markets must be our response to the structural manifestations of the present crisis.* It could be a response offering great possibilities, if we proceed in a rational and determined manner with the firm intention of gradually abandoning our position as peripheral countries.

Up to what point is such an important structural change justified? Are we not perhaps exaggerating the structural nature of the crisis in the centres?

It is necessary at this point to make a brief reference to this crisis, which is far from having been clarified. I am inclined to see in the crisis of the centres, too, a case of structural imbalance between consumption and accumulation, due to the considerable changes which the power relations have undergone.

The extraordinary consumption of the upper strata tends to spread rapidly downwards, and there has been a very marked increase in social consumption through the State. The latter also labours under enormous and ever-increasing military spending, or, if preferred, military consumption. All these superimposed forms of consumption tend to weaken the rate of accumulation of reproductive capital.

The continuous growth of such capital is essential in order for employment and productivity to increase. Consequently, this weakening has had an unfavourable influence in this

sense, in addition to the effect of conjunctural phenomena.

There has thus been a disturbance of the ideal dynamic sequence of the system: increased productivity, greater accumulation, followed by a further increase in productivity.

How are we to restore this dynamic sequence? The only solution, in my view, is to change the social composition of consumption. It is necessary to slow down its growth among the most highly privileged —above all in the top strata— in order instead to accumulate more resources and increase employment and productivity so as to expand the consumption of the least privileged.

This is a solution which is apparently very simple, but politically very difficult: to such a point that extraordinary rises in interest rates have been resorted to in order to cover the fiscal deficit through saving, while simultaneously reducing private consumption in order to cover the heavy spending of the State. We already know what the consequences of this measure are.

This is not all, however. While on the one hand the rate of accumulation of reproductive capital has suffered, the substitution of imported petroleum and the campaign against degradation of the environment make it essential to increase capital formation in one way or another to meet the bigger capital needs per unit of the product.

I do not see in what other way it would be possible to solve this structural crisis. No doubt the increase in the rate of productivity thanks to technical innovations, which has already begun to be observed, will be a great relief, but it also requires increased amounts of capital.

These considerations lead me to believe that the estimates made by very well-informed sources that a low growth rate will persist during the current decade in both the main growth centre and in the other centres are probably very sound.

And if these estimates turned out to be mistaken? Would we have gone too far with changes in our production structure, and would we have to go back on the road we have followed? By no means: it would merely be necessary to reduce the intensity of new changes aimed at the domestic market and increase the orienta-

tion towards the exterior. In other words, we should practice a certain policy of greater openness on the basis of facts and not through the

imposition of doctrines which completely overlook structural disparities between our countries and the centres.

V

Reflections on the search for a new road to development

We must face up to serious conjunctural problems without having solved the great structural problems of our development. We have generally lost sight of the latter during the boom phases of the economic cycle, when some resources were available to set about their solution, but they have arisen once again in the phases of depression, when it is much more difficult to undertake profound changes.

This is what is happening now, with the further aggravation that rather than a cyclical downturn in the centres the situation is one of a structural decline in the growth rate. This fact, together with other adverse factors, means that there are external structural limits on any reactivation policy, as well as the internal limits.

Be that as it may, the conjunctural reactivation policy must be fitted into a structural framework in order to intertwine certain immediate measures with others which will take longer to bear fruit.

The structural problem of the insufficient productive absorption of the great relegated masses is aggravated by conjunctural unemployment, above all in those countries which, through their own policies, have provoked a contraction in their economic activity, with very serious social consequences. This is a very important reason for not putting the reactivation off any longer.

If it is not to bring about a perilous accentuation of the tendency to external imbalance, the reactivation calls for severe containment measures. We have unfortunately not yet arrived at really large-scale solutions as regards external indebtedness, and here the reactivation policy runs into a severe stumbling block. It is urgently necessary for the IMF and the World Bank to take this matter resolutely in hand by extending repayment terms and reducing interest rates, even through subsidies.

The balance-of-payments difficulties would thus become more manageable and permit the reactivation to be more extensive. Moreover, improvement of the capacity to receive new long-term external resources would give a positive impulse to programmes aimed at correcting the external structural imbalance.

From the internal point of view, the reactivation calls for the readjustment of the debts with the banking system as a matter of top priority, especially in the case of certain economic activities which have suffered particularly seriously because of the overvaluation of currency and the very high rates of interest. Time should be given to react, but only provided that these and other emergency measures are taken first.

In addition to certain selective import measures it is necessary to introduce a policy aimed at correcting the external imbalance of a structural nature. This calls for the energetic promotion of exports and the substitution of imports from the centres within larger spaces than the national markets. Private enterprises, and where appropriate the State enterprises too, are well equipped to do so in a harmonious manner together.

Anti-inflationary policy must also be carried out within a structural framework. Even if it is possible to reach consensus on an incomes policy, this will be socially vulnerable if we do not tackle in some way the problem of the economic surplus and its macroeconomic regulation. The surplus must be restored and increased in order to raise the rate of accumulation of reproductive capital, but this could not be done by making all the burden fall on the labour force. I have been repeatedly bringing in this matter in order to try to spark off the unavoidable discussion on this point. The labour force

must share in the surplus and in the responsibility for accumulation.

By way of conclusion, I would like to reiterate that in the past days of great prosperity of the advanced countries we did not clearly see the centripetal nature of their dynamics. The Latin American periphery, too, had extraordinary growth rates which had not previously been registered over such a long period. We therefore allowed ourselves to be dazzled, without fully realizing that our development did not interest the centres except to the extent that it suited their own needs, and the concern felt in earlier periods about the tendency towards external imbalance drifted away. In the correction of this tendency, the periphery has a fundamental responsibility. It must take advantage of the experience provided by a past which is still not so far off.

Our exports of manufactures began to show their potential, and we cherished the illusion, which is now rapidly fading, that there would be unlimited receptiveness for them on the part of the centres. Import substitution fell into singular disrepute, discouraging integration efforts even of a modest nature. It is quite true that the centres built up a very vigorous mutual trade in manufactured goods. The products involved, however, were new goods or new models of goods incessantly developed by successive technological innovations, and they were far from the reach of the Latin American periphery. It is in this type of goods that the comparative advantages of the centres lie: in opening up new fields of advanced industrialization and producing and trading every type of goods for which demand grew at an unusually rapid rate, urged on by these innovations and by the mass media. But the centres did not acknowledge and still do not acknowledge the advantages of the periphery as regards the production of those goods which, by virtue of the periphery's resources and the technology acquired by it, enable it to compete on an increasingly large scale in the markets of the centres. What a strange contradiction between the facts and the much-vaunted virtues of comparative advantages!

The old tendency towards external imbalance of a structural nature has once again arisen, and the centres have done nothing

worthy of note to co-operate with us to correct this situation.

Furthermore, those times of great prosperity accentuated to an impressive degree the imitative aspects of our development. We enthusiastically brought in the forms of consumption of the advanced countries, to the clear detriment of the accumulation of reproductive capital, which was also adversely affected by the relentless siphoning-off of income from the periphery by the centres.

The fate of the great masses of human beings relegated to the bottom of the social structure urgently called for an increase in the rate of accumulation of reproductive capital in order to raise their very low productivity and their scanty income, to say nothing of their dignity as human beings. We did not effectively attack the exclusive tendencies of the system in a manner in keeping with the magnitude of the problem and the rapid population growth.

After we had only gone a short way along our own road to industrialization, it became evident that the laws of the market, no matter how great their contribution to economic efficiency might be, did not lead to social efficiency. The spontaneous operation of the system is far from bringing about an equitable distribution of the fruits of technical progress, since this is prevented by the structural appropriation of a large part of these fruits by the upper strata.

On the other hand, as the process of democratization took place, the redistributive power of the labour force was gradually taking shape and acting as a counterweight to this power of appropriation of the economic surplus. This was essential in order to correct the fundamental inequality of the system, as also was the redistributive power of the State. With all its faults, the results were frankly favourable: there was a substantial improvement in the private and social consumption of the labour force, which was being absorbed in employment of rising productivity, although the presence of socially relegated masses at the bottom of the system continued.

This improvement and the growth of the State were superimposed however, on the privileged consumption of the upper strata. This process of sharing did not obey any regulatory

principle whatsoever. It did not owe anything to the free play of the market forces, in spite of the theories which claim that there is an underlying equity in their functioning.

This superimposition of different forms of consumption has gradually weakened the rate of accumulation of reproductive capital, although not of other forms of capital which lack the dynamic virtue of multiplying employment and productivity. This structural tendency to imbalance between consumption and investment culminates, through the inherent inner logic of the system, in persistent social inflation, where monetary policy inevitably runs into disastrous difficulties. It is simply not possible to substitute such a policy for structural changes which go to the very root of the conflictive tendencies in the system.

The centripetal nature of advanced capitalism is the principal source of the backwardness of our development, our economic and technological inferiority, and the economic fragmentation of the periphery. These are the conditions which have shaped both the past hegemony of advanced capitalism and the new manifestations of this hegemony. Certain theories which have been disseminated and continue to be disseminated on the periphery correspond to this. Whatever their scientific bases may have been in other times, they are now merely an expression of the fundamental lack of interest of the centres in anything which does not suit their own development.

So it was with the former system of the international division of labour, which is contrary to our planned industrialization. The insistence on this system also led the centres to deny that there is a tendency for the periphery to transfer to the centres the fruits of the technical progress in its own primary production: a tendency which only industrialization can counteract. It also explains their opposition to import substitution, until the transnationals found sources of advantage in this.

These transnational corporations were not, of course, an effective and decisive instrument of internationalization of peripheral production, as they generally pretended to be, but were rather agents for the internationalization of imitative consumption. Now, in more recent times, the periphery has fallen back incautious-

ly into a macroeconomic design involving the reduction of industrialization in favour of generous stimulation of imports, mostly of consumer goods, on the basis of the precarious resources provided by the Eurocurrency market.

What are we to say of the policy of economic contraction as a means of counteracting the external imbalance?

It should be understood that these and other lines of thought were promoted from other latitudes. But do those who have adopted them so enthusiastically on the periphery realize what they signify and involve for our development?

This is another of the flagrant manifestations of the hegemony of the centres: the intellectual dependence of the periphery. Please allow me to make a personal admission at this point. In those far-off days when I was a young man, I felt positive reverence for the economic theories of the centres. I began to lose this during the depression, however, and I have continued to lose it, so that very little of it remains. The centres are no longer a model for me. On the contrary, I think I have acquired an acute critical sense regarding what they do and think, for the impressive advance registered in other scientific disciplines has not yet reached that of the theories of development, caught as they are in the musty toils of the thinking of over a century ago.

How could I feel otherwise, when during the great depression I witnessed so many tremendous errors? In the main centre of capitalism, in the midst of a cyclical decline, the authorities brutally restricted credit and drastically increased protectionism, bringing economic contraction and unemployment to the entire world. Nothing was left at that time of the multilateral system of trade and payments, whose reconstruction was to last for many years.

All this must sound like a picture from other ages. The years of prosperity came, and we began to believe that we had really finally learned to regulate the economy of the centres. Until the present crisis in the centres rocked the entire world. This crisis does not represent the decadence of capitalism, but rather the unsuspected overflowing of its great vigour.

We have not yet found new channels for containing it.

This is a crisis of facts and of ideas. It was not possible to contain this overflow, nor the structural imbalances represented by the expansion of the money supply, which, after beginning in the United States, ended in the form of world-wide inflation. It is a structural imbalance which cannot be corrected, any more than other problems, through the wild raising of interest rates, which spreads unemployment throughout the capitalist world, with serious economic, social and political consequences.

The centres, too, must rectify the course of their development, but it does not seem that they are willing yet to do so. In spite of all their unfortunate consequences, however, crises often have the virtue of renewing ideas. I believe we are now more inclined to take the necessary measures, because we have longer experience of the great vicissitudes of development. I do not believe that orthodox socialism is outside this need for renewal either. Everywhere the active presence of the State is needed: not a subsidiary State, but one that regulates and promotes development, although not necessarily producing goods.

The quest for an economic incentive, inasmuch as it spurs the initiative of enterprises and individuals, is a powerful generator of efficiency and growth, but it does not solve the

serious problems which technology has brought with it as regards the environment, natural resources and social equity. This is where the State has an absolutely fundamental role to play, in a manner compatible with the market, with its great economic and political importance.

This is not all, however. The economic incentive increasingly goes beyond the sphere of business and penetrates into areas which it should never enter, because it perverts great values and degrades human fellowship.

No matter how effective the enterprise may be within the limited sphere of its own rationality, in reality it lacks a social and ecological horizon. Attaining such a horizon is an urgent task in the centres, and much more so on the periphery.

Consensus must go beyond the limited rationality of the market, for ethical objectives of an increasingly pressing nature are arising. Technology has an enormous potential for increasing human well-being, and has begun to show this in a limited portion of the planet. But it is running the imminent risk of losing this potential because of the limited rationality I spoke about. We must not do away with this rationality, but extend it to include those great objectives without which development cannot achieve true social legitimacy.