

CEPAL

Review

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On the conception of the centre-periphery system

*Octavio Rodríguez **

During the nearly thirty years of its existence CEPAL has been devoting continuous effort to the interpretation of Latin American development. The principal object of the present article is to show that this work has been based on a set of fundamental ideas, which, formulated in the earliest CEPAL documents, later branched out in various theories and policy proposals bearing on such questions as international economic relations, industrialization, structural obstacles, inflation, etc. In addition, after refuting some of the criticisms levelled at CEPAL thinking from the standpoint of orthodoxy, the author ends by making the controversial assertion that despite the effort expended, CEPAL has not yet succeeded in producing a complete interpretation of the problems relating to employment, capital accumulation and social relations.

The Director of the Review and his collaborators hope that further studies will make it possible to remedy these deficiencies and arrive at a general theory of development in the centre-periphery system: a theory which cannot, of course, be purely economic, given the variety and complexity of the factors involved.

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Introduction[Ⓞ]

It frequently happens that interpretations of underdevelopment originating in the great industrial centres see it in contrast with an ideal standard of reference, which is often left implicit: the long-term economic development pattern embodied *grosso modo* in the various growth models of neoclassical and post-keynesian cut. By basing their analysis of underdevelopment on these conceptual foundations, such interpretations are led to explain it in terms of the factor or group of factors which retard or hinder growth; and therefore to regard it as an anomaly, in face of the image of normality tacitly deduced from the advanced societies, on the grounds of their steady and by now secular expansion of productivity and income.

In contrast, the Latin American interpretations of underdevelopment which form the so-called 'structuralist current of thought' do not envisage this phenomenon as a mere absence of growth, but as a specific process, as the mode of development peculiar to certain economies. To put it more exactly, this approach contemplates the existence of a single economic system, whose bipolar evolution generates at one and the same time development in the centres and underdevelopment in the periphery; and conceives of the latter as deriving from a process of structural change in the peripheral economies, which occurs within the framework of their relations with the central economies, and inherent in which is the inequality between the two types

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of economy, as regards the degree of penetration and diffusion of technical progress, and the levels of labour productivity and average real income.

Most of the studies that adopt this approach were published by the Economic Commission for Latin America (CEPAL). Focusing attention on the official CEPAL documents—whether or not they bear the signature of their respective author—, it can be seen that their main contributions to economic theory appear in four major areas: the theory of the deterioration of the terms of trade; interpretation of the industrialization process; analysis of the structural obstacles to development; and inflation theory. Along with these, others were gradually made in the field of economic policy, ranging from those of broader scope, such as general criteria for development policy or international co-operation, to the more specific, such as tariff protection criteria. What is referred to here as CEPAL thinking embraces the whole body of these contributions to the interpretation of the development and operation of the Latin American economies, and to the formulation of development policy and economic policy in the region.

CEPAL thinking and the structuralist current of thought—to which latter independent authors with a similar orientation also subscribe—thus differ perceptibly from the interpretations of underdevelopment directly deriving from conventional economics. As at many other turning-points of economic thought, here too it can be noted that the work of theory-building was preceded by the presentation of a set of ideas which are more or less consistent with one another, and which constitute a new and systematic vision of the reality that has to be grasped.

To this set of general ideas on underdevelopment the term 'conception of the centre-periphery system' is applied. To present them in systematic form is the main purpose of these notes (section I), while at the same time it is shown that they are contained in certain key documents, published by CEPAL in its earliest days; and that although they are propounded at the *pre-analytical* level, they have formed from the very outset a relatively coherent whole.¹

This presentation is followed by a brief description of the other components of CEPAL's thinking (section II), with the limited aim of showing that they are largely developments of various aspects of the original conception, and that accordingly, while they do not form a completely coherent whole, their degree of unity is much greater than is usually recognized.

¹These documents are: *The economic development of Latin America and its principal problems* (hereinafter referred to as *Principal problems*) and the *Economic Survey of Latin America, 1949* (hereinafter referred to as *Survey*), the first mimeographed texts of which date from the second half of 1949 and the first half of 1950, respectively. To facilitate consultation of these documents, the quotations refer to the following editions: Raúl Prebisch, "The economic development of Latin America and its principal problems", *Economic Bulletin for Latin America*, Vol. VII, No 1, United Nations publication, Sales No: 62.II.G.1 and 62.II.G.4, February 1962; CEPAL, *Economic Survey of Latin America, 1949* (E/CN.12/164/Rev.1), New York, United Nations publication, Sales No: 51.II.G.1, January 1951. (For a re-issue of the relevant part of the *Survey* in Spanish only, see Raúl Prebisch, *Interpretación del proceso de desarrollo latinoamericano en 1949*, Series commemorating the XXV anniversary of CEPAL, Santiago, Chile, 1973.) Although the conception of the centre-periphery system is fundamentally contained in these studies, the first 10 documents listed in section B of the bibliography are particularly illustrative of the emphasis placed on several of their essential ideas.

A review of the most important critiques appearing in the British and American literature of economics (section III) helps to clarify and define the basic features of the initial conception and of CEPAL's thinking itself; and in particular, it reveals that this latter is not the rough and simple ideological construct which, even today, some economists brought up in the orthodox tradition allege it to be.

Lastly, an attempt is made to show, by way of a first approximation, that the concept of the centre-periphery system and the analytical instruments most

directly based on it constitute the outline of a theory of the long-term economic development of the so-called peripheral economies – or a theory of underdevelopment, whichever is preferred –, whose chief limitation, setting aside a few inconsistencies, is the very nature of the approach adopted: its structuralist character (section IV).

Bibliographical references are included, relating to the background of the centre-periphery conception, to CEPAL thinking, to the critiques published in the centres and to the controversy regarding the structural roots of inflation.

I.

The conception of the centre-periphery system

1. *Formation and structural characteristics*

From the standpoint of this conception, economic development finds expression in an increase in material well-being, normally reflected in a rise in real per capita income, and conditioned by the improvement of average labour productivity. This last is regarded as dependent upon the adoption of indirect – or, as they are sometimes called, 'capitalistic' – methods of production, which entail the availability of more capital per worker employed. In turn, the higher level of capital density is gradually attained as accumulation proceeds and as technical progress gives it impetus and ensures its continuity.²

Thus, considered at the highest level of abstraction, the ideas expressed on

economic development coincide with those contained in broad outline in the neo-classical and Keynesian growth theories, which regard it as a process of capital accumulation – closely linked to technological progress –, whereby capital density is gradually raised, labour productivity increased and the average level of living improved.

Setting aside this common feature, however, the conception under discussion differs markedly from the current theories of long-term growth, inasmuch as it does not seek to interpret the process of accumulation and technical progress in a typical capitalist economy, considered in isolation, but to shed light on the characteristics assumed by that process when capitalist production techniques are propagated in the scenario of a world economic system composed of *centres* and *periphery*.

Implicit in this pair of concepts is the idea that development has been unequal

² *Survey*, pp. 3 and 6-7.

from the start: the economies that were the first to be penetrated by capitalist production techniques are considered *centres*; the *periphery*, on the other hand, is constituted by those economies whose production has lagged behind, technologically and organizationally, from the outset. But the concepts of centre and periphery involve more than this simple idea of initial differentiation; it is maintained that they gradually took shape as and to the extent that in the backward areas "technical progress... usually only penetrated where it was needed to produce foodstuffs and raw materials at low cost for delivery to the great industrial centres".³

In other words, centres and periphery are regarded as the historical outcome of the way in which technical progress was propagated in the world economy. In the centres, the indirect methods of production generated by technical progress spread, in a relatively short space of time, throughout the whole of the production system. The periphery got off to a late start, and during the period known as that of 'outward-directed development', the new techniques were introduced only in the primary-exporter sectors, and in some economic activities directly connected with exports which came into existence alongside sectors that were backward in respect of the penetration of the new techniques and the level of labour productivity.⁴

³ *Survey*, p. 3.

⁴ The so-called 'outward-directed development' has not been an object of exact analysis in the CEPAL documents, but detailed analyses have been made in studies by several of the writers forming the structuralist school of thought. The CEPAL publications contain only brief references to this model embodying the general ideas indicated in these remarks. For one

As the impulse to its formation was given by the striking expansion of the centres during the phase of outward-directed development, the structure of production in the periphery acquired two essential features. One of these is its specialized or unilaterally developed character, since a substantial proportion of productive resources was applied to successive enlargements of the primary-exporter sector, while demand for goods and services, as it increased and became more diversified, was largely met with imports. This structure is, furthermore, heterogeneous or partly backward, in the sense that sectors where productivity reaches as high levels as anywhere in the world—in particular the export sector—exist within it alongside activities using outdated technologies, where the level of labour productivity is far below that attained in similar activities in the centres.⁵ In contrast with the periphery's specialized and heterogeneous structure of production, that of the centres is *diversified and homogeneous*.

of these allusions, see Raúl Prebisch, *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951, pp. 6-7. (Published in Spanish only: *Problemas teóricos y prácticos del crecimiento económico*, United Nations publication, Sales No: 52.II.G.1, and also in Series commemorating the XXV Anniversary of CEPAL, Santiago, Chile, 1973.)

⁵ The structure of production should be understood to comprise the sectors producing goods, while the economic structure also includes the physical infrastructure and the services sectors (including services provided by the central government). In the context of the ideas discussed here, the characteristics of the structure of production condition those of the economic structure, for which reason reference will be made only to the former, except where allusion to the latter is indispensable. The expression 'structural dualism' and other similar terms have been avoided in describing the

Similarly, on this structural differentiation is based the distinction between functions proper to the traditional patterns of the international division of labour: in the world economic system, the function of the periphery is to produce and export raw materials and foodstuffs, while that of the centres is to produce and export industrial goods for the system as a whole.⁶

2. *Terms of trade and fruits of technical progress*

As will later be seen, in addition to the static connotation implicit in the foregoing description of the characteristics of their structures, the concepts of centre and periphery have also a dynamic connotation: they are intended to provide an explanation of the development process

technological lag, in view of the connotation of social backwardness which generally accompanies the concept of dualism in the literature of under-development. It was thought preferable to resort to the term 'heterogeneity of the structure of production', which tacitly incorporates the concept of 'structural heterogeneity'. This concept, although developed at a much later date (on the basis of an article by Aníbal Pinto, "Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano", *Trimestre Económico*, No 125, January-March 1965), has the advantage of clearly referring to the relatively low levels of labour productivity, observable in the most widely varying sectors of the peripheral economies. Hence in the backward sectors, defined in terms of this criterion, the patterns of organization of production may be either capitalist or pre-capitalist. On the concept of dualism, see Yoichi Itagaki, "A review of the concept of the 'dual economy'", *The Developing Economies*, Vol. VI, No 2, June 1968. An article by Aníbal Pinto, "Naturaleza e implicaciones de la 'heterogeneidad estructural' de la América Latina", *Trimestre Económico*, No 145, January-March 1970, briefly contrasts the two concepts.

⁶ See *Survey*, p. 4; *Principal problems*, p. 1.

that starts from the basic hypothesis of its inherent inequality, which implies that during the long-term evolution of the world economic system the gap is widened between these two poles, between the developed character of the centres and the underdevelopment of the periphery.

The assumptions relating to the disparate evolution of average levels of productivity and income constitute the most direct expression of this dynamic content. Technical progress is held to be more rapid in the centres than in the periphery; it is likewise postulated that the increases in labour productivity—consequent upon the incorporation of technical progress into the production process—are also more intensive in industry in the centre than in the primary-exporter sectors of the periphery, and that this in its turn is reflected in the unequal rates of increase of average productivity in the two types of economy; and it is further posited that the growth rates of average real income are unequal too—faster in the central countries than in the less developed economies.⁷ From a conceptual standpoint, these two kinds of inequality—i.e., the dynamic disparity between levels of labour productivity and the increasing difference between average income levels—are interlinked by the postulates relating to the deterioration of the terms of trade. This deterioration is considered to be a demonstrable fact, despite the existence of statistical problems which make its exact measurement a difficult matter.⁸ It is likewise maintained that the phenomenon is the manifestation of a long-term trend inherent in the trading

⁷ *Survey*, p. 74; *Principal problems*, pp. 1 and 4.

⁸ *Principal problems*, pp. 4 and 5.

of primary exports from the periphery for exports of manufactures from the centres.

It is worth while to begin by examining the significance ascribed to this trend, before separately describing its causes. By definition, the deterioration of the terms of trade implies that the purchasing power of one unit of primary exports in respect of manufactures diminishes in the course of time. But more important and more outstanding than this variation in the terms of commodity trade are its implications as regards the real income generated in the production of the goods traded.

A clearer idea of this aspect of the deterioration phenomenon can be given by means of the following equation:

$$y = \frac{L_p \cdot P_p}{L_i \cdot P_i}$$

where L_p stands for the average physical productivity of labour in the production of a primary good; P_p for the price of the said good; L_i for productivity in the production of an industrial good; and P_i for the corresponding price. Obviously, 'y' represents the relation between real incomes (per person employed) in the two activities, measured in terms of industrial goods.

Given the assumption that productivity increases more in the industrial than in the primary sector, the fall in the terms of trade necessarily implies that the relation between income levels will follow a downward trend; and even that average real incomes will become more sharply differentiated through time than levels of productivity. If the same reasoning is applied to centre-periphery relations, it becomes obvious that in view of the hypothesis on the disparate evolution of productivities, the trend

towards deterioration implies that there will be a growing difference between average real incomes, and, in particular, that in the peripheral countries average income will be increasing more slowly than labour productivity.

Such is the general idea contained in the documents in which the conception of the centre-periphery system first takes shape.⁹ It is argued in them that the increases in productivity deriving from the incorporation of technical progress were not reflected in proportional reductions in monetary prices, but that the latter rose instead of falling, and that the increases were greater for the industrial production of the centre than for the primary production of the periphery. Since productivity also rises more in the centre, the deterioration of the terms of trade implies a disparity in the evolution of income per unit of labour by which the centre is favoured.

This, it must be repeated, is the significance of deterioration which is really of interest from the conceptual standpoint. Even if the terms of trade do not deteriorate, the mere inequality of the rates of increase of labour productivity implies a difference in average income levels; if in addition deterioration occurs, the gap between average incomes will grow wider still. To use the CEPAL terminology, deterioration of the terms of trade implies that the fruits of technical progress are concentrated in the industrial centres.

A second significance is attached to deterioration, which is of interest more from the angle of its possible quantitative importance for development. As can be inferred from the foregoing remarks, a decline in the terms of trade implies

⁹ *Survey*, pp. 47-48; *Principal problems*, p. 5.

that in the peripheral economies average income increases less than labour productivity, or, in other words, that these economies 'lose' part of the fruits of their own technical progress, 'transferring' them in part to the great centres. It is alleged that this 'transfer' may be of little importance for the central economies, but will normally have a perceptible negative effect on the development of those forming the periphery of the world economic system.

3. *Causes of the deterioration of the terms of trade*

According to the more general ideas set forth above, economic development is, in the last analysis, a process of capital accumulation and technical progress, the result of which is a steady rise in output per worker. But in relation to the attainment of higher levels of productivity and income, the transformation of the sectoral structure of production and employment is not a haphazard process. As these levels rise, demand expands and becomes diversified, while simultaneously its composition alters: demand for industrial goods and services grows more rapidly than demand for primary commodities. At the same time, higher productivity enables these increasing volumes of demand to be met, by means of a change in the sectoral composition of production, which in turn involves a change in the sectoral composition of employment. The growth rate of both production and employment is faster in the secondary and tertiary sectors than in primary activities. Technical progress in this last sector at once permits and encourages a greater increase in employment in the other more dynamic sectors.¹⁰

¹⁰ *Survey*, pp. 3 and 4.

Nor is the sectoral composition of production and employment a haphazard affair in the development of the world economy. It is understandable that, as the growth of industry in the centre is relatively slow, and furthermore the international mobility of the labour force is very slight, a manpower surplus tends to be generated in primary production in the peripheral countries; apart from the fact that this surplus is produced continuously, since it has its origin in the dynamic forces of development. As employment distortions are gradually corrected within the peripheral economy, by a switch-over of manpower either from backward sectors to the export sector, or from this latter to other incipient modern sectors, including industries, technical innovations appear which once again affect employment requirements. Broadly speaking, these requirements tend to increase more slowly than the huge supply of labour brought into being by technical progress itself, inasmuch as it displaces manpower from the more backward sectors, and has, moreover, repercussions on the growth rate of the population.

The continuous generation of this manpower surplus is the basic cause of the deterioration of the terms of trade. For, as the theory under discussion maintains, this surplus exerts constant pressure on the wages paid in primary production for export, and through them on the prices of the commodities produced.¹¹

Still in accordance with the same argument, the tendency to deterioration manifests itself through the cyclical fluctuations characteristic of capitalism. During the boom periods primary prices rise more than those of industrial pro-

¹¹ *Survey*, pp. 46-47.

ducts, but they fall more during the phases of recession: so much more, indeed, that the prices of the periphery's export products generally lose more during the downswings than they gain during the upswings, whence the long-term trend towards deterioration of the terms of trade.¹²

These price fluctuations and the trend deriving from them are influenced by the fact that in the centres—owing to the relatively greater shortage of manpower and to better trade union organization—the labour force is in a stronger position to obtain wage increases or prevent reductions. They are similarly affected by the advantages that entrepreneurs in the industrial countries enjoy with regard to safeguarding the level of their profits, as compared with entrepreneurs in the periphery, not only because these latter, generally speaking, operate on more atomistic lines, but mainly because the commodities they produce represent the lowest links in the production chain. Demand for the periphery's primary commodities derives from and is dependent upon demand for final goods in the central economies, so that entrepreneurs in economies of this type are in a position to exert pressure, during the downswings, on those who precede them in the production chain, until the decline in monetary prices of the primary commodities they purchase—and at the back of that, the fall in profits and/or wages in the periphery—enables them to restore satisfactory profit conditions.¹³

¹²*Survey*, p. 58; and *Principal problems*, p. 6.

¹³*Survey*, pp. 59-70; *Principal problems*, p. 6. It should be noted that this way of looking at primary production problems from the standpoint of demand is the approach adopted in the two documents referred to. Only in later works is detailed allusion made to the lack of

4. *The dynamics of the system: unequal development*

In current literature on the development of Latin America it is often maintained that the concepts of centre and periphery differ from another pair of parallel concepts: development and underdevelopment. It is asserted that the former refer to the structure of world trade, characterized by the exchange of manufactures for raw materials, whereas the latter relate to the differences between the economic structures of advanced and backward countries. This appraisal of the concepts of centre and periphery is unilateral, since, as has been shown, there is a differentiation between the functions of the two groups of countries in the context of the world economy, which is primarily manifested in the structure of international trade; but underlying this differentiation of functions there is a basic diversity of structures. In the centres the economic structure is diversified and homogeneous, whereas in the periphery it is specialized and heterogeneous. The concepts of centre and periphery therefore have a static content closely resembling that of the current concepts of development and underdevelopment, since they indicate the inequality between ad-

dynamism of demand for food, under Engel's Law; and to the slow growth of demand for raw materials, attributed to the partial or total replacement of these by synthetic products, and/or to their more efficient utilization, both being the result of technical progress itself. (See, for example, Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, pp. 28-32.) Not until a still later date are these arguments coherently incorporated in an interpretation of the trend towards deterioration of the terms of trade, to which reference is made in section II.

vanced and backward countries in respect of their structure of production.

But the concepts in question also have a clearly dynamic connotation. Reference has already been made to one of its aspects: the difference between the rates of increase of average labour productivity found at the two poles of the world economic system. Plainly, it is this differentiation that underlies the inequality between the structures of production, since the periphery is prevented by the relative backwardness of its own structure from generating technical progress and incorporating it into the production process to the same extent as is possible in the centres. Moreover, as has just been pointed out, this structural inequality is what accounts, in the last analysis, for the deterioration of the terms of trade, and this deterioration, coupled with the difference in productivities, implies that there is also a difference between average incomes. Obviously, this disparity does not allow the periphery to attain such high levels of saving and rates of accumulation as are reached in the centres, and this in its turn limits the possibilities of eliminating or reducing the structural lag which underlies the differentiation between incomes and productivities.

This is the kind of reasoning whereby it is sought to show that there is a tendency to inequality between the two poles of the centre-periphery system which is inherent in its own dynamics: it is argued, in short, that on the one hand structural inequality and on the other hand the differentiation between average productivities and incomes interact and reinforce one another.¹⁴

It is of interest to point out that this twofold inequality is regarded as charac-

teristic of the phase of outward-directed development, although it is fully acknowledged that this type of development was for many years a powerful engine of progress and economic growth. Similarly, it should be made clear that such trends are considered to be still inherent in the dynamics of the system, even during the phase in which industrialization becomes the pivot of the development process, and despite the significant structural changes which it brings in its train.

5. *Inward-directed development*

In the conception of the centre-periphery system, industrialization is regarded as a real fact and a spontaneous phenomenon,¹⁵ and as indicating the existence of a change in the model or pattern of peripheral growth: from the outward-directed development, based on the expansion of exports, to inward-directed development, based on the expansion of industrial production.¹⁶ Within the conception under review, this phenomenon is seen as closely linked to changes that have taken place in the world economy, and that are particularly meaningful and important for the periphery.

Outstanding, in the first place, are events of a circumstantial type, those usually cited being the two world wars and the great economic depression which occurred between them.¹⁷ The impact

¹⁵ As will be seen later, the concept of spontaneous or non-deliberate industrialization by no means precludes the possibility that the application of policy measures which restrict imports—although originally adopted for other purposes—may have helped to promote import-substituting domestic production.

¹⁶ *Principal problems*, p. 8.

¹⁷ *Survey*, pp. 3 and 4.

¹⁴ *Survey*, p. 57.

attributed to these events is a matter of common knowledge. The wars that began in 1914 and 1939 obviously set up a barrier to imports, while at the same time they led to a marked dynamization of demand for exports and, consequently, of domestic demand in the periphery, all of which circumstances became driving forces behind Latin American industrial activity, whereby the difficulties of importing manufactures from the warring centres were gradually palliated. The depression of the 1930s caused a drastic reduction in the price and volume of primary exports, which, combined with earlier indebtedness, resulted in an acute shortage of foreign exchange. It therefore became indispensable to restrict imports by means of exchange and tariff policy or simply by direct prohibition. Furthermore, measures aimed at maintaining income and employment levels had a favourable effect on demand for goods of which the external supply was limited. Thus propitious conditions were created for domestic production of manufactures to take the place of similar imported goods.

Besides constituting a response to these motive forces of a conjunctural type, the industrialization of Latin America was prompted by structural changes which took place in the world economy during the same years.¹⁸ Specifically, reference is intended to the United States' superseding of the United Kingdom as the main cyclical centre, a process which had reached its culminating point by the 1920s. The importance of this change for the development of the periphery is linked to the relatively closed character of the United States

economy, and to the downward trend of its import coefficient.¹⁹

The British cyclical centre, with an economy essentially complementary to that of the vast periphery, transmitted cyclical fluctuations through the movements of the balance of payments. During the downswings, the centre's imports underwent a severer and more rapid contraction than its exports, with the consequent trade deficit and loss of reserves on the part of the periphery. But during the upswings, the centre tended to transfer its expansion quickly through the powerful dynamism of its imports, so that in a short time the periphery's former trade deficit was covered. Thus, from the latter's point of view, the external deficits originating in the phases of contraction were offset by the surpluses created in the periods of expansion, so that the long-term trend was one of equilibrium in the trade balance.

As from the 1920s the world economy has worked in a different way, especially since the great depression of the 1930s, when the influence of the United States economy became decisive. During the cyclical contractions the same tendency to a trade balance surplus and to absorption of bullion recurs. But in the boom periods, owing to the low import coefficient, the transfer of economic expansion to the periphery through imports of primary commodities is relatively slow, and the trade deficit tends to persist for a longer spell of time.

Moreover, during this interval new reductions of the centre's import coef-

¹⁸ *Survey*, p. 35; *Principal problems*, pp. 7-8.

¹⁹ The brief account which follows tacitly assumes a two-country model, using the centre (represented alternatively by the United Kingdom or the United States), and the periphery (formed by the remaining economies).

ficient occur, generating a tendency to a chronic trade balance deficit in the periphery, and to continuing absorption of gold by the new cyclical centre.²⁰

This tendency has acted as a spur to the spontaneous industrialization of the periphery, since the external deficit, continually recurring, has repeatedly led to the adoption of measures to restrict imports, a policy which in turn has given rise at every step to incentives to replace them by domestic production of manufactures.

Thus, through the motive power of the external deficit, the more closed character of the economy of the most important new cyclical centre has been reflected in a peripheral development which is also more closed, and follows the patterns indiscriminately described as industrialization, import substitution or inward-directed development.²¹

This spontaneous industrialization impulse in the periphery can also be explained in the light of arguments at a higher level of abstraction. As was pointed out above, it is assumed that in any development process the intersectoral distribution of the active population is not a haphazard process, since the proportion working in primary production tends to shrink, with the corresponding increase in the percentage employed in industry.

General application of these ideas to the world economy as a whole raises the question of whether in a system composed of a centre and a periphery, with the structural characteristics previously outlined, the growth of industry and of industrial employment in the centre can be compatible with development of the

periphery on the basis of its traditional specialization as a primary exporter.²² The reply is in the negative. If these activities were supposed to absorb the manpower supply generated in the periphery by population growth and technical progress, their volumes of production would have to be such as could not be sold on the market without serious detriment to the terms of trade. Accordingly, once the world economy has reached a certain level of development, in conditions of relative international immobility of the labour force, industrialization is the only way open to peripheral development.²³

It should be noted that this is not an argument of economic policy, but a theoretical line of reasoning which is put forward *contrario sensu*, as a way of expressing the idea that when the world economic system attains a certain degree of development, or, in other words, when its two poles reach given average levels of productivity and income, the free play of economic forces spontaneously promotes the expansion of peripheral industry. Industrialization then becomes the principal and obligatory growth pattern of the economies that make up the peripheral pole of the system.

6. *Contradictions in peripheral industrialization*

In relation to the conception studied here, economic problems present similar features in the various peripheral countries, and particularly in those of Latin America, during this new phase, which is regarded as "one more stage in the

²⁰ *Principal problems*, pp. 8-10.

²¹ *Principal problems*, pp. 10-12.

²² *Survey*, p. 12.

²³ *Survey*, pp. 48-49.

world-wide spread of . . . productive technique, or, if preferred, in the organic development of the world economy".²⁴

Two of these common problems appear in the sphere of international economic relationships: the trends towards external disequilibrium and towards the deterioration of the terms of trade. As already pointed out, the former is related to the switch-over of the main cyclical centre, and to the resultant changes in the operation of the world economic system. From another point of view, this trend is taken to be inherent in the periphery's industrialization process, owing to the maladjustment between the high rate of increase of demand for imports that it induces and the relatively low growth rate of the centre's demand for primary export commodities.²⁵ Similarly, it is maintained that the deterioration trend is continuing during the new phase of peripheral development, because of the persistence of the employment problems underlying this phenomenon.

These problems, it is considered, are still characteristic of the periphery for reasons similar to those of a more general nature indicated above. The peripheral economies began their industrialization process with a superabundance of manpower—characteristic of their specialization and structural heterogeneity—while at the same time they were compelled to use capital-intensive techniques, worked out during the slow and gradual economic development of the centres, and ill-adapted to the relative availability of resources in the periphery. It is not surprising, therefore, that

demand for labour lags behind the supply generated by industrialization itself, inasmuch as the process displaces manpower in the technically backward sectors of production—i.e., artisan industry and agriculture—and affects the demographic variables, speeding up population growth. To this technological maladjustment is added the fact that the indirect effects of investment on employment, due to additional demand for labour in the capital goods sector, are not produced in the periphery, but in the great industrial centres. Thus it is understandable that during the peripheral industrialization process there is a tendency for unemployment to persist "unless it can be countered by a deliberate policy of economic development".²⁶

A third group of common problems is also linked to the unsuitability of the techniques which were gradually developed in the centre, alongside the steady increase in its average income. When the periphery is passing through the phase of development via industrialization, it becomes essential to adopt those same large-scale and highly capital-intensive techniques, despite a lag in income levels and capacity to save which is reflected in capital utilization and accumulation problems. In the first place, the techniques are applied in large-scale production units, while owing to the low income levels the market is of insufficient size, with the consequent under-utilization of capital. At the same time, the inadequacy of the capacity to save makes it impossible to leap the barrier of backwardness, that is, to raise productivity levels substantially and rapidly in a large number of sectors and activities; and

²⁴ *Survey, op. cit.*, p. 3.

²⁵ *Survey, op. cit.*, p. 9.

²⁶ *Survey, op. cit.*, pp. 65-66.

thus the efficiency of the system, and the capacity to save itself, continue to be handicapped.²⁷ Outstanding among the sectoral 'bottlenecks' is the unsuitability of the infrastructure, inherited from the period of outward-directed development and designed to meet the needs of primary-exporter specialization.

Accordingly, the main difficulties confronting the industrialization process are related to the inappropriateness of the technology in use; but they are also felt to be associated with the structure of land ownership and tenure in peripheral agriculture, where latifundia and minifundia exist side by side, and unsatisfactory modes of land tenure proliferate. These are conditions which tend to generate unemployment and to limit agricultural supply.

Over-concentration of land ownership is an obstacle to the full utilization of this resource, because of the large amounts of capital required to exploit it; but at the same time, the maintenance of unproductive land proves viable for owners with large incomes, and even desirable, as an effective defence against inflation and also for reasons of social prestige. Since from the private point of view the cost of labour is an incentive to replace it by capital, mechanization is becoming usual on the latifundia. In turn, the incapacity of the minifundia to accumulate capital and raise standards of productivity also makes it difficult to expand supply and retain labour. Lastly, the system of tenant farming and other unsatisfactory land tenure relations make for decisions in favour of investments whose value does not augment that of the property, such as the purchase of machinery and equipment, which in addition are labour-saving.

²⁷ *Survey*, pp. 62-64.

Thus, it is these structural conditions peculiar to agriculture that are held to conduce to the adoption of labour-saving techniques at the expense of others that make proportionally greater use of manpower and do more to increase the productivity of the land: a choice which, therefore, generates problems of employment and rigidity of production.²⁸

To sum up, during the industrialization process the deterioration of the terms of trade persists; balance of payments and labour-absorption problems make their appearance; intersectoral maladjustments in production occur (infrastructural deficiencies, agricultural supply shortages, etc.); and difficulties continue to arise in respect of capital utilization and accumulation. But these common features appear in varying degrees of intensity in the different countries, so that in each of them the process acquires different connotations. For instance, the tendency to an external deficit may be perceptibly less than the average, and may even be completely offset in special cases, where demand for a country's staple export product is exceptionally dynamic.²⁹ Or again, the unemployment situation may be more or less serious, depending upon the specific historical conditions of previous development, as is shown by a comparison between the characteristics of Mexican and Argentinian agriculture;³⁰ moreover, the problems posed by capital utilization and accumulation will differ according to the levels of income attained during the phase of outward-directed development,³¹ and so on.

²⁸ Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, pp. 60-65.

²⁹ *Survey*, *op. cit.*, pp. 8-9.

³⁰ *Survey*, *op. cit.*, pp. 5-6.

³¹ *Survey*, *op. cit.*, pp. 7-8.

It is easy to see that the general trends and contradictions indicated in the foregoing paragraph are really reflections of the persistence of the structural lag characteristic of the periphery; or rather, they result from the way in which the structure of production is changing during the phases of inward-directed development, and yet the differences between it and the corresponding structure in the centre are not being smoothed out, but are merely reproduced at new levels.

Industrialization starts from the conditions of specialization and heterogeneity established during the period of outward-directed development. Obviously, its evolution involves some diversification of production and a fairly considerable increase in average labour productivity. But diversification does not go far enough to remedy the lack of complementarity between the sectors of production, or alter the primary-exporter status of the periphery; and productivity too is unable to make up its leeway, not only because of the difficulty of reabsorbing the labour employed in sectors where productivity is very low, but also because the absorption itself is effected in productivity conditions different from those prevailing in the centre, even in several branches of manufacturing industry.

7. *Development policy and planning*

The inference to be drawn from the preceding remarks is that in all the special cases and circumstances mentioned above, notwithstanding their diversity, common problems present themselves — though with varying degrees of

seriousness— which hamper the industrialization process, tending to hold it back or to give it a slower tempo than would be potentially attainable. In other words, it is recognized that the free play of market forces leads to the stubborn recurrence of balance-of-payments problems and of those relating to capital accumulation and to under-utilization of capital and labour, since they are inherent in spontaneous industrialization and ultimately derive from the conditions in which the periphery's structure of production changes in the course of that process.

Thus according to the conception of the centre-periphery system, if industrialization is to serve as a means of substantially raising levels of productivity and optimizing the allocation of resources, it must be oriented in the light of a carefully-considered development policy. Moreover, in view of the structural nature of the above-mentioned problems, this policy will have to be ordered and rationalized by recourse to programming.

If this recommendation is viewed as a whole and as a conclusion drawn from the ideas previously described, it will be seen to possess a clearly-defined hue of its own. It is prompted neither by considerations relating to the anarchical character of capitalism and of its *modus operandi*, nor by reflections on the tendency of the capitalist system to generate *circumstantial fluctuations* in the level of economic activity; it stems from evaluation of the specific structural conditions of the periphery, which limit its capacity for growth, when this type of economy is left to the mercy of the spontaneous action of market forces.

II.

The components of CEPAL thinking

Several of the postulates just described were put forward –and some of them analytically formulated– in earlier documents than the studies already mentioned; but only in these latter did they take shape as a body of fairly coherent ideas which are called here the ‘conception of the centre-periphery system’.³³ This conception is not at first presented separately, as a conscious point of take-off for its analytical elaboration, but is implicit in the arguments relating to theory and economic policy that exist in the same documents in which it is contained. And although the various ideas constituting it are more precisely defined and better interlinked in later documents, it is no less true that the early formulation of this group of basic hypotheses is the key to the unity of CEPAL thinking.

³³ Although the early background of this conception is not examined, some bibliographical references to it are included. Consultation of these sources reveals that the ideas which Raúl Prebisch later succeeded in welding into the conception of the centre-periphery system were being gestated in some of his previous writings, closely related to his participation in the management of the Argentinian economy, during the great depression and the Second World War. A complete bibliography of his works can be found in L.E. Di Marco (ed.), *International Economics and Development*, New York, Academic Press, 1972. The extracts from the records of the Central Bank of the Republic of Argentina, published by that institution under the title *La creación del Banco Central y la experiencia monetaria argentina entre los años 1935-1943*, Buenos Aires, 1972, 2 vols., are particularly illustrative of the link

This unity is not perceptible at a first glance, nor, indeed, is it easy to grasp, largely owing to the pragmatic fashion in which the thinking in question was gradually built up on the basis of economic policy recommendations formulated in response to specific problems, and subsequently justified at the level of theory. In other words, the concern with practical action characteristic of the type of activity undertaken by CEPAL means that its studies betray a tendency to summarize *ad hoc* the most pertinent theoretical arguments on which given policy measures can be based, to the detriment of the strict exactitude of such arguments and measures. Nevertheless, when an attempt is made to distinguish between the contributions in the sphere of theory and those in the field of policy and to examine them in detail, it can be seen that these contributions attain a degree of unity much greater than is commonly recognized.

It is not the purpose of these remarks to make a meticulous examination of the components of CEPAL thinking.³⁴ The sole aim of the brief descrip-

existing between the ideas in question and the economic circumstances of those years. A useful summary of the evolution of the economy in question will be found in J.G. Fodor and A.A. O’Connell, “La Argentina y la economía atlántica en la primera mitad del siglo XX”, *Desarrollo Económico*, N° 49, April-June 1973.

³⁴ For a detailed discussion of its various long-term components, see Octavio Rodríguez, “Sobre el pensamiento de la CEPAL”, ILPES, mimeographed text, 1974.

tion which follows is to give an all-round idea of the thinking in question and an approximate impression of its unity, in order to facilitate the presentation, in sections III and IV, of the criticisms levelled at it. The table appended summarizes this description and may even take its place, thus enabling the reader to pass on directly to section III, particularly if he is acquainted with the basic studies prepared by CEPAL.³⁵

1. *The sphere of economic theory*

The conception of the centre-periphery system is accompanied by the emergence of two preliminary formal versions of the theory of the deterioration of the terms of trade.³⁶ One of them makes use only of accounting instruments and/or definitional equations, and covers no more than a small fraction

³⁵In the description referred to, bibliographical references are made to some of the documents in which the various sets of analytical instruments are developed. Section B of the bibliography represents a selection of the studies published by CEPAL during the 1950s and 1960s, with particular emphasis on those appearing up to 1964. In section D attention is drawn to those tackling the problem of inflation, including some by independent writers, and the critiques of the views maintained in this connexion. The writings of independent authors belonging to the structuralist 'current' or 'school' of thought on subjects other than inflation are outside the scope of these remarks. It is worth noting that many of them are marked by a much higher degree of academic rigour than the official CEPAL documents, and that in view of this characteristic they have made a very significant contribution to the development of the common approach.

³⁶It can be seen in section I that this conception is formed by a body of general ideas and basic hypotheses, presented at the pre-analytical level. What is meant by the 'formal version' or 'formalization' is the analytical

of the conception under review, since its sole aim is to pinpoint the significance of deterioration (strictly speaking, the ideas described in section I, sub-section 2). The second version uses elements of macro-economic income theory and of the theory of cycles, and by their means attempts to show how the causes of deterioration operate through the fluctuations in the level of activity characteristic of the operation of the world economic system. This, which for brevity's sake might be called the 'cycles version' of deterioration theory, is of much broader scope in relation to the initial conception, since it incorporates the ideas bearing on the configuration of centres and periphery, and on the more general characteristics of the two types of economy (i.e., the ideas commented on in section I, sub-sections 1 to 3).³⁷

Still following up CEPAL's publications, it can be seen that by the mid-1950s several partial analyses had been prepared, which together form what might be called an "interpretation of the industrialization process". These analyses relate to several of the characteristics and trends which, as is recognized, are inherent in the process in question. (i) The necessity and spontaneity of industrialization is discussed, use being made in this case too of elements from income and 'cycles'

expression of these same general ideas in theoretical terms proper. When, on the other hand, allusion is made to 'analytical instruments' or to 'sets of analytical instruments', reference is intended to formalizations both in the sphere of economic theory and in the field of economic policy.

³⁷*Principal problems*, pp. 4-6; *Survey*, chapter III.

³⁸*Principal problems*, pp. 6-13; *Survey*, chapter II.

COMPONENTS OF CEPAL THINKING

		2. Sphere of economic policy				
		1. Sphere of economic theory	Development policy	Policies respecting international economic relations	Agrarian policy	Social, labour and income policies
Basic theoretical contributions	(a) Conception of the centre-periphery system (1949-1950)	(a) Deliberate guidance of industrialization process	(a) Protection of the domestic market	(a) Research and extension programmes		
	(b) Theory of the deterioration of the terms of trade ('accounting version') (1949-1950)	(b) Criteria for allocation of resources	(b) Latin American integration	(b) Taxation and/or land reform		
	(c) Theory of the deterioration of the terms of trade ('cycles version') (1949-1950)	(c) Development planning	(c) External financing			
	(d) Interpretation of the industrialization process (1949-1955)		(d) Technical assistance			
	(e) Theory of the deterioration of the terms of trade ('industrialization version') (1959)		(e) Countercyclical policy (compensatory for terms-of-trade fluctuations)			
Other theoretical contributions	(f) Analysis of structural obstacles to development (1956-1963)	(d) Reforms and incentives	(f) Countercyclical policy and/or policy compensatory for deterioration of the terms of trade	(c) Land reform	(a) Social policies	(a) Anti-inflation policies
	(g) Inflation theory (1953-1964)	(e) Revision of planning principles and methods	(g) Exports of manufactures		(b) Active employment policy	
					(c) Income redistribution	

theories;³⁸ (ii) import substitution and the change in its composition is analysed, together with (iii) the tendency to external disequilibrium, and a structural theory of balance-of-payments stabilization is outlined;³⁹ (iv) an explanation is sought for the trend towards unemployment and intersectoral production disequilibria, recourse being had to instruments of production theory; (v) with similar analytical tools, agricultural supply and employment problems are dealt with.⁴⁰ These partial analyses are developments of the initial ideas, relating to economic events in the periphery during the phase of inward-directed development (section I, sub-sections 5 to 7).

In 1959 a third formal version of the theory of the deterioration of the terms of trade was published in English only; it is also little known because the analysis of deterioration is built up around economic policy arguments relating to the protection of the domestic market. This new version attempts to show that in conditions of balanced growth, or rather, in the absence of cycles, the spontaneous industrialization of the periphery brings with it a decline in the terms of trade and unequal increases in income. Instruments of neo-classical price theory are used in providing an explanation of the deterioration in which a joint role is played by the lower levels of productivity in peripheral industry, the relative abundance of manpower characteristic of this type of economy, the differences between wages in the periphery and in the centre, and the disparity between

income-elasticities of demand for imports in the two poles of the system. Inasmuch as the deterioration of the terms of trade is explained in connexion with spontaneous industrialization, the new theory constitutes a synthesis of those mentioned above, which takes into account not only deterioration but several of the characteristics of the industrialization process. This 'industrialization version' of deterioration theory therefore incorporates a wide range of the basic hypotheses to which reference has previously been made (in broad outline, those comprised in section I, sub-sections 1-3 and 5-7).⁴¹

By the beginning of the 1960s a new essay in interpretation was taking shape, whose most fully integrated version dates from 1963: an analysis of the structural obstacles to development.⁴² The object of this analysis was to give some account of a series of phenomena which made their appearance during those years, and were regarded as characteristic of a new phase of peripheral development. Among these, attention was drawn to the aggravation of the tendency to balance-of-payments disequilibrium, which was reaching a point at which the external bottleneck threatened to stifle development; the increasing under-employment and unemployment of the active population; the highly regressive distribution of income and wealth; and the proliferation of vast groups excluded from participation in the economic and social process: all of

³⁹ Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, chapter II.

⁴⁰ *Survey*, chapter IV; Raúl Prebisch, *Theoretical and practical problems of economic growth*, *op. cit.*, chapter III.

⁴¹ Raúl Prebisch, "Commercial policy in the underdeveloped countries", *American Economic Review*, Vol. 49, No 2, May 1959.

⁴² Raúl Prebisch, *Towards a dynamic development policy for Latin America* (E/CN.12/680/Rev.1), New York, United Nations publication, Sales No: 64.II.G.4, 1973.

which could be summed up as a trend towards stagnation. In some cases, these phenomena were accompanied by overt inflation, and by serious social tension and political unrest.

In addition to this enlargement of the initial frame of reference, the analysis is influenced by sociological studies,⁴³ and by the inflation controversy, in which emphasis was being placed on the incidence of certain structural characteristics peculiar to the periphery. The avowed objective of the new attempt at interpretation, moreover, was to find some explanation of the above-mentioned long-term trends which would take into account the interaction of economic, social and political factors. In reality, however, two different types of analysis were made, one dealing with the external bottleneck and the other with internal obstacles to development. Although it gains considerably in depth and precision, the first is, when all is said

⁴³ See the following studies by José Medina Echavarría: "Las condiciones sociales del desarrollo económico" and "Tres aspectos sociológicos del desarrollo económico", both in *Aspectos sociales del desarrollo económico*, Series commemorating the XXV anniversary of CEPAL, Santiago, Chile, 1973 (an English translation of the second of these appeared under the title of "Three sociological aspects of economic development", in *Economic Review of Latin America*, Special Issue, Bogotá, Colombia, August 1955); "Relationships between social and economic institutions. A theoretical model applicable to Latin America", *Economic Bulletin for Latin America*, Vol. VI, No 1, Santiago, Chile, March 1961; "Economic development in Latin America: sociological considerations" (E/CN.12/646), Santiago, Chile, mimeographed text, 1963. See also CEPAL, "The social development of Latin America in the postwar period", Santiago, Chile, mimeographed text, 1963. (Published in Spanish only: *El desarrollo social de América Latina en la postguerra*, (E/CN.12/660), Buenos Aires, Solar-Hachette, 1963.)

and done, a new version of the economic analysis of external disequilibrium, already embodied in the interpretation of the industrialization process.⁴⁴ The second is a general and mainly descriptive evaluation of the way in which the agrarian and industrial structures are shaped through interaction with a socio-political structure marked by the concentration of property and income. This lowers standards of efficiency and hampers capital accumulation and entrepreneurial action, to the detriment of the dynamism of economic and social development.⁴⁵

The links between CEPAL thinking and that of independent writers with a similar orientation are particularly intricate in the case of inflation theory, since many of the studies in that field were published in a personal capacity, reflecting views which did not always coincide with those of CEPAL. The earliest contributions to the structuralist approach to inflation must be sought in the discussion aroused by the sharp acceleration of the inflationary process in several Latin American countries, shortly after the

⁴⁴ See CEPAL, *Economic Development, Planning and International Co-operation* (E/CN.12/582/Rev.1), Santiago, Chile, United Nations publication, Sales No: 61.II.G.6, 1961; Raúl Prebisch, *Towards a Dynamic Development Policy for Latin America*, *op. cit.*, pp. 67-88, and "Economic development or monetary stability: the false dilemma", *Economic Bulletin for Latin America*, Vol. VI, No 1, Santiago, Chile, March 1961; M.C. Tavares, *et al.*, "The growth and decline of import substitution in Brazil", *Economic Bulletin for Latin America*, Vol. IX, No 1, March 1964, especially pp. 1-11.

⁴⁵ See CEPAL, *Economic Development, Planning and International Co-operation*, *op. cit.*, chapters I and III; Raúl Prebisch, *Towards a Dynamic Development Policy for Latin America*, *op. cit.*, pp. 3-49.

end of the hostilities in Korea. The initial markedly polemical tone, which was maintained in the documents published up to the beginning of the 1960s, seems to have helped to make this approach the most widely disseminated and the best known; and also to some extent accounts for the extension of its designation to the whole set of analytical instruments based on the conception of the centre-periphery system.⁴⁶

2. *The sphere of economic policy*

As already noted, the recommendations in favour of industrialization, and of its deliberate guidance by means of development policy and planning, constitute basic *idées-force*, closely linked to the ideas relating to the *modus operandi* of the centre-periphery system which form part of the original conception. These recommendations, however, are not put forward only at a general level, but gradually gain in clarity and precision as the above-mentioned sets of analytical instruments develop. Even without having examined them in detail, it is plain to be seen that from the several formal versions of deterioration theory a policy conclusion of supreme importance can be drawn: industrialization is the one and only way of pushing up levels of labour productivity and of wages in the periphery, and gradually reducing the differences between them and the levels prevailing in the centres, while attempting in addition to retain, by this means, the fruits of technical progress. Similarly, it is understandable that an interpretation of the industrialization process which records the other anomalies inherent in it — the intersec-

⁴⁶ See the publications on inflation listed in part D of the bibliography.

toral distortions of production and the trends towards under-employment and external disequilibrium— should serve as the basis for a recommendation to carry it out on deliberately-planned lines.

What is more, an endeavour is made to establish appropriate criteria for the allocation of resources to peripheral industrialization, which will offer guidance as to how to distribute investment between the export sector and each of the several internal activities and what technologies to use, so as to palliate the external disequilibrium trend, while at the same time maximizing employment, labour productivity and social income. These criteria constitute a preamble to the planning techniques which began to be devised about 1952 with the explicit aim of imparting greater precision and consistency to development policy, i.e., of expressing the objectives just mentioned as a set of mutually compatible ends and means, within each period and between different income periods.⁴⁷

The analysis of the structural obstacles to development reflects a change of attitude as regards the region's industrialization prospects. In the early 1950s a relatively optimistic view of these prospects was taken, and it was thought that the dynamism of the process itself, linked to the economic policy measures formulated to attenuate its notable disequilibria, would suffice to ensure continuity in the modification of the structure of production and the gradual

⁴⁷ Raúl Prebisch, *Theoretical and practical problems of economic growth*, op. cit., chapter II to IV; CEPAL, *Estudio preliminar sobre la técnica de programación del desarrollo económico* (E/CN.12/292), March 1953; and Jorge Ahumada, *An Introduction to the Technique of Programming* (E/CN.12/363), New York, United Nations publication, Sales No: 55.II.G.2, June 1955.

improvement of average levels of productivity. It was also confidently believed that these economic changes would be accompanied by changes in the social and political structure favourable to the continuity of the industrialization process and to the widespread distribution of its benefits. Towards the end of the 1950s the idea began to gain ground that the structural obstacles to development underlying the disequilibria were of such a nature that they might distort its results as regards the extent and equity of the distribution of its benefits, if not slow it down or bring it to a halt.⁴⁸

In accordance with this change of viewpoint, a different orientation was also proposed for long-term policy. For although industrialization was still regarded as a basic element in such policy, it was felt that to clear the way for economic development the obstacles hindering it would have to be removed by the introduction of structural reforms—especially land reform—, concurrently with the application of incentives to production and of active social, employment and income-distribution policies. A critical attitude to planning and its techniques was likewise adopted, and an attempt was made to renovate them through the introduction of methods whereby these new objectives could be taken into account and made viable.⁴⁹

⁴⁸CEPAL, *Development Problems in Latin America: An Analysis by the United Nations Economic Commission for Latin America*, Austin, University of Texas Press for the Institute of Latin American Studies, 1970, pp. xli-xliii.

⁴⁹CEPAL, *Economic development, planning and international co-operation*, *op. cit.*, chapter VI; Raúl Prebisch, *Towards a dynamic development policy for Latin America*, *op. cit.*, pp. 3 to 49 and 56 to 64; ILPES, *Discusiones sobre planificación*, Textos del ILPES series, Mexico City, Editorial Siglo XXI, 1966.

Pari passu with the development of theory, and in close connexion with the recommendations just mentioned, a vast body of arguments is deployed on policy in the sphere of international economic relationships, in which the need for protection of the domestic market is analysed, and a study is made of the limits within which this contributes to the attainment of standards of efficiency in peripheral industry.⁵⁰ Attention is devoted to the benefits of Latin American integration, whereby the scope of import substitution can be enlarged and better advantage can be taken of economies of scale, with positive effects on the level of resource productivity and on the margin by which it differs from that prevailing in the industrial centres.⁵¹ The reasons for the desirability of resorting to external financing are stated: the domestic savings effort can be supplemented in economies whose low levels of productivity and average income preclude the restriction of current consumption, and the limitations imposed on import-substituting industrialization by the slow growth of traditional exports can be lessened. It is likewise explained that such financing must necessarily be a temporary expedient, in order to obviate the risk that an increasing burden of remittances might in the long run reduce the peripheral economies' capacity to import.⁵² Attention is drawn to the importance of obtaining international

⁵⁰Raúl Prebisch, *International Co-operation in a Latin American Development Policy* (E/CN.12/359), New York, United Nations publication, Sales N°: 54.II.G.2, September 1954, chapter IV; Raúl Prebisch, "Commercial policy in the under-developed countries", *op. cit.*

⁵¹CEPAL, *The Latin American Common Market* (E/CN.12/531), New York, United Nations publication, Sales N°: 59.II.G.4, 1959.

technical assistance, above all in the exploration and inventorying of natural resources, the training of personnel, and scientific and technological research.⁵² Emphasis is placed on the necessity of concerting such international co-operation measures as may help to prevent or offset a fall in the relative prices of primary commodities, and to palliate the

effects of their fluctuations. Lastly, stress is laid on the trade preferences extended by the centres to the industrial products of the periphery, as a key element in a policy designed to eliminate the external bottleneck by a combination of import substitution, regional integration and exports of manufactures to the rest of the world.⁵⁴

III.

Criticisms from the standpoint of orthodoxy

Although without examining its many components in detail, an attempt has been made in the foregoing observations to give some impression of the unity of CEPAL thinking. Reference to this unity implies no claim that each of its component sets of analytical instruments is completely coherent, or that a logical connexion between them has been fully established. It is merely an acknowledgement that the various theoretical components bear a stamp of their own and are, *grosso modo*, compatible with one another, since they were gradually developed in the course of time as formalizations of parts of that initial well-knit body of common hypotheses; and that the economic policy components are also compatible, since they were built up in close connexion with those of a theoretical character.

A review follows of some of the criticisms appearing in the economic literature of the centres, and relating to long-term theoretical interpretation, since they help to clarify the aspects of

CEPAL thinking which they seek to refute, as well as the characteristics of the basic conception. As will be seen, the inappropriateness of these criticisms is not due to the difficulty of grasping the unity of the thinking discussed, but purely and simply to unfamiliarity with the propositions already contained in CEPAL's early works, and, in particular, to failure to apprehend the way in which underdevelopment is viewed from the standpoint of the conception of the centre-periphery system.

1. *Deterioration and well-being*

By far the majority of the critiques published in the centres deal with the trend towards deterioration of the terms of trade. The present comments refer to those actually concerned with the conceptual analysis of this phenomenon, and only tangentially to those relating to measurement problems and/or the weakness of the empirical substantiation for the existence of such a trend.⁵⁵

⁵² Raúl Prebisch, *International Co-operation in a Latin American Development Policy*, *op. cit.*, chapter II.

⁵³ *Ibidem*, chapter III.

⁵⁴ *Ibidem*, chapter V; Raúl Prebisch, *Una nueva política comercial para el desarrollo*, Mexico City, Fondo de Cultura Económica, 1964.

⁵⁵ The most general of these criticisms argues that the indexes of the commodity terms

Stress is laid in this sub-section on the criticisms relating to the significance of the terms-of-trade deterioration. They make much of the fact that it does not necessarily have an unfavourable effect on economic well-being, measured in terms of real per capita income. The argument adduced is simple; if, for example, the terms of trade fall by 5 per cent, but at the same time the productivity of factors (for simplicity's sake, average labour productivity) in the production of export commodities increases by 10 per cent, the economy under consideration will find itself in a better position than before, since it will obtain more imported goods with the same amount of resources. This implies that even if the terms of trade deteriorate, there is an improvement in the single-factoral terms of trade, which is

of trade "do not allow for quality changes and very insufficiently for new products". Since over the long term these changes have been of great importance in the case of industrial products, and of little significance in primary commodities, the evaluation of the secular trend to deterioration of the terms of trade for the two types of goods turns out to be biased, since in the indexes the changes in question are left out of account (see G. Haberler, "Terms of trade and economic development", in H.S. Ellis (ed.), *Economic Development for Latin America: Proceedings of a Conference held by the International Economic Association*, London, Macmillan and Co., Ltd., and New York, St. Martin's Press, 1963). Doubts have also been expressed as to the adequacy of the empirical support initially adopted as backing for the deterioration thesis, namely, the United Kingdom's commodity terms of trade between the 1870s and the 1940s, calculated on the basis of CIF prices for Britain's imports and FOB prices for its exports. The considerable reduction of transport costs between the years mentioned means that the terms of trade may have improved simultaneously for the United Kingdom and for overseas economies (*ibidem*, p. 333). In particular it is pointed out that between 1876 and 1905 "a large proportion, perhaps all, of the

the appropriate index for detecting variations in the level of well-being.⁵⁶

It is easy to show that the argument contained in this criticism is in no way contradictory to that relating to the significance of deterioration; each is perfectly compatible with the other. Let us reconsider the equation

$$y = \frac{L_p \cdot L_p}{L_i \cdot P_i}$$

To admit that productivity increases more in the industry of the central eco-

decline in the British prices of primary products be attributed to the great decline in inward freight rates. Since the price of British manufactured exports fell in this period by 15 per cent, the terms of trade of primary countries, were FOB prices used for their exports as well as for their imports, may well have moved in their favour" (P.T. Ellsworth, "The terms of trade between primary producing and industrial countries", in *Inter-American Economic Affairs*, Vol. X, Summer 1956, pp. 55-56). A third criticism maintains that even if the improvement in the United Kingdom's terms of trade is admitted to be valid, they cannot be accepted out of hand as representative of those of the whole group of industrial countries, or of those of the said group in its trade with the less developed economies (G. Haberler, *op. cit.*; and G.M. Meier, *The International Economics of Development*, New York, Harper & Row, 1968, pp. 59-60). Lastly, attention is drawn to the fact that the same series for the United Kingdom's terms of trade shows an improvement for primary producers between 1801 and 1870 (T. Morgan "The Long-run Terms of Trade between Agriculture and Manufacturing", in *Economic Development and Cultural Change*, Vol. VIII, No 1, October 1959, p. 4).

⁵⁶G. Haberler, *op. cit.*, and G.M. Meier, *op. cit.*, p. 64. The concept used up to now is the ordinary one of commodity terms of trade, and is equivalent to that denoted by CEPAL's current nomenclature. The 'single-factoral terms of trade' means the terms of trade multiplied by an index of export productivity. The 'double-factoral terms of trade' are equivalent

nomies than in peripheral primary production is tantamount to assuming that the relation between productivities (L_p/L_i) deteriorates for the latter. This implies that, *ceteris paribus*, the relation between income levels 'y' also follows a downward trend (average incomes tend to be differentiated). Clearly, then, this trend is consolidated and aggravated by the deterioration of the terms of trade (P_p/P_i), and, at the same time, is not incompatible with a rise in average income in primary activities.

Thus the mistake made by the critics stems from disregard of the assumption respecting the disparity between rates of increase of productivity. Once this assumption is recognized, the deterioration of the terms of trade necessarily implies that the double-factoral terms of trade deteriorate too, which is perfectly compatible with a rise in the single-factoral terms of trade and an improvement in 'well-being', in the two sectors and/or economies trading with each other. To put it another way, in the periphery average income may conceivably grow despite the deterioration because of the increase in productivity; and, at the same time, it will grow less than in the centres, because there the increase in productivity is greater, and the improvement in the terms of trade also helps matters, as would seem to be suggested by the fact that the gap

to the foregoing, divided by an index of import productivity. For a precise definition of these and other concepts used by CEPAL, see the document *Relación de Precios del Intercambio de América Latina* (E/CN.12/L.99), Cuadernos Estadísticos de la CEPAL, N° 1, Santiago, Chile, 1976. The various definitions of the terms of trade given in this document coincide with those current in international trade theory, as noted in J. Viner, *Studies in the Theory of International Trade*, New York, Harper & Row, 1937, pp. 558-564.

between rich and poor countries in respect of levels of living has been steadily widening since the end of the last century.⁵⁷

2. Critiques of the causes of deterioration

Attention will next be turned to the critiques bearing on the causes of the deterioration of the terms of trade. It is often acknowledged that in the past there have been sharp cyclical fluctuations in the commodity terms of trade, and the importance of their repercussions on the less developed economies is

⁵⁷Strictly speaking, for the differentiation between average income levels to be produced the terms of trade need not necessarily deteriorate; for them to remain unchanged is enough, or for the proportion by which they improve to be lower than that by which the relation between productivity levels deteriorates. The CEPAL thesis on the concentration of the fruits of technical progress in the centres is still inadequately substantiated, owing to the lack of empirical studies on the long-term evolution of the double-factoral terms of trade. Nevertheless, the well-known study by C.P. Kindleberger on the European terms of trade seems to lead to conclusions favourable to the thesis in question. Despite the remark that no evidence of the deterioration of the terms of trade between primary commodities and manufactures has been found, it is pointed out that "in European experience, terms of trade have turned against the under-developed countries and in favour of the developed"; and, further, that "the double-factoral terms of trade . . . must have done so still more" (C.P. Kindleberger, *The Terms of Trade: A European Case Study*, New York, J. Wiley & Sons, and The Technology Press of MIT, 1956, pp. 233 and 240). For other sources of information on the behaviour of the commodity terms of trade over very long periods, see T. Morgan, "The long-run terms of trade between agriculture and manufacturing", *op. cit.*, pp. 21-23.

also recognized; but care is taken to point out that they cannot be extrapolated into the future, and, above all, it is denied that they involve a long-term trend towards deterioration.⁵⁸ The criticisms of the theoretical arguments adduced to explain this trend appear in a twofold guise. Firstly, it is alleged that even if the monopolistic elements in the labour market of the centres influence the rise in the overall level of prices, it is hard to see how they can affect the assumed movement of relative prices to the disadvantage of primary commodities. Secondly, there is a tendency to reject the premise that demand for the periphery's primary commodities grows slowly in comparison with demand for industrial products from the centres. In this connexion it is argued that Engel's law applies only to demand for food, and reflects the behaviour patterns of homogeneous populations, so that it cannot be generally extended to world demand for primary commodities, since this includes raw materials, and, moreover, there may be a boom in demand in the periphery itself.⁵⁹

The weak point in these criticisms is fairly clear: it consists in that the arguments on which the explanation of the deterioration trend is based are considered in isolation and refuted separately, regardless of the theoretical context in which they are inserted. For example, no notice whatever is taken of the 'cycles version' of deterioration theory, the function of which is precisely to explain how the different labour market conditions prevailing in the centres and in the

periphery are capable of producing the differentiation between wage levels in the two types of economy, and how this differentiation, in turn, is linked to the decline in the terms of trade. Neither is any heed paid to the arguments which indicate why the growth rate of the central countries' demand for raw materials – and not only for food – tends to be slow; nor is it observed that the train of reasoning relating to the disparity between the growth of demand for imports of primary commodities and that of demand for industrial imports is expounded with reference to the centre-periphery system, i.e., to the two 'homogeneous populations' which by definition constitute it.

But what is really important to stress is that when each argument is taken separately, the deterioration phenomenon itself is brought into the foreground, and criticism is confined to calling its existence in question. From another angle this implies disregard and concealment of the fact that in the theories to which such critiques refer the terms-of-trade deterioration is only one of the results of the workings of the centre-periphery system, and that analysis of this system is, strictly speaking, the principal objective and characteristic of the theories concerned.⁶⁰

⁶⁰ A comparable analysis of the significance of the deterioration of the terms of trade has been made in various studies, attributing it to similar causes. H.W. Singer's article on "The distribution of gains between investing and borrowing countries", published at almost exactly the same time as the early CEPAL documents, is one of the best known. The special feature of the CEPAL approach consists precisely in that from the outset it incorporates the explanation of the deterioration phenomenon in a broader conception of the *modus operandi* of the centre-periphery system.

⁵⁸ G. Haberler, *op. cit.*, pp. 289-295.

⁵⁹ *Ibidem*, pp. 35-336; G.K. Meier, *op. cit.*, pp. 63-64.

3. *Repudiation of the CEPAL view of underdevelopment*

There are other critiques in which the whole body of ideas contained in the conception of the centre-periphery system is explicitly repudiated. For example, it is alleged that these ideas identify agriculture and poverty, by virtue of a supposed natural law under which technical progress occurs pre-eminently in industry, and its fruits are concentrated in that sector through the favourable movements of relative prices. It is likewise pointed out that this simplification of the actual facts is given the lie by the existence of rich agricultural countries, such as Australia, New Zealand and Denmark, and, on the other hand, of countries where industrialization has not been altogether synonymous with widespread prosperity, such as Spain and Italy.⁶¹ In contrast, it is affirmed that in the so-called peripheral economies the problem is not "to be found in agriculture as such, or in the lack of manufactures as such, but in underdevelopment owing to poverty and backwardness, to *poor* agriculture and poor industry".⁶²

It seems obvious that these criticisms are based on an alternative point of view, which envisages underdevelopment as a state or situation of backwardness in relation to the standards of modernity proper to industrialized societies. When this view is implicitly or explicitly adopted, there is also a tendency to assume that the conception of the centre-

periphery system constitutes an ideological position, according to which "... the periphery's difficulties are to be blamed on the centre"; and that this conception is, in essence, "... a modern sophisticated version of the old idea that trade can be a vehicle for exploitation rather than a means of increasing welfare all round".⁶³

If the conception of the centre-periphery system is briefly reconsidered there will be little difficulty in perceiving the inappropriateness of these criticisms and appraisals. The conception in question postulates rather than discounts the existence of conditions of backwardness in the periphery, but gives priority to those of a strictly economic nature which it regards as general: low levels of relative productivity (heterogeneity) and lack of intersectoral complementarity in production (specialization). Another of its assumptions is that this lag is likely to persist, since it is based on the difference between the two poles of the system in respect of average real income, which in turn affects the possibilities of saving, capital accumulation and readaptation of the backward production structure (cf. section I, sub-section 4). Furthermore, this model of the operation of the world economic system is understood to be presented at a very high level of abstraction, which does not preclude considering other aspects of the peripheral 'lag'. Some of them are taken into account in the conception itself, in particular certain characteristics of spontaneous industrialization, such as external disequilibrium, intersectoral maladjustments in production, superfluity of manpower,

⁶¹ J. Viner, *International Trade and Economic Development*, Glencoe, Illinois, The Free Press, 1952, pp. 62-63.

⁶² L.E. Di Marco, "The evolution of Prebisch's economic thought", in L.E. Di Marco (ed.), *International Economics and Development*, New York, Academic Press, 1972, p. 10.

⁶³ A.O. Hirschman, "Ideologies of economic development in Latin America", in A.O. Hirschman (ed.), *Latin American Issues*, New York, The Twentieth Century Fund, 1961, pp. 23 and 15.

etc. These and other special features are analysed in the various sets of analytical instruments in which the initial conception takes shape.

Clearly too, for none of these characteristics of the peripheral economies is the responsibility imputed to the great industrial centres. In particular, no assertion is made that the deterioration of the terms of trade is the cause of peripheral backwardness, or that it is due to any exploitation of the periphery by the centres; rather, it is viewed as a phenomenon inherent in the operation and deriving from the peculiar structural features of the system as a whole.⁶⁴

Thus it seems hardly legitimate to impugn the conception of the centre-periphery system and the theories deriving from it on account of their ideological character, unless it be for reasons similar to those which support the opinion that economic theory of neo-classical and Keynesian origin is ideologically biased. Nevertheless, although it is not justifiable to maintain that in the

⁶⁴ In the works of A.G. Frank a foremost place is given to the idea of the bipolarity of capitalism —which is conceived as generating the development of 'metropolitan countries', and at the same time the underdevelopment of the 'satellites'—, and this bipolarity is linked to the expropriation of a substantial proportion of the economic surplus and its appropriation by another sector of the world capitalist system (A.G. Frank, 'El desarrollo y el subdesarrollo', *Desarrollo*, Year I, No 2, Colombia, March 1966, pp. 11-12. See also the same author's *Capitalism and Under-development in Latin America*, New York, Monthly Review Press, 1965). This exploitation connotation proper to the metropolitan country-satellite pair of concepts was subsequently incorporated in some of the studies by Latin American writers who share what is known as the 'dependency approach'. The works by European authors on "l'échange inégal" give a similar connotation to the deterioration of the terms of trade.

last analysis differences can be detected between standards of objectivity in conventional economic theory and in Latin America's so-called structuralist approach, it must be borne in mind that the former has been *de facto* used to buttress positions which are of interest to the developed capitalist economies, and that the structuralist points of view have enlisted the support of the Third World countries in various gatherings, where they have been invoked to defend these countries' interests, at the level of international economic relations. The most significant cases in point are afforded by the first and second sessions of the United Nations Conference on Trade and Development (UNCTAD).⁶⁵

⁶⁵ At these meetings the underdeveloped countries presented common positions in four basic fields: the trade preferences of the centres in relation to industrial exports from the periphery; agreements on raw materials and foodstuffs, as a precaution against fluctuations in the value of peripheral exports; compensatory financing for the losses caused to the periphery by the behaviour of the terms of trade; and the high costs of maritime transport and other services. In those years the document most directly related to the positions in question was 'Towards a new trade policy for development', a report by Raúl Prebisch (Secretary-General of the Conference) to the first session of UNCTAD, *Proceedings of the United Nations Conference on Trade and Development, Geneva, 23 March-16 June 1964*, Vol. II, *Policy Statements* (E/Conf.46/141, Vol. II), New York, United Nations publication, Sales No: 64.II.B.12. 1964.

For accounts of the influence of the CEPAL conceptions on the first two sessions of UNCTAD, see A.A. Dadone and L.E. Di Marco, 'The impact of Prebisch's ideas on modern economic analysis', in *International Economics and Development*, *op. cit.*, pp. 23-27; and L. Turner, *Multinational Companies and the Third World*, London, Allen Lane/Penguin Books Ltd., 1974, pp. 87-90.

IV.

Scope and limitations of the CEPAL approach

The most important of the criticisms levelled from the standpoint of conventional economics at the components of CEPAL's long-term thinking in the sphere of theoretical interpretation have just been passed in review. A systematic survey of the comments and critiques appearing in the economic literature of the centres, carried out in 1971, confirms the overall impression recorded in the foregoing summary: save in exceptional cases, CEPAL's contributions are not judged as a whole, nor is their scope in the field of under-development theory properly evaluated.⁶⁶

The following remarks refer to the group of writings which are classified as 'basic theoretical contributions' in the table included in the present article: that is, the conception of the centre-periphery system, the three formal versions of the theory of the deterioration of the terms of trade and the several instruments of partial analysis which make up the interpretation of the industrialization process. In the first place,

⁶⁶ See K.G. Ruffing, *Two Decades of Controversy: Reactions to the Theories of Prebisch and ECLA*, CEPAL, mimeographed text, 1971, especially pp. 26-30. The most all-embracing and incisive of the criticisms, formulated by M.J. Flanders in "Prebisch on protectionism: an evaluation", *Economic Journal*, 1964, cannot be examined without going into details of CEPAL's analytical processes; in any event, it makes no difference to this basic conclusion. The principal critiques on inflation theory are listed in the bibliography on the subject appended to the present article.

brief allusion is made to the main problems of cohesion which exist in these contributions; the nature of their approach is then defined, and in default of a meticulous study of them, they are contrasted with conventional economics to show that the degree of unity they attain is so considerable that they sketch the outline of a theory of under-development. Again in default of a detailed review, recourse is had to one example—that of the interpretation of external disequilibrium—with the aim of inferring from it the limitations of the approach adopted in this group of basic contributions. It is pointed out that while this approach may explain certain disproportions between production sectors inherent in peripheral industrialization, it cannot do the same for the social relations which pivot upon production and give impetus to industrial development.

1. *Problems of cohesion*

A detailed examination of these contributions warrants the assertion that the comprehensive and complex train of reasoning they embody is, in essence, ordered and linked up around the explanation of three trends which are considered to be inherent in import-substituting industrialization: the deterioration of the terms of trade, external disequilibrium and structural unemployment.⁶⁷

Setting aside minor flaws in reasoning and inconsistencies of secondary importance, such an examination also reveals a significant lack of cohesion in the interpretation of employment problems. In this field, the ideas proper to the conception of the centre-periphery system are set forth clearly at a general level, and some attempts at formalization also exist, but these ideas are not satisfactorily related with one another. To put it more exactly, no theory has been outlined which makes a strict and precise examination—in the light of certain assumptions as to rates of capital accumulation and population growth—of how the inappropriateness of the technology generated in the centres, and the structural heterogeneity characteristic of the periphery, tend to slow down the growth rate of demand for labour, and to speed up that of supply from low-productivity sectors, with the result that structural unemployment is created.

The lack of precision just indicated brings in its train a second important deficiency. Obviously, this imprecision in itself implies that no integrated and coherent explanation of the three above-mentioned trends is available, that is, no model establishing what conditions should be simultaneously fulfilled in order to ensure that none of those trends and anomalies emerge during the import-substituting industrialization process. For example, to consider—for simpli-

city's sake—only two of the trends concerned, it has not been clearly established—given certain assumptions on trends in the central economies—how sectoral growth rates should be combined in such a way as to safeguard, in the first place, the preservation of external equilibrium, and secondly to secure the gradual reabsorption of the entire labour force in satisfactory conditions of comparative productivity, and within a definite space of time. In other words, the flaws in one of the theses discussed—that relating to employment problems—imply that neither has CEPAL achieved complete logical articulation of the several theories commented upon here.

2. *Approach adopted*

But it is less important to dwell upon these problems of cohesion than to stress the actual nature of the approach adopted in these theories—that is, its structuralist character—, since it is upon the type of approach that the scope and limitations of the whole set of analytical instruments ultimately depends.

A clear impression of the structuralist character of the initial conception can be formed from the description given in section I. This basic conception accords priority to the peculiar features of the peripheral structure of production, defining it in terms of the level of labour productivity in its various component sectors and the degree of intersectoral complementarity existing, and contrasting both these with the characteristics of the production structure of the centres. Defining the structural characteristics of the periphery in terms of their differentiation from those of the centres implies, of course, that at the same time a particular system—the

⁶⁷The intersectoral maladjustments in production—infrastructural deficiencies, rigidity of agricultural supply, etc.—constitute a fourth trend peculiar to the industrialization phase. It is not taken into account for the sake of simplicity, and because its explanation is of secondary importance, being undertaken along with and as a corollary of the explanations of other trends.

centre-periphery system— is being characterized. The structural differences between its two poles will tend, according to the initial conception, to be perpetuated, since they are inherent in the dynamics of the system itself. Thus, for example, the structural differences brought into being by outward-directed development are assumed to persist during the phase of import-substituting industrialization. For, as has been pointed out already, while a measure of diversification of production is achieved through the latter process, it is not enough to eliminate altogether the lack of complementarity between the production sectors, or the primary-exporter specialization of the periphery; and although the increase in average labour productivity is considerable, it has been unable to make up its leeway, not only because of the possible subsistence of sectors where it is very low, but because industrialization itself is effected in different productivity conditions from those prevailing in the centre.⁶⁸

⁶⁸ This brief re-examination of the conception of the centre-periphery system shows that, in broad outline, its approach is compatible with the definition of 'structure' as the propositions and relations characterizing an economic whole localized in time and space (F. Perroux); and that of 'system' as a coherent complex of structures (J. Lhomme), always provided that this concept is understood to possess a dynamic connotation, i.e., that structures gradually change and with them the system itself changes too (A. Marchal).

With respect to these definitions, see A. Marchal, *Systèmes de Structures Économiques*, Titre III, chapitre I, Paris, Presses Universitaires de France, 1960. It should be borne in mind, however, that the above-mentioned conception basically alludes to the sphere of economic phenomena; and that it antedates by several years the emergence of the methodological concern—which was to become common among the writers forming the so-

The structuralist approach, understood in these terms, is transmitted to the other studies mentioned above, in which the initial conception gradually takes shape. In default of a detailed review of these contributions, it is worth while to examine how this type of approach implies a modification of the objectives and assumptions of certain analytical instruments of conventional economics, by means of which a set of characteristics of peripheral development and of the relations between the periphery and the centres can be organically perceived.

The earliest CEPAL documents often counterpose deterioration theory to what is called the traditional theory of the international division of labour:⁶⁹ a counterposition which proves particularly illustrative of the implications of the structuralist approach.

As is common knowledge, "the traditional theory of international specialization centres on the comparison of a trading situation with a no-trade situation, and on the demonstration of the superiority of the former over the latter. This is essentially the Ricardian procedure. The mental process which we perform when, starting from a state of isolation with different pre-trade ratios of exchange in each country, we let the barriers be stripped and then study the effects of trade, is still the core of inter-

called structuralist school of thought— with incorporating other aspects of the social situation into the interpretation of Latin American underdevelopment. As regards the connotations acquired by the concept of structure in the works of these authors, see the preface by A. Pinto to A. Castro and C. Lessa, *Introdução a economia*, Rio de Janeiro, Editorial Forense, 1966.

⁶⁹ CEPAL, *Development Problems in Latin America*, *op. cit.*, pp. xv-xix.

national trade theory. The assumption of a fixed initial stock of factors can be relaxed by allowing factor supplies to change in response to trade itself, without altering the essential character of this demonstration of the gains from international specialization⁷⁰. These gains may benefit one single economy or more than one, depending upon the terms of trade, but logically speaking one result is certain: no country will be adversely affected by trade, since each will attain at least the level of wellbeing that it would reach without external transactions.

The hypotheses of the conception of the centre-periphery system, which are linked to the interpretations of the deterioration trend, are in sharp contrast with this way of looking at international economic relations. For the conception in question, these relations are characterized by the exchange of primary commodities for manufactures, a pattern peculiar to trade between the two poles of the system. Underlying this pattern are the differences between their structures of production, one being specialized and heterogeneous, the other diversified and homogeneous. These differences are implicit in the assumption relating to the disparate increases in labour productivity in the centre and in the periphery, and are basic elements in the explanation of the deterioration of the terms of trade. Taken together, these two phenomena account for the difference in average real income levels; and in turn, this difference helps to explain why structural backwardness tends to persist.⁷¹

⁷⁰R. Nurkse, "International trade theory and development policy", in H.S. Ellis (ed.), *Economic Development for Latin America*, *op. cit.*, p. 235.

⁷¹See Section I, sub-sections 3 and 4.

Thus, traditional theory—which presupposes similar degrees of development in the economies trading with one another—adopts a body of assumptions appropriate for demonstrating the advantages of specialization and trade over isolation. The conception of the centre-periphery system, on the contrary, begins by admitting that between these two types of economy there are substantial differences in respect of structural characteristics and average levels of productivity and income. And it propounds a set of alternative assumptions with the aim of showing that, in the dynamics of the development of the aforesaid system, the fruits of technical progress tend to be concentrated in the central economies, and the structural inequality tends to persist.⁷²

Since they are geared to the explanation of the above-mentioned trends—deterioration of the terms of trade, external disequilibrium and unemployment—the arguments embodied in the whole set of analytical instruments under consideration delineate an image of underdevelopment quite distinct from

⁷²This hypothesis of the perpetuation of the structural differences between periphery and centre has only been postulated in general terms; that is, it has not been developed on any precise analytical lines whatever in the three formal versions of deterioration theory to which this sub-section tacitly refers. To make the point clearer, it should also be repeated that the structural differentiation does not imply that pre- or semi-capitalist modes of production necessarily survive; since it may, for example, be confined to productivity disparities between certain branches of peripheral industry and the corresponding branches in the centres. Nor does it imply the absence of any diversification in the periphery's structure of production, but simply the continual resurgence of the difficulty of giving exports and imports the momentum required for intensive accumulation and growth.

those presented in contrast to the neo-classical and post-Keynesian growth models.

These models, of course, establish the rate of capital accumulation and/or of income growth required to keep up full employment, and/or maintain full utilization of installed capacity, both of which are virtually expressions of the dynamic equilibrium of the economic system. It often happens that the specific objectives and the behavioural assumptions proper to this type of model are left on one side, and that a 'stylized' and extremely simple conception of growth is inferred from them, which stresses some of the conditions necessary for the expansion of income, in particular an increase in the quantity of factors of production and/or in their productivity.

Underdevelopment is judged against this simple standard of reference, an attempt being made to identify the factor or factors that prevent the attainment and maintenance of a high rate of growth of social income. For example, reference is often made to the existence of a twofold vicious circle: backwardness and poverty, on the one hand, reduce the possibilities of saving and accumulation; on the other hand, they limit the size of the market and investment opportunities; and all these are requisites for overcoming poverty and backwardness.

The theories under discussion here do not deny that in less developed societies backwardness of various types exists, or that it may possibly place obstacles in the way of transformation of such societies. But in view of their basic hypotheses, it is understood that they formulate their analysis in a context which is at once broader and more abstract—that of the economic relationships between centre and periphery—endeavouring to show that the latter's relative backward-

ness tends to be perpetuated, with the characteristic differences in productivity, income and structure to which allusion has so often been made.

These theories seek not only to define the position of the periphery in the world economic system, but also to discern the internal aspects of the evolution of the peripheral type of economy. Particularly through the interpretation of import-substituting industrialization, they attempt to show that what is termed inward-directed development is a specific process—not the mere persistence of backwardness—which is characterized not only by the trends and contradictions referred to above, but also by given patterns of structural change which are peculiar to it: the foundation of the industrial sector on the branches closest to the market for final consumer goods entailing comparatively simple technology; the relative rigidity of the agrarian structure; the inappropriateness of the scale and capital density of the technology generated in the centres; the differing degrees in which this inappropriateness is apparent in the various sectors and branches of the peripheral economy; etc.

Although in very brief outline, the considerations set forth in the foregoing paragraphs show that the conception of the centre-periphery system transmits its structuralist character to the theories in which it takes shape, with the result that in them underdevelopment is not envisaged as a mere state of backwardness but as a specific process: the long-term economic evolution of the periphery, conditioned by the framework of its trade relations with the centres. Taken as a whole, these contributions sketch out a theory of the peripheral economy, or, if preferred, a theory of underdevelopment.⁷³

3. An example of structuralist analysis

In their structuralist character, then, the originality and the chief merit of these contributions are to be found. But at the same time this type of approach constitutes their principal limitation, as can be seen when attention is turned to their formal and strictly analytical aspects. Investigation of what they have in common from this standpoint reveals that they explain the three tendencies peculiar to spontaneous industrialization by *disproportions* occurring between the volumes and/or the growth rates of production, and/or the utilization of productive resources, in the various sectors, internal and/or external (peripheral and/or central).

Strictly speaking, to test the accuracy or inaccuracy of this generalization detailed study of the contributions concerned is needed. But at least an idea of its significance can be formed from one example, i.e., the explanation of the trend towards external disequilibrium.

The pivot of the reasoning relating to this trend is the concept of unequal elasticities, already suggested. The assumption is that the income-elasticity of

demand for imports of peripheral primary commodities is less than one in the centres, and, therefore, that their imports (that is, peripheral exports) will increase more slowly than their income. Similarly, it is postulated that the income-elasticity of the periphery's demand for imports of industrial goods from the centre is greater than one, and, therefore, that in the periphery imports will increase faster than income. Hence the conclusion reached is that to maintain external equilibrium, the rate of growth of the periphery will have to be slower than that of the centre, and that, in contrast, if it is more rapid than in the centre –or, more precisely, if it exceeds the limit set by the expansion of the centre and the inequality of elasticities–, there will be a tendency to external disequilibrium.⁷⁴

On the basis of this reasoning two characteristic features of peripheral industrialization are explained: import substitution and the change in the com-

⁷⁴ Let G_p and G_c be the growth rates of income in the periphery and in the centre, and E_p and E_c the respective income-elasticities of demand for imports. The equation $G_p \cdot E_p = G_c \cdot E_c$ indicates what condition must be fulfilled if the external equilibrium of the two economies is to be maintained through time, *ceteris paribus* in respect of prices and capital movements. An alternative equation

$$G_p = \frac{E_c}{E_p} \cdot G_c$$

makes it easier to see that if elasticity is lower in the centre than in the periphery (if $E_c < E_p$), the maintenance of external equilibrium requires that the rate of income growth be slower in the periphery than in the centre, and all the slower, the greater the disparity in elasticities. If this limit is exceeded, disequilibrium will probably result.

⁷³ In the British and American economic literature of the 1950s the name 'Prebisch-Singer thesis' is given to the postulates on the deterioration of the terms of trade, its significance and its causes. During the 1960s, especially after the first session of UNCTAD, the term 'Prebisch thesis', or 'The theory of the peripheral economy' is applied to the several versions of the deterioration theory, or even to the general ideas contained in them. In these remarks, on the other hand, it is considered that, although the conception of the centre-periphery system is its cornerstone, only the whole body of contributions described as 'basic' in the table included in this article forms, *grosso modo*, a 'theory of the peripheral economy'.

position of imports. The argument is simple: if growth is to take place at a higher rate than that imposed by the conditions described above and disequilibrium is to be obviated, it will be necessary to restrict imports of certain goods which come to be included in domestic production, and to prohibit those of other non-essential goods, in order to cope with the huge demand for industrial imports caused by income growth and by import-substituting production. It is likewise understood that import substitution involves a change in the composition of imports, since their restriction affects certain types of goods (for example, non-essential and/or easily-processed consumer goods, during the early phases of the process), while they are expanded in the case of other goods of a different nature (for example, intermediate inputs and machinery).

It should be noted that the foregoing analysis of the import substitution process is formulated in tacit contrast with a theoretical standard of reference, which establishes what conditions must be met in order to safeguard external equilibrium. Given certain postulates relating to the growth of the centres and of the primary-exporter sector of the periphery, it is assumed that the expansion of the sectors geared to the domestic market could be effected in such a way that complementarity between their lines of production, combined with the change in the composition of imports—the timely restriction of some of them, to clear the way for meeting the import requirements of the expanding sectors—, would enable external equilibrium to be maintained. The trend towards disequilibrium is explained in contrast with this standard of reference: import substitution itself, inasmuch as it takes place in the way described above—starting from

import substitution in respect of the simpler goods and moving towards the more complex types—, generates huge import requirements, which tend to exceed the limits set by the slow growth of exports and by the exhaustion of import restriction possibilities. In other words, the changes in the production structure and in the corresponding range of imports are not in practice occurring in accordance with the conditions of proportionality required to preserve external equilibrium. This is explained, therefore, in the last analysis, by *disproportions* between the growth rates of the various peripheral sectors and/or between those and the growth rate of the centres.⁷⁵

4. Main limitations

The foregoing interpretation of the trend towards external disequilibrium can be approached from yet another angle. The ideal conditions of intersectoral complementarity of production required to prevent disequilibrium imply that specialization (lack of complementarity) is gradually eliminated through the substitution process. In contrast, the

⁷⁵This type of explanation reaches a high degree of coherence in the article by M.C. Tavares on "The growth and decline of import substitution in Brazil", *op. cit.* Its importance lies in the fact that in it the movements of the trade balance are associated with the changes in the structure of production; for, as will be seen shortly, this implies that the hypotheses of the basic conception are consistently incorporated in the analysis of external disequilibrium. As Samir Amin has pointed out, the CEPAL documents also contain a theory of the structural adjustment of the balance of payments, but it is less precise than the one referred to here. (See S. Amin, *L'accumulation à l'échelle mondiale*, Paris, Editions Anthropos, 1970, pp. 560-574, and especially pp. 567-571).

actual pattern of change in the structure of production, which makes for disequilibrium, is attended by disproportions which mean that the specialization peculiar to the periphery is not being successfully overcome. Clearly, therefore, the disproportions that account for external disequilibrium are nothing but the expression, from the standpoint of formal analysis, of a key aspect of the initial body of hypotheses: the specialization of the peripheral structure of production.⁷⁶

Not only this trend, but also the other two to which allusion has previously been made, can be imputed to disproportions which are considered to be inherent in import-substituting industrialization. And in every case, these disproportions have the same significance: they constitute a formal expression of the idea that the specialization and structural heterogeneity of the periphery persist, despite the change in

⁷⁶ The explanation of the external disequilibrium trend described here assumes that the periphery's exports increase at a given rate and that they retain their primary character. For that very reason, it presents specialization only in the guise of a lack of intersectoral complementarity of production. An alternative standard of reference is conceivable which envisages the diversification both of production for the domestic market and of exports, thus remedying not only the lack of complementarity but also the primary-exporter condition of the periphery. It is important to note that in the first type of model import substitution necessarily involves a fall in the export and import coefficients, and that this 'closed' character of the development process is incompatible with an increase in the ideal share of foreign ownership in the total assets of peripheral economies. These implications are not, on the other hand, necessary in models of the second type, which are compatible with different degrees of openness to the outside world and of denationalization of the economies in question.

the structure of production that industrialization involves.⁷⁷

The foregoing generalization incorporates the main limitation attributed in these remarks to the body of contributions under review. The approach they adopt defines and gives priority to certain structural characteristics of the periphery and of the centre which relate exclusively to the sphere of production of goods; this makes it difficult, if not impossible, to do more than present the disproportions generated at that level, such as those emerging in the trends peculiar to the phase of inward-directed development.

This limitation derives from the very nature of the approach adopted, that is, from its structuralist character; and accordingly, it is independent of the problems of cohesion indicated in subsection 1, where it was pointed out that the logical articulation of CEPAL's basic analyses has not been satisfactorily achieved. Very broadly speaking, it may be assumed that the requisite for doing so is an ideal pattern of overall and sectoral growth designed in such a way that the trends proper to import-substituting industrialization are not engendered, and providing a suitable cri-

⁷⁷ Just as the specialization hypothesis underlies the interpretation of the trend towards external disequilibrium, that of structural heterogeneity is of key importance in the arguments relating to the unemployment trend. The two hypotheses play a joint part in the explanation of the deterioration of the terms of trade. Of the two theories designed to expound its causes —or, more exactly, to explain the conditions of disproportionality which lie at its root—, the 'cycles version' is better adapted to the general characteristics of the centre-periphery system during the phase of outward-directed development, and the 'industrialization version' is applicable solely to the phase of inward-directed development.

terion for assessing, by contrast with it, the disproportionality underlying these trends.

Owing to its complexity, presenting such a standard of reference coherently entails defining what overall and sectoral conditions in respect of capital accumulation and penetration of technology will ensure well-proportioned growth, and prevent the emergence of the aforesaid disequilibria and undesirable trends. To attain this end, however, it is enough to establish the conditions of the accumulation 'required' for the several proportionality relations to be simultaneously fulfilled. And these 'required' or 'necessary' accumulation conditions do not correspond to the accumulation process as it may be imagined to derive from the behaviour of specific economic agents, whose decisions, in actual fact, are responsible for the real patterns of structural change which give rise to deterioration of the terms of trade, external disequilibrium, and unemployment.

To take a further look at this same argument, we may enlarge upon an example previously cited. Let us suppose an intersectoral distribution of investment, linked to certain technological options, whereby unemployment could be avoided, and labour productivity brought up to the same levels as in the centre, within a definite time horizon; and that at the same time it provides for increases in installed capacity in the export sector and in each of the sectors producing for the domestic market, together with changes in the range of imports, capable in the aggregate of preventing external disequilibrium. But this ideal pattern of 'required' accumulation cannot explain why accumulation has in practice been taking place at a specific overall rate, or why in reality it has done so at particular rates in the various sec-

tors; in other words, this paradigm does not reveal the reasons why in actual fact an accumulation pattern was produced which has led to unemployment and external disequilibrium.

Generalizing on the basis of the foregoing observations, it may be said that CEPAL's basic theories, by virtue of the approach adopted, succeed only in enunciating the 'laws of proportionality' proper to peripheral industrialization; and in detecting, by contrast with these laws, certain disproportions which emerge as the structure of production changes during the industrialization process, and which lie at the roots of the above-mentioned disequilibria and trends. But the causes of these are not brought to light, i.e., no account is given of the social relations which are established in the sphere of production, and which give impetus to industrialization and the accompanying structural changes.

The same limitation is observable from another standpoint, if attention is once again turned to the basic content of the theories considered here. It has already been pointed out that in the conception of the centre-periphery system there is a basic nucleus of hypotheses according to which this system evolves on bipolar lines, that is, following an unequal development pattern, in which the differences between average levels of productivity and income and between structures of production interact and tend to persist through time. At the heart of their interaction are the differing saving and accumulation potentials which, on the one hand, derive from the inequality between productivities and incomes, and which, on the other hand, promote disparate changes in the structures of production.

The analysis of this key aspect of the initial conception cannot be based only

on the accumulation patterns 'necessary' or 'required' to prevent the emergence of certain disproportions between the sectors of production, since the bipolarity of the system does not depend solely on such disproportions, but also on the general conditions in which accumulation takes place in the system as a whole. Consequently, the theoretical development of the fundamental hypotheses, not achieved in CEPAL's contributions, necessitates studying and incorporating into the analysis the basic economic relations established around the generation, appropriation and utilization of the economic surplus in the centre-periphery system. It is outside the scope of the present article, however, to deal in detail with the implications of the criticisms indicated above.

5. *By way of synthesis*

The article by R. Nurkse previously cited contains two observations which make a useful point of departure for these final remarks.

In the first place, he points out that in practice the traditional pattern of the international division of labour was much more than a mere application of the principles of comparative advantages: it constituted a veritable 'engine of growth'. In other words, he maintains that during the nineteenth century, while the pattern in question was being consolidated, the character and the dynamism of international trade were such that the rapid development which was taking place in the centre was transmitted to the younger peripheral countries through a boom in demand for primary commodities. Secondly, he alludes to the fact that, in some cases, the expansion of the world economy led to a lopsided pattern of development which gave rise

to the coexistence of a modern export sector with much less developed, if not frankly primitive, sectors.

These two observations suggest an indubitably legitimate question. When demand for primary exports loses the dynamism it had in the past, how do the economies which acquired the foregoing characteristics continue to develop?⁷⁸

The conception of the centre-periphery system is based on the same findings, and raises a similar question relating to the type of development of the peripheral economies after the world depression, which is regarded as a turning-point, and symptomatic of a change in the former outward-directed development pattern.

In fact, this question is the *leit-motiv* of CEPAL's fundamental theories: they investigate why the peripheral economies have taken the road of import-substituting industrialization, and seek to explain some of the trends and contradictions inherent in this process, such as the deterioration of the terms of trade, external disequilibrium, structural unemployment, etc.

Thus they analyse the above-mentioned anomalies, but in order to do so, incorporate the general ideas and hypotheses of the basic conception which transmits its approach to them. An attempt has been made to illustrate this point by showing that the theories referred to alter the assumptions and objectives of certain analytical instruments of conventional economics, and thereby come to constitute, in the aggregate, the outline of a 'theory of the peripheral economy'.

⁷⁸ R. Nurkse, "International trade theory and development policy", in H.S. Ellis (ed.), *Economic Development for Latin America*, *op. cit.*

Similarly, the formal analysis of external disequilibrium has been described with the aim of demonstrating that this latter is attributed to the way in which during the industrialization process changes take place in the structure of production in the periphery, without fully remedying the lack of complementarity between the sectors of production, or, in other words, without completely eliminating the 'specialization' characteristic of this type of economy. Generalizing on the basis of the example given, an attempt has been made to show that in every case the basic CEPAL theories account for the various trends and contradictions in import-substituting industrialization in much the same way, i.e., by ascribing them to disproportions

which arise as the structure of production changes, and which are simply the reproduction, at other levels, of the heterogeneity and specialization peculiar to the peripheral economies.

Thus, the theories under review examine from a material standpoint the changes in the structure of production which are taking place in the periphery (conditioned by its trade relations with the centre), during the phase of inward-directed development, but they do not refer to those relations between social groups which are inherent in the evolution and operation of the economic system, and by which, in the last analysis, the impetus to change is given. In this sense, the CEPAL theories alter, but do not transcend, the analytical framework of conventional economics.

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