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Towards a theory of change

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With the present article the author rounds off the series he began with "A critique of peripheral capitalism" (published in *Review* No. 1), and continued with "Socio-economic structure and crisis of peripheral capitalism" (No. 6) and "The neoclassical theories of economic liberalism" (No. 7). While in all the preceding articles his main concern was to offer a critical interpretation of the functioning of peripheral capitalism and to show the inability of neoclassical theory to comprehend it in depth, in this one he seeks to trace the lines along which that system should be changed.

After recalling the basic features of his critique of how capitalism works in the periphery (chapter I), he sketches the criteria by which the process of change should be guided and which, *in toto*, constitute a synthesis of central values of socialism and liberalism (chapter II). He then goes on to pose certain inevitable questions as to the political conditions of change, through which he reaffirms the value of democracy as the ideal foundation for a harmonious society (chapter III). The next chapters (IV and V) are devoted to completing the presentation of his ideas via the analysis of problems of change linked to technique, demand, the structure of production, the specific features of peripheral capitalism, etc. In the final chapters he slightly shifts his angle of approach in order to deal, on the one hand, with the role of centre-periphery relations in change (chapter VI); and on the other hand, with the present crisis in the centres and its repercussions on the periphery (chapter VII); ending with a few reflections on ethics, rationality and foresight (chapter VIII).

His central ideas will give rise to controversy, not only because of their provenance, but also because they pivot upon the vexed questions of appropriation and social use of the surplus. But the writer is convinced that the present crisis will not be overcome with superficial measures; if it is to be surmounted and a developed, democratic and equitable society is to be built up, the process of change will have to strike at the very roots of the system.

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Part One

I

The dynamics of peripheral capitalism

I think it desirable to begin this new article –the last lap in the difficult task I have set myself– with a summary of the interpretation of peripheral capitalism set forth in earlier papers. I invariably refer to Latin American capitalism as a whole, disregarding certain inter-country differences which, important though they are, do not invalidate the essential significance of that interpretation.

In this summary I have sought to answer some well-aimed criticisms directed at the first draft of the present article, as well as at those which have preceded it.[1] I believe I have thus cleared the way for discussion of the outlines of a theory of change.

1. The fruits of technical progress and the flaws in the system

Peripheral capitalism is exclusive and conflictive: two major flaws which are aggravated by the centripetal character of capitalism in the developed countries, the inconsistency of its relations with the periphery and the effects of its hegemony.

The internal origin of these defects is to be found in the mode of appropriation and distribution of the fruits of the increasing productivity that results from the penetration of the technology of the centres into the heterogeneous social structure of the periphery, widely different from that of the centres themselves.

This process is dominated by the interplay of power relations.

The lion's share of the fruits in question is retained in the shape of a surplus in the upper strata of the social structure, thanks to the power accruing to them from the concentration of the means of production in their hands.

This unequal distribution of income in favour of the upper strata incites them to premature imitation of the consumption patterns of the centres, which, moreover, are by no means criticism. The privileged-consumer society which grows up in this way signifies a considerable waste of capital accumulation potential, with which is combined the siphoning-off of income by the centres –especially through the transnational corporations–, thanks to their technical and economic superiority and their hegemonic power.

The consequent insufficiency of capital accumulation, in respect of both physical goods and education of human beings, and the explosive growth of the population, explain in essence why the system cannot intensively absorb the lower strata of the social structure. This constitutes the exclusive tendency of the system.

With the increasingly pervasive penetration of technique, structural changes supervene which are manifested in the formation of the middle strata, both in the sphere of the market and in that of the State.

2. Twofold pressure on the surplus

In the sphere of the market, with the advance of the democratization process, the main body of the labour force acquires trade-union and political power, which enables it to secure a share in the surplus, either directly or through the social services provided by the State.

The State in its turn contends for a share in the surplus with a view to absorbing a steadily increasing proportion of the labour force, chiefly from the traditional middle classes, which, like the other workers just mentioned, acquire trade-union and political power. Thanks to this last, the employment of labour to expand State services, including the social services, is generally marked by a good deal of spurious absorption of manpower that is not really needed. The State taps part of the surplus in order to cope with this situation and to cover the purchase of goods and services in the market, in the fulfilment of its functions.

[1] Some of these criticisms and comments are published at the end of the present article, while the remainder will appear in the next number of this *Review*. I have found them helpful and enlightening, and should like to express my gratitude to their authors. Furthermore, as always, Aníbal Pinto has given me the benefit of his keenly perspicacious opinions. And Adolfo Gurrieri has lent his patient and intelligent collaboration by discussing the development of my ideas with me and making highly positive suggestions.

As a result of this twofold pressure on the surplus from the sphere of the market and from that of the State, imitation of the consumption patterns of the centres is gradually extended to the middle strata, although much less intensively than in the case of the upper strata.

Thus, income distribution basically results from a changing interplay of power relations, as alterations take place in the social structure with the march of technical progress.

3. The dynamic mechanism of the system

Thanks to the surplus and to the capital accumulation permitted by the system largely to meet the consumer requirements of the upper strata, these latter control the dynamic mechanism of the system. The system operates regularly as long as the surplus continues to be enlarged by successive productivity increments, despite the twofold pressure for shares in it.

These pressures are governed by no regulatory norm whatever, so that if they become intense, they compress the surplus to such an extent that in the end accumulation suffers, and so does the evolution of the privileged-consumer society. It is then that the conflictive phenomena of the system supervenes. Enterprises react by raising prices in order to re-establish the dynamic of the surplus, and this is followed by a counter-reaction on the part of the labour force, provided it has sufficient power, with the consequent wage increases. Thus an inflationary spiral is triggered off: a new type of social inflation which is superimposed upon and aggravates the effects of other factors.

This is how the crisis of the system begins in the later stages of development, when the play of power relations gains great momentum with the unrestricted advance of the democratization process.

The tendency to this type of crisis does not arise, of course, in countries where the social structure is unfavourable to democratization or where the changes in this structure make for a democracy in form rather than in substance.

4. The structural surplus

The first thing to recall is the structural significance of the surplus. If the fruits of technical progress are concentrated in the upper strata, this is because most of the workers whom capital accumulation makes it possible to employ do not succeed in pushing up their wages correlatively with their increasing productivity. The explanation lies in the regressive competition of the labour which stays in lower-productivity layers of technology, or is unemployed. All that happens is that a part of the fruits of technique is transferred to the limited proportion of the labour force which, mainly by virtue of its social power, has been able to acquire the ever-greater skills demanded by the new techniques.

The surplus does not peter out as a result of inter-enterprise competition, but is retained, circulates and increases because of the expansion of demand which, given the nature of the production process and its monetary requirements, precedes the appearance of the final products. This anticipatory expansion of demand prevents prices from falling as productivity rises.

The social inequality inherent in peripheral capitalism has its roots in the mode of appropriation of the surplus, without which the system could not function, since the privileged-consumer society –its outstanding manifestation– has, as we have seen, a peculiar dynamic of its own. Its ceaseless imitation of the patterns of consumption of the centres and the corresponding capital accumulation can be achieved only by virtue of the growth of the surplus.

If the twofold participation in the surplus referred to above has positive effects in certain phases of development, it ultimately comes up against the resistance of the privileged-consumer society, which jibs at conceding shares in the surplus beyond a certain limit; and this is the starting-point of the crisis.

The dynamic in question does not admit of superficial rectifications. Rather do the serious problems it poses call for another and substantially different dynamic. They call for the transformation of the system.

What can explain why the twofold participation in the surplus cannot be carried beyond this critical limit? Why should it not be possible for the income of the labour force to grow at the expense of privileged consumption? The reply is categorical. It cannot do so without detriment to the dynamics of the system; and this is precisely what happens.

The fact is that if the sharing-out of the surplus proceeds beyond the critical limit, not only is privileged consumption compressed but also the capital accumulation largely earmarked for its satisfaction. And there is no mechanism in the system to offset the diminution of this latter. The

twofold participation of the labour force in the market sphere and of the State is not accompanied by an accumulation process to replace that of the privileged strata. At best, any such accumulation would be consumptive, not reproductive. Accordingly, accumulation is adversely affected, and so is the growth of the surplus deriving therefrom.

Nothing is farther from the intentions of the upper income strata than to change the system. Their reaction is quite different: they will do all they can to revive the growth of the surplus, thus launching the inflationary spiral, which gains considerable impetus if and when the lower strata join in the struggle for participation.

5. Trade-union and State responsibility

When the crisis of the system enters upon and pursues its course, emphasis is usually placed on the responsibility of the trade unions. But very important too, and sometimes paramount, is the responsibility of the State, when it increases its share in the surplus without due regard to economic viability. The reason for this lies not only in the political pressure exerted by the labour force to obtain social advantages, but also in the State's own dynamic, which leads it continually to expand its services and its absorption of personnel (military expenditure included.)

Fiscal orthodoxy gradually becomes ineffectual as these forms of State participation are intensified. In reality, even if the hypertrophic growth of expenditure is covered by taxation, as the critical limit of the system is approached, and still more so if this limit has already been passed, the taxes in question become largely inflationary when in one way or another they affect the labour force and this latter has enough power to recoup itself by means of pay increases.

Ideas applicable to outdated situations still persist. In the early phases of development trade-union power is non-existent or very slight; and the labour force is incapable of defending itself against the tax burden it is called upon to bear. In such conditions, the dominant political power of the upper strata enables them largely to evade their own tax responsibilities as a way of safeguarding the surplus.

Taxes are not inflationary in this case. And if inflation then occurs, it is because they are not being brought into service to cover excess expenditure. In these circumstances the rules of the game are very clear-cut: to increase taxation in so far as expenditure cannot be restricted. This is the golden age of fiscal and also monetary orthodoxy.

6. The use of force

Private appropriation of the surplus is arbitrary. So is the struggle to share in it. The greater the power enjoyed, the bigger the share obtained; and this arbitrariness is aggravated as the inflationary spiral pursues its course. The intent to re-establish the dynamics of the surplus by raising prices proves a mirage, inasmuch as the counter-reaction of the labour force immediately ensues. Accordingly, accumulation and the formation of new surpluses –that is, the very stuff of redistribution– is adversely affected. And when these effects are produced they weaken the system's capacity to absorb the increase in the labour force and the manpower vegetating in the lower layers of technology.

The political power of the upper strata, which seemed to be declining with the march of democratization, once again bursts on to the scene, and the next step is the use of force, which makes it possible to break down the trade-union and political power of the disadvantaged strata, so that the dynamics of the surplus may be successfully re-established.

Let me recall what I have already said in another paper[2] with respect to the productivity increment resulting from the lavish exploitation of certain non-renewable natural resources. In this case the surplus can continue to increase, and nothing untoward will occur, despite the intensity of the twofold pressure for shares in it. The crisis of the system is accordingly deferred, but not indefinitely.

It is important to stress that when the power of the upper strata is predominant in the social structure, the trade-union and political power of the labour force is inadequate or nonexistent, and the State keeps its expenditure within moderate limits, development crisis are of a different kind.

In the more advanced stages of development, if the holders of military power are not necessarily under the dominion of the economic and political power of the upper strata, one is tempted to ask why they intervene to serve the privileged-consumer society. Here undoubtedly a complex set of factors comes into play. But the fundamental explanation lies, in my opinion, in the fact that given the nature

[2] "Biosfera y Desarrollo", a report presented at the Seminar on Development Styles and Environment, CEPAL/UNEP, Santiago, Chile, November 1979.

of the system no other criteria for getting it back into working order are available. For, as has already been remarked, its dynamic mechanism, namely, the capacity for capital accumulation, without which no impetus could be given to development, is in the hands of the upper strata. So there is nothing for it but to let them carry on, even if, apart from the political cost, the social cost is enormous.

The income of the labour force has to be squeezed not only to feed accumulation, but also so that the exorbitant State expenditure referred to can be covered, in so far as corrective measures are not viable, by non-inflationary means. Herein lies the aberration of the system.

It will not be superfluous to reiterate here what I have already emphasized in earlier articles. The system heads for a crisis when, under the impulse of the democratization process, the power of the labour force is strengthened, while at the same time the functions of the State are expanded: in other words, when the twofold pressure for participation in the surplus becomes increasingly severe.

7. Economists in face of the outcome of the crisis of the system

There is something poignant about the situation of those economists with a sense of social justice who share the responsibility for a policy of this kind with the new political protagonists entering the scene in consequence of the use of force. They have to resign themselves to adopting the obsolete rules of monetary and fiscal orthodoxy, since they have no others within their reach.

I say economists with a social sense, for there are also some who in the full tide of neoclassical euphoria have become convinced of the need to sacrifice the labour force because it has not been capable of respecting market laws. The free play of these laws must be re-established by suppressing the power of the labour force outright; and this not without a certain satisfaction in wielding the rod! Only in addition the power of the upper strata to appropriate and increase the surplus is likewise re-established.

I should be sorry to make no mention here of yet other economists who hold prudently aloof from so disconcerting a scenario. Some cherish the hope that the institutional recovery which one day will come about may give them a chance to recommend redistributive measures consistent with their ideologies, or, perhaps, a monetary and fiscal policy free from the bonds of dogma; whereby they lay themselves open to the vicissitudes of a new political cycle and to a new frustration.

Others, again, are awaiting their opportunity to transform the system. Only the transformation they advocate is not the one I am proposing to set forth here.

8. In default of a new option

The use of force supervenes because there appears to be only one alternative to the option advocated by the neoclassical economists, namely, that of transferring the ownership and management of the means of production to the State: an alternative which is based, in the last analysis, on a political regime radically different from democratic liberalism. In both cases recourse is had to authoritarianism. In the one, to a conjunctural authoritarianism which sanctifies the social inequity of the system; and in the other, to a structural authoritarianism stemming from a concept of social equity.

There does not seem to be another option, combining this concept of social equity with vigorous development, popular participation and the advance and consolidation of the democratization process.

9. The neoclassical option

The use of force makes it possible to follow certain neoclassical principles, although suitably trimmed to accommodate dominant interests, and not always skilfully applied.

Moreover, under the aegis of these principles measures are taken that differ widely according to the countries concerned and the aptitude of those who adopt them, whether they concern internal development or relations with the centres. The results also vary a great deal, with respect both to the rate of development and to relations with the centres. But over this diversity a common denominator prevails: the aggravation of social inequality.

Neoclassical reasoning, of course, is based on the regulatory action of personal interest under a system of free competition. It will be useful to recall the argument in question. Driven by the powerful motive of personal interest, in their economic activity the owners of the means of production select the techniques and capital investments that offer the highest productivity and the biggest profits. But the interplay of competition reduces profits until they

are wiped out, and all that is left is the entrepreneurs' remuneration for their work as such. The conclusion is patent. The whole community benefits if the forces of the system are granted free play.

In our preceding articles we have tried to show that this is not so; for, far from the system's tending towards the elimination of profits, they increase, and are perpetually retained by the owners of the means of production in the shape of a surplus, thus giving impetus to the privileged-consumer society. This structural phenomenon of the surplus has been overlooked by the neoclassical economists. And for this reason above all, their arguments are hopelessly divorced from the realities of the periphery.

Similarly, the facts uncompromisingly belie the notion of a spontaneous trend towards full and efficient utilization of productive resources. These economists fail to note the squandering of accumulation potential; nor do they observe the waste of manpower, especially in the lower strata of the social structure. Faced with the immense harm done to the biosphere under the full operation of market laws, they impute it to exogenous factors which have no bearing whatever on the virtue of their principles.

Where is that 'invisible hand' which was to assign those productive resources wisely, and equitably disseminate the fruits of development?

10. Economic liberalism and political liberalism

Over and over again we have endeavoured to show that this is not how peripheral capitalism works. It promotes concentration of economic power and distributional inequity. And the concentration of economic power brings in its train that of the political power of the advantaged strata.

It is true that in the course of the democratization process the sharing capacity that the labour force gradually acquires tends to counterpoise the power of the privileged strata, as well as that of the State. But the evolution of the crisis finally culminates in the use of force. Thus democratic liberalism breaks down, while the ideas of economic liberalism flourish –an adulterated liberalism which, far from bringing with it the dissemination of the fruits of development, flagrantly consolidates social inequity.

Obviously the Latin American region of the periphery has not yet succeeded in establishing democratic liberalism on a firm footing; we are all too familiar with its vicissitudes, its promising forward strides and its painful setbacks. But the past cannot account for everything. New and complex elements make their appearance as changes take place in the social structure through the agency of technique. The use of force acquires a significance different from that attaching to it in other days: it involves the aforesaid absolute divorce between democratic liberalism and economic liberalism.

What is the essential concept of democratic liberalism? To prevent the arbitrary concentration of political power at the expense of the liberties and rights of the individual and of his social and political participation. Economic liberalism, in its turn, means distributing the fruits of development to the whole community and thus disseminating economic power, in full consonance with the political objectives of democratic liberalism. Both sprang from a common philosophical source; nevertheless, in peripheral capitalism they become mutually contradictory. The use of force enables economic liberalism to be re-established –in accordance with the neoclassical option– at the cost of the relentless sacrifice of political liberalism. And both forms of liberalism come to grief under that other option which consists in transferring the management of the economy to the State.

II

Outlines of change

1. A synthesis of socialism and liberalism

In embarking upon this outline sketch, I must make my goal perfectly clear. I am seeking a synthesis between socialism and liberalism or, if preferred, a version of socialism based on the freedom of the individual and on new patterns of social coexistence.

Socialism, inasmuch as the State will have to shoulder one responsibility of fundamental importance, among others: the responsibility of

democratically deciding how social use is to be made of the surplus in order to accumulate the fruits of technical progress much more intensively and distribute them equitably.

And liberalism, in so far as the discharge of this responsibility must be compatible with the exercise of economic freedom, both because of what it means in itself and because it is essential to political freedom and to the human rights inherent therein.

This synthesis of socialism and liberalism is the new option which I am proposing to explore in these pages.

In doing so I wish to state expressly that I am not drawing my inspiration from certain currents of European social democracy –especially important in the Federal Republic of Germany– in which enlightened Latin Americans think a solution for our problem is to be found.

It is true that some European countries have attained the utopian ideal of widespread dissemination of the fruits of development. The problem is no longer that of accumulation –which, after a lengthy process, they have largely resolved– but one of continuing to forge ahead and progressively arrive at new patterns of management and social participation.

In the periphery we need to resolve the problems of accumulation and distribution at one and the same time. And we cannot, like the countries referred to, invoke the so-called social market economy, because the social structure underlying the market in the Latin American region of the periphery is fundamentally different from that of the countries which have attained a high degree of development.

At the other extreme of European socialism lies Marxism-Leninism. In the Soviet Union an enormous and deliberate effort has been made in respect of accumulation and equitable distribution. The demands of the doctrine in question, the historical conditions in which this great social experiment was launched, and the unfavourable constellation of international forces amid which it has had to pursue its course, have there combined with ideological considerations to build up a regime in which State ownership and management of the means of production has consequences that are incompatible with the aspirations of democratic liberalism and its inherent values. For me this is of definitive significance. I am averse to this system –great as is my respect for what has been achieved– on political grounds as well as on others of an economic nature.

I shall dwell later on the weighty reasons I have for thinking on these lines. Here I must utter a value judgement which nothing could induce me to renounce. It is not enough for a system to permit of social equity and vigorous development; it must also be compatible with the prevalence of certain principles which have gradually crystallized in the uneven course of democratic liberalism. They are a legacy which we have inherited from Western civilization, whose full significance is never better felt and understood than when those principles are violated and eclipsed.

Let us therefore shake off an intellectual dependence which clouds our view of our own problems. This calls for explicit statement of our objectives, and, above all, for clear-cut emphasis on the values by which they are inspired.

The social objective is obvious. The distributional disparities of a structural character in peripheral capitalism are extremely serious, and must be corrected through the social use of the surplus. This is the objective of equity, which could not be lastingly attained without a higher rate of capital accumulation, in respect not only of physical goods but also of education of human beings.

This last is of great importance, since apart from the structural inequalities there are others of a functional nature which derive from the differences in individual capacity to meet the increasingly complex requirements of technique. The acquisition of the necessary skills is strongly influenced by the social power inherent in the position of the individual in the structure of society. At the same time, the correction of structural disparities would be incomplete indeed unless, by virtue of an intensive educational effort, the great differences in social power were progressively smoothed away. On no other basis could functional inequalities be justified.

Income distribution must be dynamic if it is to be lasting; accordingly, it necessitates vigorous development. Although in the centres it has become the fashion to consider the possibility of calling a halt to the dynamic impetus, in the periphery we are still a very long way from attaining such conditions as would make it possible to enter upon a phase of this kind. Decidedly, the growth rate of the product must be speeded up; its composition, however, must not be the same, but needs altering to meet the requirements of social equity. And also the demands of the biosphere.

This endeavour to step up growth poses a dilemma whose vital significance cannot be bypassed.

We have referred to it in passing. Will it be necessary to transfer the ownership and management of the means of production to the State in order to secure the social use of the surplus? and can this be done without detriment to personal freedom?

An integral and inseparable part of personal freedom is economic freedom. Here we come upon a value judgement whose scope must be defined. When in the exercise of this economic freedom the urge to consume acquires exaggerated proportions it must inevitably end by eroding other human values. Would this trend have to be repressed? Would that be the work of the omnipotent and omniscient State? The solution must spring from those essential rights of the individual and from his membership of the social community. Persuasion, not coercion. But persuasion of a very different order from that exerted by the formidable interests which are the motive power behind the consumer society.

Persuasion and creative participation, from the classroom to the mass communication media.

Why not use those media to formulate and propagate human values which conspicuous consumption is smothering? Why should not new motivation emerge to stay economic interest from penetrating deeper than is essential for the economic efficiency of the system?

The human values in question are of transcendent importance. It is not our province to enlarge upon them now. In the vastness of Latin America there will be others better qualified to speak of them. But the transformation of the system will have to create the right conditions for these values to spring up and bear fruit. And also for the rescue of certain ethical principles which are foundering in the tides of market forces.

They are principles essential to social cohesion, without which the new system would run the risk of disintegrative instability. And those principles could not be imposed by State coercion.

2. Social use of the surplus

It has already been shown in the appropriate context that the private use of the surplus lacks collective rationality and is ultimately the source of major flaws in the system. Its rationality pertains essentially to the limited scenario of the privileged-consumer society.

Consequently, the State must determine how the surplus will have to be used in order to attain the economic and social objectives of change. To fulfil these objectives the rate of capital accumulation must be speeded up as intensively as possible in order that the increment in the labour force may be employed in conditions of increasing productivity, together with the manpower in the lower layers of technology and that part of the active population, mainly in the middle strata, which the system spuriously absorbs, largely because of the insufficiency of capital accumulation.

The social use of the surplus will make it possible to imbue the new system with a dynamic fundamentally different from that characterizing peripheral capitalism.

I shall now proceed to explain in what the social use of the surplus consists, presenting my ideas somewhat schematically, since I shall confine myself to expounding them in broad outline in order to facilitate critical analysis. Consequently, I am not proposing to go into aspects which, albeit important, would distract attention from what I consider to be of paramount significance. In any event, I hope to have the opportunity of dealing with them in some other study.

The social use of the surplus is a way of meeting the need for the State to establish an impersonal and collective accumulation and distribution discipline, compatible with the exercise of economic freedom within the play of market forces.

Under this accumulation discipline, all enterprises would be expected to increase the amount of the surplus devoted to accumulation, at the expense of consumption on the part of the owners of the means of production.

Furthermore, accumulation would also have to be increased at the expense of consumption by those who carry executive responsibilities and by personnel of enterprises who, thanks to their skills, spontaneously obtain a share of the surplus in the higher strata and the upper fringe of the middle strata.

While all enterprises would have to step up their capital accumulation, redistributive responsibilities would be incumbent only upon those in which most of the surplus derives from their concentration of a large proportion of the means of production. Medium-sized and small enterprises would therefore be responsible for accumulation alone.

Part of the surplus in the large enterprises would be distributed not only to their own labour force but also to the manpower working in all enterprises as a whole. Thus the distributional disparities of a structural character would gradually be corrected.

And thus too the private and social consumption of the labour force could be increased, at the expense of the consumption of the privileged strata.

The distribution struggle which at present distorts the operation of the system would then have been replaced by a discipline based on consideration of social equity that were compatible with the economic efficiency of the new system.

All that would remain would be functional pay differentials. As their capacity, experience and skills increased, individuals would climb above the rest to higher rungs on the ladder of responsibilities and remunerations. This indispensable social mobility calls for appropriate training patterns so as gradually to do away with the differences in social power.

In addition to this method of encouraging individual productivity, others are conceivable in relation to the entire personnel of each enterprise and to the growth of its surplus.

3. Ownership and accumulation of capital

The time has now come to speak of the ownership of the capital which mounts up as the surplus accumulates. It should first be recalled that the major evils of the system do not derive from ownership in itself, but from private appropriation of the surplus and the concentration it brings in its train. There are three possible approaches susceptible of combination in different ways:

– distribution of the new capital among the labour force;
– accumulation mainly in the hands of those owning the means of production;
– accumulation by the State.

The first approach implies assigning the labour force an increasing share in the responsibility for accumulation. This growing capital accumulation on the part of the labour force would gradually pave the way for its management of the large enterprises, which would thus become self-managed enterprises if and when it held a majority of the shares.

The second method, relating to compulsory accumulation by the present owners of the means of production themselves, would give them greater interest in the operation of the enterprises than in the preceding case, but would also strengthen concentration of capital in the upper strata. With the disappearance of the owners, however, the capital accumulated could be partly redistributed to the labour force, and in this way the redistribution of successive surpluses would be initiated. These too would become self-managed enterprises, although the process would take longer than in the former instance. In all this pragmatic consideration are of great importance.

Let us now look at the third system of accumulation, whereby the mew capital would belong to the State. Not all enterprises would be socialized, but only the large ones. This would counteract the trend towards private concentration, and although the political power thus accruing to the men at the top would be considerable, it would not be unassailable, as in the case of total socialization. This is a point to which I shall revert in the appropriate context.

Moreover, this partial socialization, unlike general socialization, would be compatible with genuine political plurality. Party strife, however, might have very serious effects on the life of enterprises. There is no need to imagine these effects; suffice it to observe what is actually happening –with a few exceptions– in our countries. Directors of State enterprises are not generally chosen on the basis of efficiency criteria but in the light of political interests. And this fact, in addition to the spurious absorption of personnel, is prejudicial to the surplus, which sometimes may even be wiped out or converted into losses.

Obviously these adverse effects could be mitigated, if mot warded off altogether, were it to be decided that the personnel of State enterprises should participate in their management. The regime would thus incorporate certain elements proper to the self-managed enterprise.

Attention must mow be turned to another important facet of capital accumulation when it is undertaken by the labour force. Whatever resources deriving from the surplus were devoted to this purpose would mostly be retained in the same enterprises from which they originated, in order to cover the expansion of these or the formation of new enterprises; with the remainder, the State would also promote the creation of new enterprises or would support the expansion or improvement of some already existing, especially those of small and medium size.

It should be reiterated that the distribution of capital to the labour force would mot be of effected enterprise by enterprise, in accordance with the accumulation corresponding to each one, but among all enterprises as a whole, and in conformity with impersonal norms.

In addition to this participation in capital. a recommendable incentive to efficient operation would be to distribute to the personnel of each enterprise a proportion of any surplus in excess of certain limits.

4. Distribution complications

The social use of the surplus is only the starting-point for thorny distribution problems. To understand the nature of these difficulties it is necessary to bear in mind the heterogeneous composition of the labour force and the power relations which it generates, in contradistinction to what is usually assumed in some limes of reasoning inspired by the mistaken notion of social duality.

For the purposes of our exposition a schematic distinction may usefully be drawn between the following structural groups, in accordance with the analysis presented in earlier articles.[3]

– the labour force which, largely thanks to its social power and also by virtue of its experience, possesses the more and more demanding skills called for by the penetration of technique. It is found mainly in the upper strata and also at the higher levels of the middle strata, and spontaneously obtains a share of the increase in the surplus without the necessity of trade-union power, although it habitually resorts to certain combinations in order to boost its income, sometimes exceptionally fast;
– the wide range of economically active population in the middle strata which, despite the possession of skills –easily acquired, however, and inferior to those mentioned in the preceding sub-paragraph– needs trade-union and political power in order to share in the surplus under the existing system.

This labour force from the middle strata is active both in the sphere of the market and in that of the State. And the interests of the two spheres are sometimes coincident and at others divergent, according to differences in trade-union and political power;

– the labour force in the lower strata, with little or no redistributive power; and
– the increment in the labour force.

It is not superfluous to recall that an increase in the rate of capital accumulation is necessary above all in order to absorb at rising levels of productivity the manpower from the lower strata and the personnel, chiefly from the middle strata, spuriously absorbed in State employment, as well as the increment in the labour force. Upon this the social efficiency of the new system essentially depends.

This increased accumulation, however, poses very serious problems. We have already pointed out that the surplus must be redistributed to the labour force and that part of it would take the form of new capital.

Obviously, there would be no reason to include in the redistribution process either the higher strata of the labour force or the upper middle strata which at present spontaneously obtain a share in the fruits of increasing productivity. What is more, the responsibility for accumulation, which is incumbent upon them too, should be borne at the expense of their own consumption.

In contrast, the accumulation effected by the rest of the middle strata, as they reaped the benefit of the distribution of the surplus, would be achieved without reducing their former level of consumption, which would be more likely to improve in a measure compatible with accumulation requirements.

These accumulation requirements should not be extended to the lower strata: among them considerations of immediate consumption could be allowed to prevail over the need to accumulate capital. It is easy to understand how this can be justified. Dynamic income distribution is a process which takes a fairly long time, so that some response would have to be made to the immediate pressure of the private and social consumption of these lower strata.

Hence it is obvious that the transformation of the system might be largely frustrated if consumption pressures made it impossible to meet the demands of collective rationality, in relation both to the growth of capital and to its social composition.

5. Incentives

Moreover, this frustration might go so far as seriously to jeopardize the dynamics of the new system if the pressure of consumption reached the point of impairing the system's economic efficiency. Considerations of social efficiency cannot be

[3] It is not my intention at the moment to offer a detailed analysis of the structure and the wide diversity of interests which come into play within it. I have confined myself to mentioning the social groups which are of great importance in power relations and therefore in the distribution struggle.

overstressed to the detriment of economic efficiency. This brings us to the incentives already mentioned. The penetration of technique demands of the labour force an increasing range of skills, from the highest to the humblest. Incentives are needed –and opportunities too– to acquire such skills and make full use of them in economic activity.

With respect to incentives, an unfortunate confusion generally exists, which needs clearing up. An increase in productivity is the result of a combination of two elements, namely: the technical innovations which take concrete shape in capital goods, so to speak; and the skills called for by technical progress. Participation in the fruits of this increasing productivity by the possessors of such skills –including entrepreneurial qualifications– constitutes an incentive indispensable to the dynamics of any system, although in peripheral capitalism it is usually carried to excess.

The surplus is a different matter: i.e., that part of the fruits of productivity which is not spontaneously transferred to the labour force because of the heterogeneity of the social structure. Its appropriation by the owners of the means of production might be supposed to constitute an indispensable incentive to stepping up capital accumulation and thus obtaining new productivity increments.

If the surplus were used essentially in this way, there might be a measure of pragmatic justification for its private appropriation. But that does not happen, owing to a countervailing incentive: the incentive to consumption in imitation of the life styles of the centres.

Recourse must therefore be had to the social use of the surplus in order to resolve the accumulation problem. But how can that part of the fruits of productivity which corresponds to the entrepreneurial activity of the owners of the means of production be distinguished from the part corresponding to the surplus proper?

The neoclassical economists had managed to clear up this question with great conceptual finesse: at the system's point of equilibrium profits are wiped out, and all that remains is the remuneration of the entrepreneurs; so the surplus disappears.

But this is not the case, since profits, far from vanishing, go to form and swell the global surplus. Consequently, the problem has only an empirical solution. It is true that in enterprises there would appear to be a clear distinction between earnings and profits. But the earnings concerned, especially in the higher strata and the upper middle strata, are influenced by the surplus, and it would only be possible to separate these two elements empirically.

In brief, the dynamics of the new system requires, on the one hand, incentives to productivity, and on the other, accumulation as an inescapable condition for redistribution of the surplus to the labour force.

Nor must it be forgotten, from another point of view, that in the skills made necessary by the penetration of technique there is generally a substantial content of social power. The solution does not lie in underrating (or politically attacking) their possessors, but in progressively eliminating that social power, by offering to all, and especially to those who are vegetating in the lower layers of productivity, adequate opportunities for training and social mobility.

It is worth while to lay yet further stress on so significant an aspect of the question. Income redistribution will gradually smooth out social disparities of a structural character, but functional disparities will continue to make their appearance. The problem consists in getting rid of the residual element of privilege contained in these latter, rather than arbitrarily smothering incentives.

I hope all this is plain and simple. But in any event, it must be recognized that redistribution which is at once equitable and dynamic is a difficult matter, owing to the interplay of immediate interests. And I say immediate, because there is an unquestionable convergence of long-term interests. This convergence could be reached only after a more or less lengthy period of transition: but it is precisely this transition period which is of interest to study. We cannot fall back on the neoclassical –and also the Keynesian– economists' hackneyed resource of passing from one point of equilibrium of the system to another without noticing the changes which take place between the two positions.

6. The State and power relations

In discussing the operation of the present system we remarked that its dynamic mechanism was in the hands of the upper strata, where most of the means of production are concentrated. Under a new system the control of this mechanism will be transferred to the State, by virtue of its fundamental responsibility for the social use of the surplus. We likewise said that in order to discharge this responsibility the

State does not need to assume the ownership of the means of production, but is merely required to determine how the surplus is to be used in order to attain the objectives of change. But what State? How is the State to override the play of power relations if, apart from its own dynamics, it functions largely in consequence of those relations?

As long as power relations make it possible to maintain the dynamic potential of the surplus –based on social inequity– it is almost inconceivable that those who primarily appropriate the surplus will be disposed to give it up on the basis of a democratic consensus. But with the advent of the crisis of the system, its economic distortion and social disintegration, the democratic power of the middle and lower strata might be able to prevail over the power of the upper strata and transfer control of the dynamic mechanism of the system to the State. This is an option which might also offer itself to those who use force to avert disruption: in that case it would be used to change the system rather than to maintain it. And if things were otherwise, the option would still be open when circumstances made it possible to return to institutional normality. This normality, however, would be exposed to the risk of a new crisis unless it were based on the transformation of the system and of the State itself.

For the purposes of this transformation, new rules of the game are needed to guide the action of those responsible for implementing democratic decisions on the social use of the surplus. They too are politicians, and motivated by their immediate political interests. Their power cannot be discretional: it must be exercised subject to rules of the game that are consistent with the economic and political objectives of change.[4]

[4] Here the old rules of monetary operation are pertinent. They meant that considerable power was given to the monetary authority, but in line with norms institutionally established by the political organ of the system. And those who were invested with executive responsibility in the political organ also had to keep their influence over the monetary authority within bounds. This regulatory system generally worked efficiently as long as the power of the upper strata made it possible to handle the dynamic mechanism of the system without major upheavals. But this is no longer the case when the middle and lower strata acquire considerable power to share in the surplus. The rules of the game then turn out to be inoperative or, worse still, counterproductive.

7. Planning the use of the surplus and institutional mechanisms

The new and complex functions thus assumed by the State will entail significant changes in its institutional mechanisms. Supreme intervention will be called for, aimed at achieving what cannot feasibly be brought about through the operation of the market, and differing widely from the countless ways in which the State at present intervenes, in many cases because it has not had at its disposal the institutional machinery to determine how the surplus should be used.

In order to meet the requirements of a collective rationality that the system lacks at present, the State will have to determine how the surplus is to be shared out among accumulation, consumption and State services. The incompatibility between these various purposes becomes increasingly marked, of course, in the more advanced phases of the system and leads to its crisis.

Accordingly, these different ends must be reconciled. But what are the criteria in the light of which the State will have to act? To what extent will it have to aim at raising the rate of accumulation?

I do not hesitate to assert that upon this last the success of the process of change mainly depends, since the rate of accumulation is an essential factor in dynamic income distribution. To that end, the absorption of the lower strata, of the labour force from the middle strata which has been spuriously integrated into the system, and of the population increment must be speeded up.

What are the dimensions of this task of labour absorption? How far will the rate of accumulation have to be raised in order to attain this objective by a given deadline?

These are questions that are very hard to answer, for the greater the effort made to increase the rate of accumulation the fewer the resources that can be earmarked for the early improvement of the private and social consumption of the disadvantaged labour force. The same problem arises –and looms very large– in connexion with the amount of the surplus that the State will have to appropriate in order to expand its services.

The social use of the surplus entails constricting the consumption of the privileged strata to serve the above-mentioned ends; for this purpose a substantial part of the surplus and of the income of the strata in question would have to be tapped. A very tricky

problem, this, since accumulation and distribution requirements must be weighed against the incentive needed by those at present carrying directorial and executive responsibilities in enterprises, and those who will have to take their place as progress is made towards the social enterprise. This relates particularly to the distinction between surplus and entrepreneurial remunerations, which, as we have already said, will have to be determined by pragmatic considerations in default of accurate criteria.

Lastly, once the new rate of accumulation has been fixed, how is responsibility to be shared out between the upper strata and the rest of the social structure as the surplus is redistributed?

The merest glance at the aspects of the question that have just been presented, not to mention others that for the sake of brevity have not been dealt with, suffices to take in the complex tasks which the State will be called upon to perform. These tasks will have to be carried out at two closely related levels: the technical level and the political level. At the technical level, the different aspects of the social use of the surplus will have to be analysed in quantitative terms, and various alternatives will have to be put forward as to ways of using it so as to serve the objectives of change: a task whose results must be transmitted to the political level, where the pertinent decisions will have to be adopted.

I am stressing this last point, because, while the tasks to be undertaken at the technical level are of great importance, we must not be seduced by the allurements of authoritarian technocracy. The fundamental decisions are political, not technical. In order to adopt them, however, it is impossible to dispense with the contribution of technical expertise; nor can those on whom political responsibilities are incumbent override the independence of those carrying technical responsibilities in so far as the preparation of their analyses and the presentation of their alternative proposals are concerned.

From the combination of tasks on the two levels should emerge the plan for the social use of the surplus. Thus planning will acquire a meaning that at present it lacks, since the private appropriation of the surplus inexorably leads to disturbances which preclude the exertion of deliberate and rational influence on the factors of development.

It is enough to propound this idea here without prematurely entering into details. All that need be added is that planning for the surplus will have to be extended over a number of years in order to achieve a reasonable degree of stability in the fulfilment of its objectives. Stability, not rigidity, since, apart from any contingencies which may make it inevitable to modify the implementation of the plan, it would not be possible to freeze the emergent power relations of the different social groups, in which the changes that are taking place in the social structure find expression.

Nor will we go very deeply in this preliminary outline into discussion of the institutional mechanisms to which the State will have to resort in order to discharge its responsibilities respecting the social use of the surplus. Suffice it to mention here the mechanisms relating to the above-mentioned planning tasks, to the participation of different social groups on a consultative basis, to the adoption of the pertinent political decisions, and to the supervision of plan implementation. It should also be recalled, in the light of CEPAL texts, that however great the extent to which the problem of accumulation and distribution may have been resolved, planning is necessary to enable the State to take farsighted determinations with respect to certain highly important changes in the structure of production which elude the operation of market forces.

From another standpoint, the State will have to establish norms for the social use of the surplus, both as regards accumulation and with respect to the share in it obtained by the labour force as redistribution takes place. These norms must be linked to the tax regime and the changes which would have to be introduced into it in order to ensure the compatibility of different objectives.

As already pointed out, a substantial share of capital accumulation would correspond to the same enterprises in which it was generated, and a part of it to other enterprises or to new ones. Here the State will fulfil promotion functions of great dynamic significance, for which it will need, of course, a mechanism to channel financial and technical resources and encourage technological research.

Much could be said on these and other subjects, but to do so would mean overstepping the bounds of the preliminary outline of change to which this article must be confined. However, in recognition of the criticisms which have been expressed in connexion with the structure of production, there will be room in due course for discussion of indispensable measures to correct certain distortions in accumulation and consumption, whether by altering the price system or in other impersonal ways.

In addition, a wide field for discussion is opened up on which I must abstain from entering, both to avoid exceeding the scope of my exposition, and because it concerns matters outside my province. I refer particularly to the constitutional regime for the surplus, that is, to the basic principles which should govern its social use and the necessary institutional mechanisms, the legal provisions relating to these latter, and the political handling of the plan and its possible modifications. It would also be necessary to establish the legal regime and the responsibility of the State respecting those enterprises in which part of the surplus would have to be accumulated.

These reflections on the State lead to a conclusion which needs emphasizing. Changes in power relations, in the structure of political power, are an indispensable but by no means a sufficient condition for the transformation of the system. It is necessary to know the object and the manner of that transformation; in short, a theory of change is required.

Nor, in turn, will it be enough to construct such a theory, if no change takes place in the structure of political power.

The democratic option in question can be glimpsed, although it has not yet been formulated; we must zealously search for it. I hope it will be a synthesis of socialism and liberalism –a liberalism springing from its original philophical fountainhead.

8. Enterprises in the process of change

We shall not explore this issue either, but it does seem desirable to mention the changes that would have to take place in enterprises as a result of the social use of the surplus. In the light of what has already been said in the context of accumulation and of what we shall go on to say, the enterprises that would exist could be divided into the following categories:

– small enterprises in which accumulation and management would remain in the hand of their owners;
– medium-sized enterprises in which part of the accumulation would begin gradually to be effected for the benefit of the labour force as a whole, while their management would still be the responsibility of the owners;
– large enterprises, including any resulting from the growth of those of medium size. In this case progressive accumulation in the hands of the labour force would clear the way for self-management;
– enterprises whose capital would belong to the State;
– foreign enterprises.

It is worth while to dwell briefly on the implications of this entrepreneurial plurality.

There is no reason for surprise at the special treatment of small and medium-sized enterprises, in view of what has been said of the significance of ownership of the means of production. What is of fundamental importance is to prevent their concentration, since that gives rise to the concentration of the surplus and, in turn, to a new process of concentration of capital. This objective will be attained through the social dissemination of capital throughout the labour force in all enterprises as a whole.

On the other hand, from the standpoint of the dynamics of the system and the incentives required to keep it going, the capital of these small and medium-sized enterprises ought as far as possible to be accumulated in the hands of their owners. It must be recalled, however, that after a certain point the surplus in such enterprises would begin to be distributed to the labour force.

The importance of accumulation on the part of the personnel of enterprises goes far beyond a redistributive operation. The dissemination of the new capital would gradually place a larger proportion of the ownership of the means of production in the hands of the personnel. A time would thus come when the latter would acquire a majority of shares that would allow it to assume the management of the enterprises, converting them into self-managed enterprises, independent both of those in whose hands capital used to be concentrated, and of the State.

This is a point of vital importance. Self-management is the concern of large enterprises whose technical and economic complexity demands a strong sense of responsibility in the choice of those who are to form their boards of directors, which, in their turn, will have to appoint the holders of executive posts. Different ways of making the selection are conceivable. One of them, perhaps the most advisable, would be to form three estates carrying equal weight: that of the high-ranking personnel (directors and technical experts); that of middle-rank employees and skilled workers; and that of lower-rank employees and unskilled workers. The representatives of these three estates would form the board of directors of each self-managed enterprise, on which the State would also be represented when

it had contributed resources for the enterprise's expansion or rehabilitation.

These representatives, together with those of the present owners, would participate in proportion to their share in the capital, whose social composition would gradually change as described above.

The motives justifying State ownership of enterprises are common knowledge. They relate, above all, to those activities whose very nature precludes their competing in the market; to cases in which the dimensions and technical complexities of the activity make State promotion important; and to the purpose of counteracting the penetration of foreign enterprises in decisional fields which are the exclusive province of the country itself.

But we also know that the results achieved by public enterprises are not always positive. Hence the desirability of giving their personnel a share in their management, in combination with representatives of the State. Moreover, there would be no reason to debar the labour force from acquiring shares in the capital of such enterprises.

Foreign enterprises pose a special problem with regard to accumulation. For, in contrast to what happens in the case of a country's own enterprises, part of the surplus is used outside the national jurisdiction. This fact and other considerations make it advisable to establish a special regime. Among such considerations it must be borne in mind that the changes in demand brought about by the social use of the surplus will enforce certain adjustments in the operation of these enterprises which will favour their transfer to national ownership.

In all this the State will have to act in the light of a strictly selective criterion, both as regards the establishment of new enterprises and with respect to the takeover of ownership by the country's own nationals, once the technical and economic capacity for running the enterprises under a self-management system had been built up.

9. Distortions in the social use of the surplus

Whatever the extent to which the new system is based on a significant change in the structure of political power, it will not mean that the effects of the structural heterogeneity of the labour force will have been overcome. A long time will have to go by before relative social homogeneity is attained.

In the meantime, the new system will not be immune from dangerous pressures which could weaken the regime of social discipline in respect of accumulation and distribution, with very serious political consequences.

Under the new institutional regime, no social group would be able to improve its share in the surplus by its own decision alone. I am not of course referring to differences corresponding to individual contributions to the production process, that is, to differences of a functional nature, but to those whose origin is structural. The share in question could only be altered in accordance with the organic procedure established, subject of course to any modifications which it might become necessary to introduce. For an improvement in one social group's relative participation in the surplus would be detrimental to that of the other groups, unless it were secured at the expense of accumulation; the same might be said of the share in the surplus directly or indirectly appropriated by the State.

Note the fundamental difference from the existing system, in which these various pressures are exerted without regard to their subsequent incidence and, if they go beyond a certain point, their inflationary effects.

Such would be the rationality of the new system and its elemental need for planning. But planning, despite its rationality, will not suffice in itself to contain disruptive pressures. How can the various immediate interests be reconciled with one another and their compatibility with accumulation requirements likewise be ensured?

I am far from cherishing a mechanistic illusion. The wisest and most farseeing constitutional provisions are always exposed to risks of distortion and violation. But there are ways of re-establishing their regular operation, perhaps with certain reforms recommended by experience; and the same might be said of the institutional regime for the surplus. The power of certain social groups might overstep its bounds and secure political decisions which would have perturbing effects on the new system; or the system might suffer the consequences of populist irresponsibility. But in accordance with new rules of the game the exact social incidence of such aberrations would be ascertained, and there would also be known means of bringing the institutional regime for the surplus back into working order; another great difference from the present system, in which there are no rules of the game that can hold the inflationary spiral in check.

However, not very much imagination is needed to discern the consequences of persistent irregularities

in the course of which the groups with most political power would end by undermining the very foundations of the new system. Thus events might provoke the use of force, either to impose the aforesaid rules of the game, or to bring about by authoritarian means a return to peripheral capitalism, or to enforce structural authoritarianism by establishing an omnipotent State through the transfer of the ownership and management of the means of production.

I say this in all frankness because I do not suppose myself to have found an impregnable solution. I am very well aware of the great obstacles that will have to be surmounted. This is not a matter of formulas which, once adopted, will produce their beneficial effects by themselves. Strong conviction will be needed, both to arrive at a new system and to overcome the formidable obstacles which will present themselves in the course of its operation.

But is there any other way? A way which will enable vigorous development and equitable distribution to be combined with individual freedom? If there were, if this discussion pointed to it, I should not hesitate to follow it, retracing all the toilsome road I have travelled up to now.

10. The social use of the surplus and the degree of development

From all that I have said so far it might be thought that my arguments relate only to the countries at a more advanced stage of development, in which the democratization process is becoming incompatible with the system of accumulation and distribution.

But this is not so. In reality, I have placed the emphasis on such cases, not only because of the importance attaching to them, but in order to reveal the prospect that lies ahead of the other less developed countries, if they do not profit in time by the experience of those that have advanced farther.

It is true that very marked differences exist. In countries where industrialization is incipient the proportion of the labour force working in agriculture and in other low-productivity activities is very high; so too, usually, is the rate of population growth. Consequently, the problem of absorption presents itself on a relatively very large scale. How can it be faced if the surplus in the nascent industrial sector is tiny?

There is nothing for it but to resort to the real or potential surplus from agriculture and other sources of primary production. True, this is also necessary in countries with a higher degree of development; but there surpluses also exist in industry and in other technically advanced activities.

In the less developed countries in question, the two land tenure situations mentioned in chapter IV are to be found: estates that are technically well-run and others that are not. In the case of the former the surplus must be tapped with a view to its social use; whereas in that of the latter the surplus has first to be created, by enforcing in one way or another their more efficient exploitation. In both cases part of the surplus appropriated must be used not only in agriculture but also to give impetus to an indispensable industrialization process.

The same might be said of non-renewable natural resources, where usually a disproportionate amount of the surplus is transferred to the centres.

These are problems by no means easy to resolve, but a solution will have to be found if a country is to develop vigorously on a basis of distributional equity.

In any event, the experience of the more developed countries shows that if in such circumstances no attempt is made deliberately to influence accumulation and distribution, a course will have been followed that inevitably culminates in the exclusive and conflictive phenomena with which we are so deeply concerned.

Sooner or later the democratization process will begin to gain momentum, or to recover if a collapse should have occurred. And whether the movement is spontaneous or violent, it is essential to beware in time of the risk that is run if the process is primarily oriented towards immediate forms of distribution and dynamic requirements of decisive importance are disregarded.

And thus we come back to the same fundamental problem that is common to all, whatever the stage of development reached: the problem of accumulation, especially of reproductive capital, so that dynamic income distribution can be placed on a firm footing.

If the movements inspired by concern for social equity do not face up to this problem, democratization is risking self-destruction.

Differences in degrees of development mainly affect those who will undertake accumulation and the aims they are to pursue. Of course, where industrialization is incipient, accumulation will have to be effected in small and medium-sized enterprises in the hands of their owners. It is these enterprises that in the course of time will evolve in the direction

of more advanced technical methods and larger scales of production. Through the social use of the surplus it would be possible to give technical and financial support to the initiative shown by entrepreneurs; unquestionably a very important role for the promoter State.[5]

III

The political art of change

1. Changes in the structure of political power

Obviously, the transformation of the system –whether the point at issue is the socialization of the surplus or that of the means of production– cannot come about without fundamental changes in the composition of political power. It is true that these changes occur as the social structure gradually alters. Political movements set afoot by the increasing power of the middle strata, with the eventual addition of that of the lower strata, gradually strengthen the capacity of these social groups to obtain a share of the surplus. But they are essentially distributional movements, which never have and probably never could have got to the bottom of the problem. In reality, the belief has prevailed that in this way the inequity of the system would gradually be corrected and the risk of radical solutions would thus be warded off.

It can now be seen more clearly that distributive democracy tends to bring destruction upon itself by provoking the use of force.

To put it plainly, the option of socializing the means of production has been confronted with no other option capable of securing a majority consensus and thus averting the use of force. I do not count, of course, the neoclassical option, which is based on flagrant suppression of the democratic process.

The use of force cannot be indefinitely kept up. As experience shows, force wears itself out with the passage of time, new leaders assume the responsibility of exercising it and popular aspirations to political freedom and equitable distribution grow and multiply. And unless channels for the re-establishment of institutionalism are opened up, the system is increasingly exposed to violent confrontations.

At all events, I cannot discuss political strategy without exceeding the aim pursued in these pages, and, perhaps, because it is not within my competence to do so. Furthermore, strategy must take into account the conditions really prevailing, in respect of both internal development and relations with the centres. The difficult task I have set myself is different: what is to be done when, whatever the strategy adopted, a composition of political power favourable to the transformation of the system has been achieved?

A change in the political structure is an essential but not a sufficient condition. And I have endeavoured to answer this question by exploring a new option which might combine, as I have said elsewhere, vigorous development, social equity, and participative democracy accompanied by respect for the essential rights inherent in it.

In the course of this exploration my particular intention has been to study the phenomena that occur at the more advanced stages of peripheral development. I consider that sooner or later they are bound to appear in other countries, in view of their special conditions. But in the meanwhile political crises in these less developed countries are of a different nature.

They are countries in which the way has not yet been cleared for democratization, either because of the opposition put up by the dominant power of the upper strata in whose hands a large proportion of the land and capital is concentrated, or because

[5] This is not the place to enter upon a discussion of the possible applications of the capital accumulated, but what it does seem worth while to stress is the potential significance of State intervention in foreign trade. Here again the experience of the past can teach a useful lesson.

Not only import substitution is a necessity, but also the encouragement of exports. Asymmetry in industrialization will have to be avoided. It is true that this largely depends upon the attitude of the centres, which, as we are all well aware, have not been characterized by their openness, if I may be allowed to reverse the usual application of the term. In view of this fact, it is all the more essential to press with renewed energy along the promising path of reciprocal trade.

the process is slowed down or halted by the various forms of co-option or manipulation which characterize a democracy in appearance, where external forms prevail over genuine substance.

Can the inhibition or adulteration of the process be indefinitely kept up? Can the system withstand increasing aspirations towards democracy and social equity? Supposing the reply were in the negative, and an important change in the power structure of the countries concerned were to supervene: What should be done? How could the illusions of a merely redistributive democracy be avoided, so as to prevent a repetition of the same process as in the more developed countries? The answer cannot be the same as in their case, although neither is it fundamentally different, as will be seen in due course.

Let us now return to the countries where democratization has made some progress. Notwithstanding the ideological differences which characterize political pluralism under a democratic regime, there are generally areas of agreement as to forms of direct and immediate redistribution and as to the expansion of State services, in which the paramount need for accumulation is disregarded. Nevertheless, accumulation, as we have repeatedly stressed, is the only way of securing dynamic income redistribution, and, therefore, a lasting improvement in the lot of the disadvantaged strata.

2. The political solution of the crisis

When the crisis of the system becomes acute, however, an irreconcilable rift is opened between those who still adhere firmly to a genuinely democratic ideology and those who profess other ideologies with a substantially different political significance. These discrepancies are too well known to justify a digression into hair-splitting discussion of the use of words, although they end by becoming an insurmountable obstacle to a political solution of the crisis backed by a majority consensus.

Important as this obstacle is, it is not the only one. Political movements that maintain the inescapable need for an omnipotent State, based on a single disciplined party, which can dissolve the power of the private owners of the means of production and take over the management of these, have at their disposal a well-knit doctrine of change which they propose to put into practice; but the same is not true of those other movements of a democratic character. Among them there is frequent talk of a society which is neither capitalist nor socialist, and although these movements are inspired by the idea of distributional justice, they usually abstain from making a determined attack on the very source of the major defects of the system, i.e.; private appropriation of the surplus.

All this is profoundly serious and disconcerting. It is not surprising that in these circumstances an attempt is made to blame the politicians for not finding ways and means of resolving the crisis of the system. The responsibility, however, is one which those of us who hold forth about development must share, and in the highest degree, since we have been incapable of contributing to the search for a new option.

We have offered no such new option, either to democratic movements inspired by the ideal of social equity, or to those who resort to force in a not always successful endeavour to put the system back into regular working order. We can hardly be surprised when these latter, swept along by circumstances, and also by certain doctrinal preferences, succumb to the lure of simplicity as held out by the formulas of economic liberalism. And since the trade-union and political power of the labour force has violated market laws, with the ensuing disruption and social disintegration of the system, it must be suppressed in order to contain the inflation which is responsible for these evils!

Herein lies our fundamental problem. It is essential to offer a new option to democratic movements in order to forestall this grave eventuality in time: whether democratization is resolutely pushing ahead where it has been unable to develop, or whether it is being revived where it had been suppressed.

In such cases there would no longer be the option of an economic liberalism which can be maintained only by the use of force. And the lack of a new option could lead to serious capitulations on the part of those who, motivated by deep-rooted aspirations to social equity, might allow themselves to be seduced by the illusion that transfer of the ownership and management of the means of production to the State is the best way of fulfilling these aspirations without sacrificing democratic plurality.

Very striking, moreover, is the social ferment seething in the Church. And it is easy to understand the tribulations of theologians and believers who, deeply distressed by the spectacle of tremendous social inequality, seem to be prepared to compromise up to a point with ideologies of change whose underlying philosophy would appear irreconcilable

with the spiritual power of the Church. They do not need to do this. I hope they will consider the ideas which are set forth in the present article. While writing it, I have been profoundly impressed by this recent declaration on the part of John Paul II: All private property carries a social mortgage.[6] Is this mortgage perhaps the social use of the surplus?

Furthermore, why should not this new prospect be put before the military authorities too? We have repeatedly referred to the use of force with a view to introducing economic liberalism without changing the bases of the system. However far it may be true that those responsible are not necessarily concerned about the political cost, which some consider transient and inevitable, if not acceptable, it is common knowledge that in the end many of them are disconcerted by the social consequences of an adulterated economic liberalism –consequences which are protracted if not aggravated with the passage of time.

Is not surprising, therefore, that after a phase of euphoria –fostered by some external evidence of admiration– there should be growing dismay at the serious social implications of this type of development, apart from its huge political cost.

Thus events act as a spur to increasing aspirations towards a return to normality, with certain institutional adjustments. But it is necessary to get to the bottom of the problem. Normality of course entails restoring the redistributive power of the labour force. How, then, is the development of a new political cycle to be avoided? How would it be possible to hold in check the conflictive tendencies deriving from a new inflationary spiral, or from the intensification of one that had not been successfully extirpated? How can the exclusive tendencies of the system be counteracted, which, far from being attenuated, are usually aggravated under a regime of force?

Schooled by their frustrating experience, the armed forces might perhaps be interested in considering other options, such as that set forth here; with a view, however, not to imposing them, but to understanding the significance of any democratic movements proposing to put them into effect.

In default of the other options referred to, no one can affirm that the course of events may not incline the armed forces too to overcome certain doctrinal objections –hitherto apparently very powerful– to the option of socializing the means of production.

3. Political significance of socialization

The new option described in the foregoing pages is based on the social use of the surplus. The mere mention of this idea turns one's thoughts in the direction of the socialization of the means of production, since it is from them that the surplus derives. This would seem to be a condition logically imposed by the transformation of the system.

But I think otherwise; and these are my reasons. The socialization of the means of production and their management by the State has very serious political consequences, quite as important, in my opinion, as its economic effects, or even more so. Socialization is indissolubly linked to a political regime which is substantially at variance with the values that have guided and continue to guide Latin America's strivings after a representative and participative democracy in which basic human rights are fully respected.

I am conveniently placed to speak bluntly about the consequences to which I refer, inasmuch as I am very far from having defended peripheral capitalism in my earlier work. I have criticized it not only from the economic but also from the social and political standpoints. Accordingly, when I oppose the socialization of the means of production, I must not be taken to do so for the sake of exalting the virtues of that capitalism, much less to condone its social inequity.

Be this as it may, both the socialization of the means of production and the process of change that I am advocating impugn private appropriation of the surplus. The social use of the surplus is the starting-point common to both, but the roads to be followed subsequently are very different.

To place the management of all the means of production in the hands of the State bestows

[6] See his opening address at the Latin American Episcopal Conference, 28 January 1979. The Pope also explicitly states the evangelical mission of the Church in face of social inequity in the following terms: it must preach, educate individuals and communities, form public opinion, guide those who are responsible for their peoples. It will thus be working for the benefit of society, in which this Christian and evangelical principle will ultimately bear fruit in the shape of a more just and equitable distribution of goods, not only within each nation, but also in the international world in general, preventing the stronger countries from using their power to the detriment of the weaker.

Those who shoulder the responsibility for public life in States and nations must understand that internal peace and international peace will only be ensured if a social and economic system is in force that is based on justice.

unassailable power on the men at the top, however they may have got there. That is where the lines of command start. And the way of life of the labour force, or rather of the whole population, their income, their promotion, the reward of merit, depend in the last analysis upon summit decisions. And in all this account is taken not only of personal capacity but also of militant loyalty to the system.

Ideological unity is an essential element in this loyalty and in the stability of the system. And the ideology in question is not one that is fed by the free and spontaneous expression of thought, but one which emanates from those who carry the responsibility of power and feel the need to strengthen it by diverse means. Accordingly, there is no room for fundamental dissidence which may jeopardize ideological unity, party discipline and the cohesion of the system: a cohesion which might be impaired if the exercise of freedom of expression were to overstep certain bounds, or if artistic and literary creation and intellectual activity were to deviate from the channels mapped out from above. This is the cohesion inherent in and imposed by the system, which allows of no other manifestation of authority.

It is understandable, therefore, that the spiritual authority of the Church should be deemed incompatible with the omnipotence and omniscience of the State.

This requirement of cohesion in doctrine and praxis is binding even upon those at the summit. For if any of them disagree over weighty questions, they incur the disapproval of the rest, which is a very serious matter, for those who lose status in these internal disputes have not the alternative of expending their efforts in the sphere of private activity, which simply does not exist. Thus the indefinite protraction of the leaders' term of office, however long it may be, becomes an important factor of enforced unity. Stability of the system and gerontocracy!

In addition, the hierarchical links in the chain of decision and vigilance make it possible to nip in the bud the slightest sign of substantial nonconformity. The system has its own internal logic, and exceptional firmness of mind is needed to refuse to comply with its adamantine requirements.

4. The vitiation of the market

Furthermore, State ownership and management of the means of production is inseparable from a radical change in the nature of the market, since what is to be produced and consumed depends ultimately upon a central authority. Thus the market loses its political significance, which transcends its economic importance. I am not going to idealize peripheral capitalism in this respect either; nevertheless, to whatever extent the course of development may bring in its train an increasing concentration of economic power, the margin of individual freedom is still quite wide. Otherwise the trade-union and political power of the labour force could not have grown up with the advance of democratization. The only thing is that when that power interferes with the dynamics of the surplus, the use of force permits its suppression.

As I maintained in my earlier articles, the major defects of the system lie neither in the market itself nor in the economic freedom on which it is based. They arise out of the social structure and the power relations which pervert the social efficiency of the system through the arbitrariness of distribution and the insufficiency of capital accumulation.

It is true that under a strongly authoritarian system the concept of the economic freedom of enterprises and individuals –an essential factor in economic efficiency– is not ruled out. But if this freedom were to become genuine, the dominant nucleus would lose an element of cohesion indispensable to the stability of the system and to its own continuance in power.

What is more, if economic liberty exists and entrepreneurs are free to use their own initiative, and if these entrepreneurs emerge from within the enterprises themselves and not from among those in whose hands political power is concentrated, how could they be prevented from aspiring to freedom of expression and participation in political decisions? How far would it then be possible to separate political freedom from economic freedom? Would not the logic of the system call for repression of the political liberty of those who, having acquired economic freedom, expressed discrepancies with that system or with the way in which it works? Could economic freedom be insulated from these effects?

5. Political pluralism and socialization

Let us now pause a moment to interpolate a word on doctrine. In the scientific theory of Marx –which must be distinguished from militant Marxism– doctrine is an integral part of the superstructure,

which is decisively conditioned by the basic structure of the system. Changes in the structure, as the forces of production develop, promote changes likewise in the superstructure. There are no ideologies of permanent value.

I wonder, therefore, whether the changes that have been taking place in the structure have not something to do with the new currents of ideology which are springing up in other latitudes, and to which a circumstantial and temporary value is sometimes attributed, rather than a lasting significance. At all events they should be considered within a broader doctrinal context.

In these new currents political pluralism is explicitly accepted, in contradistinction to the hitherto dominant concept of the dictatorship of the proletariat, however it may be defined. Pluralism is a *sine qua non* of democratic liberalism. And I do not understand how the latter can be reconciled with an omnipotent State which concentrates in its hands the ownership and management of all the means of production. If democratic change is really the aim pursued, the new currents of thought must not shirk frank discussion of this problem.

6. Some initial political risks in the process of change

What I am undertaking in these pages is persuasive action. I want to bring it home to my readers that there is an option for change compatible with democracy and requiring thorough exploration. Should the findings of this exploration be positive, that would be only the first step towards inspiring and promoting broad political movements which could result in a majority consensus.

Subsequent events, however, might vitiate certain basic elements in the process of change to such a point as to jeopardize the existence of the new system.

Among these elements I should like to mention the collaboration of the present owners of large enterprises who are efficiently performing the task of directing them. In our countries this entrepreneurial work on the part of the owners is still important. They must be given not only the opportunity to go on with it but also adequate incentives to do so, although it is true that they will no longer have the surplus at their disposal, since control of that dynamic mechanism of accumulation will be handed over to the State. But the owners would continue to earn interest on the capital accumulated in the same way as any part of the labour force that accumulated new capital. They would also receive the remuneration due to them for their entrepreneurial activities, and other incentives linked to the global productivity of the enterprises.

If, in spite of this, stubborn opposition to the new order of things was still put up, those who carried political responsibility in the new system might be induced to transfer all the means of production to the State. Thus, instead of a gradual change in the composition of the capital of large enterprises until their management passed into the hands of the labour force, there would have been a sudden switch-over to State ownership and management.

It is readily understandable that serious distortions would be entailed by such a modification of some of the basic elements in the new system. It would not be only the large enterprises that were affected. We have already explained that medium-sized enterprises would increase their capital accumulation in the hands of their present owners. But as their dimensions approached those of the large enterprises, they would run the risk that, precisely because they had accumulated more capital, they would be exposed to the transfer of their capital and management to the State. This would weaken the impulse to growth, of so much importance in the new system.

The effects of this kind would be equally serious, or even more so, if no attention were paid to the necessity of granting special incentives to the executives, technical staff and other members of the personnel of large enterprises. Their collaboration is of the greatest importance in itself; and much more so in default of that of the owners. If they were dispensed with out of excess of political zeal, it would take time to fill the gap. And then incentives would have to be offered similar to those which had previously been withheld.

Taking an unflinchingly realistic view, I must recognize that the great initial difficulties –not only internal, but also international– attendant upon the process of change might lead those responsible for it to a measure of authoritarianism: a conjunctural authoritarianism, perhaps, but in any event profoundly regrettable. Strong conviction would be needed to prevent it from becoming structural authoritarianism. Undoubtedly, in the face of obdurate opposition, the transfer of the

ownership and management of the means of production to the State would be a formidable instrument of supreme authority of a structural character. And the way would have been barred, perhaps for an unconscionable length of time, to democratic progress.

IV

Technique, demand and structure of production

1. Consequences of unequal distribution

In my critical analysis of peripheral capitalism it was largely to the unequal distribution of the fruits of technical progress that I attributed the major flaws in the system. The aim of the social use of the surplus is to correct these flaws, as has been shown in the foregoing pages.

There are two main ways in which unequal distribution influences the structure of production. On the one hand, it casts demand into a mould which is wasteful of physical capital and labour; and, on the other hand, it promotes a certain selection of techniques, and therefore certain patterns of accumulation, which also represent a waste of productive resources. To the best of my belief, the system of accumulation and distribution that I am advocating will enable these deficiencies in the structure of production to be largely set right.

But that would not be enough, for the penetration of the technique of the centres into a peripheral social structure very different from theirs brings with it certain unfavourable effects on the efficient use of capital, which could not be counteracted under the aegis of the new regime, but would necessitate deliberate State intervention in the structure of production.

I have been rightly criticized for having shelved these adverse consequences, as well as others deriving from the erroneous choice of techniques, in my anxiety to stress the paramount influence of the system of accumulation and distribution which characterizes peripheral capitalism.

In reality, I have had no difficulty in taking into account the phenomena to which these criticisms refer, since I have discussed them in former articles in this *Review* and in other earlier publications. Accordingly, in the present chapter I should like to present a succinct and coherent version of those interpretations and to underline their significance.

I note that in all this there may be something more than a mere matter of theoretical emphasis, since I should not be surprised if the influence of these phenomena affecting the structure of production were to encourage a certain trend in favour of the State's taking it into its own hands, via the socialization of the means of production. In my view, from the standpoint of the social use of the surplus the socialization and management of these means by the State is not acceptable, for basically political reasons which I have already set forth in the appropriate context, apart from its economic consequences. For it would undoubtedly mean endowing the State with a power so considerable as to be incompatible with the conservation of essential freedoms.

If this is so, it would hardly be possible to resort to socialization, not in this case to resolve the problem of accumulation and distribution, but to remedy deficiencies that might persist in a new system, despite the social use of the surplus. I maintain that the State has other means of correcting them at its disposal.

2. Reproductive and consumptive techniques

In order to understand the changes that take place in the structure of production in the course of development the meaning of the duality of technique must be recalled: on the one hand there are the techniques which aim at increasing productivity; and, on the other, those mainly geared to the diversification of goods and services.

I have applied the term `reproductive' to the capital required for the first group of techniques, inasmuch as the productivity increment obtained by their means enables capital accumulation to be increased, with further productivity increments as a result, and so on in succession, in a process which has multiplier effects on employment.

The diversification techniques also necessitate capital, not, however, to boost productivity but to

obtain more efficient goods and services, of better quality, or designed to satisfy aspirations after different life styles and conspicuous consumption, as well as social prestige and ostentation of wealth.

These diversification techniques cannot develop without the reproductive techniques. It is the productivity increment and the corresponding increase in income brought about by these latter that spur the progress of the diversification techniques, so that the growing demand generated by the income in question may be stimulated and tapped.

It would indeed be pointless to go on lavishly producing the same goods and services beyond certain limits, by virtue of the improvement in productivity. On the contrary, diversification allows the income increment to be expended on a ceaseless display of new and better goods in ever-increasing quantities.

Accordingly, the progress of diversification techniques is the logical consequence of their close combination with reproductive techniques in one and the same production process. Thus the proportion of diversification techniques in the composition of capital tends to rise.

Because the fruits of productivity are so unequally distributed, the use of diversification techniques develops more intensively than it otherwise would. Thus the proportion of consumptive capital increases to an exaggerated extent, at the expense of reproductive capital. And this is of considerable importance in peripheral capitalism.

This social waste of capital is one of the major factors in the exclusive tendency of peripheral capitalism. There are cases in which productivity has increased remarkably by virtue of the introduction of new layers of technology, but the fruits of this productivity increment, owing to their unequal distribution, are largely earmarked to satisfy the diversified consumption of the privileged strata, to the detriment of the social integration of the lower strata.

3. The consumer society and accumulation

One of the criticisms that have been addressed to my account draws attention precisely to cases in which the privileged-consumer society has developed to a notable extent and nevertheless a high coefficient of capital accumulation has been achieved. Accordingly, there is not an insufficiency of capital, we are told.

The insufficiency is to be seen, however, in reproductive capital. This state of affairs is aggravated when the suppression of the trade-union and political power of the labour force allows real wages to be squeezed for the benefit of higher social strata. These strata can then still further increase their diversified consumption and their accumulation of consumptive capital.

Let us recall in passing what we have said in earlier articles. A considerable part of this accumulation of consumptive capital corresponds to conspicuous investments in costly housing on the part of the upper strata, as well as to certain State investments which are immune from considerations of economic viability.

It is not enough, therefore, to observe that the rate of accumulation has risen; it is also necessary to ascertain what is being accumulated.

Here I have another remark to make before leaving this aspect of the question. If the object of development is not only economic efficiency but also social efficiency, consumptive accumulation should be kept in a proper relationship to reproductive accumulation. But unequal income distribution pushes demand in the direction of diversified goods and services which necessitate increasing consumptive accumulation. This means using capital in short supply, notwithstanding the fact that there is capital accumulated and consequently capacity available for the production of similar goods, although with less advanced techniques and a lower degree of diversification. This deviation of demand leads to waste of the capital invested in these lower-quality goods, and to an increase in consumptive capital investment, while reproductive capital is socially insufficient.

Clearly, however, in the course of the development process these inferior techniques will ultimately pave the way for more advanced diversification techniques, as has generally happened in the case of capitalist development in the centres. But this process is prematurely anticipated in peripheral capitalism.

Some pertinent considerations still remain to be added with respect to demand and the structure of production.

It is an all-too-familiar fact that the mass communication media, so closely linked to the privileged-consumer society, resort to every available form of collective suggestion in order to spread consumption of diversified goods. And thus they persistently seek to penetrate downwards into the social structure, propagating at its lower levels the attractive image of certain goods which the upper

strata are dropping as they adopt the new patterns in which imitation of the centres constantly finds expression. Needless to say, the abuse of credit perpetrated in these collective suggestion campaigns generally plays a very active role.

The transnational corporations, of course, carry a great deal of responsibility in the promotion of imitative consumption. But I incline to believe that even without them the privileged-consumer society would have developed, owing, above all, to distributional inequality, as we have seen so often. The vigour of our imitative genius must not be underrated!

Unquestionably, if the privileged-consumer society lost importance, the mass communication media and the transnational corporations would witness a marked restriction of their field of action. But some exaggerated forms of diversification might possibly survive which would adversely affect reproductive accumulation.

Accordingly, the State would have to intervene deliberately by resorting to taxation, that is, by raising the prices of the goods in which this tendency to certain consumer extravagancies chiefly makes itself manifest.

But let there be no misunderstanding. It is true that I frankly encourage State intervention for accumulation purposes or in questions of health and the necessary defence of the biosphere. Just as taxes and subsidies are justifiable when they are used to influence the structure of production in respect of foreign trade, that is, where the market is not efficacious.

Apart from this, however, I consider it essential to guarantee the freedom of the individual to pursue his own preferences as regards consumption, as likewise in the vast range of human activities, so long as he does not encroach upon the freedom of others. How, then, can one justify the State's overruling such preferences and making the individual's decisions for him? What reason would there be for it to take the structure of production into its own hands in order to fulfil this authoritarian intention? Or for it to apply a wide range of taxes so as to invalidate those preferences?

4. Accumulation alternatives

Let us now look at another aspect of the penetration of technique into the social structure. Income distribution also influences the choice of technical alternatives and, through that mechanism, the structure of production, favouring combinations of capital and labour which are at variance with the absorption of manpower.

It is a well-known fact that the techniques which have their origin in the centres signify a flat contradiction: they economize in labour which is plentiful and require intensive use of capital which is in short supply. Here in CEPAL, I believe, we were among the first to analyse this anomaly, as early as the beginning of the 1950s?[7]

This erroneous choice of techniques, with the corresponding waste of capital, is mainly attributable to a distortion of relative prices. I have maintained elsewhere that interest on capital and wage levels are not consistent with the assumptions of neoclassical theories and their conception of equilibrium. At bottom, we are up against the phenomenon of the surplus which those theories overlook. Thanks to the surplus, enterprises have to resort to the market for only a part of their accumulation requirements, so that the rate of interest is lower than it would be otherwise. Furthermore, wage levels are not what the market spontaneously determines, but are considerably influenced by the struggle of the labour force to obtain a share in the surplus, both through their political and through their trade-union power.

In reality, during the period of almost thirty years that has elapsed since we drew attention to these phenomena, the technological alternatives in question would not seem to have been put forward, save in a very partial and limited fashion.

In the meantime, there has been a great deal of talk about how price levels can be reached that more satisfactorily reflect reality. Something has been said of taxes on capital goods or subsidies for the employment of labour as a more appropriate response to the available supply of these factors of production. Ideas of this kind, and others, have not prospered, I suspect because insufficient progress has been made in respect of technological alternatives in which the centres have no immediate interest.

There is another form of waste of capital that is encouraged by the distortion of relative prices. In countries like ours, where capital is in short supply, it is a striking fact that factories generally work on the

[7] See *Theoretical and practical problems of economic growth* (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951. (Published in Spanish in the series of texts commemorating the Twenty-fifth Anniversary of CEPAL, Santiago, Chile, 1973.)

basis of a single shift, when they could arrange two or three. The blame must not be laid on price distortions alone, however, but also on other obstacles standing in the way of this more efficient use of capital. As in such cases it would be difficult, if not impossible, to resort to support prices, various measures have been discussed by which the advantageous use of capital might be promoted.

Lastly, other criticisms urge that as new layers of technology are introduced which are of higher productivity than those that preceded them, the fall in prices leads to the liquidation of the enterprises affected, with the consequent loss of capital. This is an argument which is fairly often put forward. But how far is the phenomenon peculiar to peripheral capitalism?

I am inclined to think that the general problem is of another sort, since, as we have already shown, prices do not fall as productivity rises. I do not believe price competition is frequent in cases like these. In the dynamics of development new investments are directed towards taking advantage of the growth and diversification of demand, rather than towards forcing enterprises with higher costs out of the market. Thus the investors can reap the profits for themselves instead of scattering them through a fall in prices. The way to capture the market is not by this means, but by supplying new and better goods.

However, I leave open the possibility that evidence to the contrary may appear. In any event, I wonder whether in that case it would be necessary to resort to the price system or other appropriate modes of intervention, or to fall back on State management of the means of production.

Even on this last assumption, however, it would be a moot question whether the intervention would have to be effected through instructions from the top or whether recourse would also be had to the price system and the play of market forces, in order to moderate the increasing bureaucratization which is arousing so much concern everywhere, the socialist countries being no exception to the rule.

5. The price system

I should now like to venture upon a brief digression. As soon as mention is made of the possibility of using the price system for purposes such as those referred to above, the risk is incurred that this may be held to smack of neoclassicism. No such thing.

In reality, neoclassical theories have completely annexed the price system as if it were the exclusive province of their lucubrations. It certainly is the quintessence of their arguments as to the system's tendency towards equilibrium, if it is not upset by artificial interventions. But the price system existed throughout long centuries of precapitalism. There can be no other explanation either for the Emperor Diocletian's famous edict, or for the admonitions of the Thomists in the Middle Ages. It happens, however, that the neo-classicists have dogmatically enthroned it as the supreme regulator of the economy.

In order that the price system may perform this regulatory role, the neo-classicists do of course accept certain interventions, with a view to correcting the so-called imperfections of the market. To this end they resort to taxes whereby those imperfections can be rectified, as in the case of those misguided selections of technique to which we referred in the appropriate context.

This path, however, could take one too far, as, for instance, when the price system is advocated as a means of protecting the environment. Can it possibly be said that the serious deterioration which the environment has been suffering is due to market imperfections? Would it not be more accurate to speak of the harmful consequences of the unrestricted play of market laws?

There are also some neoclassical economists who recognize that market laws do not resolve the serious problems of income distribution in the centres. If they were to take a more careful look at the periphery, they would see that here market laws do not resolve the vitally important problem of capital accumulation either. If this is the case, what becomes of the role of supreme regulator of the economy that is assigned to these laws?

Neoclassical theory disregards the social structure and its changes, as well as the power relations which accompany these, and their considerable significance in connexion with income distribution. How could it be expected, therefore, to impugn the privileged-consumer society?

V

The specificity of peripheral capitalism

1. Imitative capitalism

The question might now be asked, why a theory of change? Would it not be possible to reproduce in the periphery the capitalist development of the centres?

A few decades ago there may have been some justification for this persistent illusion. There is none now. It is fading –the illusion that we could develop in the image and likeness of those countries where welfare has spread to the masses (although not altogether) and democratization (although not without defects) has vigorously forged ahead.

What differentiates our imitative capitalism from the innovative capitalism of the developed countries? We have tried to explain this in our articles. And now, before dealing with relations with the centres, it seems desirable to underscore the specific features of capitalism in our countries, which are really of fat importance.

It should be recalled that we have characterized peripheral development as a process of irradiation and propagation from the centres of techniques, consumption patterns and other cultural manifestations, ideas, ideologies, and institutions. All this in a fundamentally different social structure. Therein lie the contradictions from which the great internal defects of peripheral capitalism arise.

This imitative process is carried on under the time-honoured aegis of the hegemony of the great developed countries, principally the United States, and is set in motion by a capitalism whose centripetal character was and still is of outstanding significance, inasmuch as it is the origin of the marked contradictions which also manifest themselves in centre-periphery relations and which aggravate the major defects of peripheral development.

The next chapter will be devoted to this latter subject, while here we shall briefly review the specific features referred to above, recalling what has been said elsewhere.

The specificity that characterizes the peripheral social structure relates mainly to technique and consumption, the degree of development and the democratization process, land tenure, the formation of the surplus, and population growth.

2. Technique and consumption

Owing to the great heterogeneity of the social structure, the fruits of the penetration of technique are appropriated mainly by the privileged strata. I do not deny, of course, that the same thing happened during the historical evolution of capitalism in the centres. The difference lies in that, owing to this form of distribution, consumption patterns are adopted in the periphery which developed gradually in the centres, as capital accumulation allowed technique to penetrate more and more deeply into the social structure. In the periphery, in contrast, we are imitating these consumption patterns when accumulation is not sufficient to fulfil its labour-absorbing function; and this situation is aggravated inasmuch as the centres siphon off income by virtue of their technical and economic supremacy and the weight of their hegemony. This point must be clearly understood. The specificity lies not so much in the imitation of the consumption of the centres, which, strictly speaking, is a worldwide phenomenon, but in the dimensions which this phenomenon is acquiring in the periphery, thanks to the flagrant inequality of income distribution. To put it another way, the specific feature is the privileged character of the imitation.

This becomes more marked because the technical progress of the centres is not favourable to technical alternatives that are better suited to peripheral conditions, whence results one of the most serious contradictions of imitative development: a situation that makes it all the more necessary to exploit to the utmost the potential of the surplus.

3. Degree of development and democratization

Furthermore, the democratization process made its breakthrough in the centres when considerable capital accumulation had already been achieved. Whereas peripheral democratization is evolving before capital accumulation can meet the dynamic requirements of development; moreover, its bias is essentially distributional, and also conflictive.

It should be noted that I am not deploring a premature democratization process, but stressing

the serious consequences of our having devoted attention to immediate questions of distribution while bypassing the indispensable requisite of capital accumulation.

An additional factor is the tendency to disproportionate expansion of State services, which is also largely due to the various forms of distributional pressure and spurious absorption of labour. But it must not be forgotten that this is generally combined with the heavy pressure exerted by military expenditure; it is not surprising; therefore, that State expenditure represents a proportion of the product that in the developed countries it took a long time to attain.

4. Land tenure

From another standpoint, it is beyond question that the prevailing system of land tenure has been and still is a stubborn obstacle to development, as CEPAL has so often pointed out. In the industrial centres this obstacle was removed at an early stage, with favourable social and technical consequences. But this is not the case in the periphery, where industrialization is superimposed on a land tenure regime which acts as a brake on the penetration of technique and productivity, to the detriment of development. This is another specific feature of peripheral development which we will go on to examine.

In the context of the structure of production, reference was made to the diversification of demand. This relates above all to industrial goods and skilled services; but not to agriculture, where diversification is very limited. Demand, then, increasingly veers towards the aforesaid goods and services, prejudicially to agriculture. And employment tends to shift to the diversified activities. Thus the share of agriculture in the structure of production and in employment declines. This trend towards the displacement of labour sharpens as productivity rises.

But this is not all. Regressive income distribution and insufficient capital accumulation, by which the lower strata chiefly suffer, account for the fact that demand for food products is relatively weak, despite the manifest under consumption.

This often leads to frustration of the favourable effects that might attend increased productivity; there is not enough demand to absorb the larger volume of goods. And the consequent trend towards a deterioration in the internal terms of trade discourages the expansion of production.

Here, then, one of the most flagrant contradictions of the system is to be seen. Unequal distribution displaces the growth of demand towards increasingly diversified goods, at the expense of those that are less diversified or in which diversification is slight or non-existent, such as agricultural commodities.

If the accumulation potential of the surplus were thoroughly exploited, demand and the structure of production would assume a different guise, to the benefit of the less privileged social strata.

However, it is not all a question of demand. The land tenure system which characterizes the structure of production, needless to say, is of paramount importance where concentration prevails in the form of latifundia. As generally happens in Latin America, the inordinately large land rent ensured by the very extent of the property owned makes many landowners indifferent to the possibilities opened up by technical progress, especially in respect of yields. For the same reason they are more attracted by mechanization, since they do not need to devote as much time to the land as the application of biological techniques requires.

It is true that in recent decades the use of these techniques has been spreading, with noteworthy effects on productivity. But the large landowner who is reluctant to adopt them sees that nevertheless the value of his property is rising by virtue of its greater potential capacity. This is a very important feature which also characterizes urban land: the appreciation of land value through the work of others, apart from population growth.

A moment's thought should be given to the contrast with physical capital that this represents, in order to understand the position of agriculture more clearly. The owner of physical capital who fails to avail himself of technical progress does not see the value of his possessions rise; quite the contrary, since in the end he is jostled out of the market by entrepreneurs who are more alert to the advances of technique.

It would seem, as has just been noted, that perceptible progress has been made in Latin America in respect of agricultural productivity. But as one of the major failings is progressively eliminated another comes to the fore. Undoubtedly, with the diffusion of technical progress in agriculture the surplus is increasing; and this is a good thing. But unfortunately the excessive amount earmarked for the privileged-consumer society and for transfer abroad has negative effects on capital accumulation.

Moreover, the agricultural surplus is crystallized –if I may be permitted to use the term– in the value of the land. And this aggravates the concentration of wealth.

Thus agriculture displays very special characteristics. If technical progress is not introduced the surplus is less than might be obtained. And if it is introduced and the surplus increases and is used for the purposes of conspicuous consumption, accumulation potential is wasted. In both cases the effects on absorption of labour and income distribution are frankly unfavourable.

These effects are more serious still when mechanization is introduced and the opportunities of accumulation represented by the resulting increase in the surplus are thrown away. Even though mechanization may meet strict criteria of economic efficiency, this neglect of accumulation possibilities precludes the employment of the displaced labour force and the contribution that might have been made to the absorption of labour whose productivity was low, by virtue of the multiplier power of reproductive capital. Consequently, to the waste of accumulation potential is added a waste of human potential, whether it is left redundant in the rural areas, or goes to swell the ranks of the poor in the cities.

This remark is also of concern to those who adduce the argument that mechanization cannot be introduced in small farms in support of large estates. But where are the people thrown out of work to go? A blind eye is turned to the other side of economic efficiency. Moreover, it should be taken into account that in small and medium-sized farms yields per unit of land are usually higher than in latifundia, especially if the technical action of the State is effective. This is a socially efficient way of keeping labour in the rural areas until the acceleration of development –the transformation of the system– makes it possible to resolve this serious problem in depth.

5. The euthanasia of the surplus

Let us now turn our attention once again to the surplus, upon which our theoretical explanations have pivoted. Its appropriation is certainly not a phenomenon peculiar to the periphery, but is common to all capitalism; here too, however, the specificity of the periphery is evidenced. It is worth while to pause for a moment at this point, since the matter is of considerable import.

We have basically accounted for the structural phenomenon in question by the regressive competition of the labour force which remains in lower-productivity layers of technology, when newer and higher-productivity layers of technology are superimposed upon these.

The consequences of this phenomenon merit careful thought. Thanks to the capital accumulation which the surplus permits, in the centres technique has penetrated in depth, and by absorbing lower-productivity labour from the lower strata, has spontaneously relieved the system of some of the regressive competition which prevents the labour force from improving its wages correlatively with the rise in productivity.

Thus the surplus would tend to diminish and finally disappear as the heterogeneity of technique gradually became less marked. In this way a degree of development is conceivable in which the whole of the labour force would be employed in higher layers of technology, using the most advanced techniques available at any given moment. By then the surplus would have been wiped out because the system would have been deprived of a major source of productivity increments, apart from the growing pressure exerted on it by the intensive expansion of State services.

Nevertheless, another important source would still remain: the successive innovations from which increases in productivity would derive.

As the system approached homogeneity, euthanasia of the surplus would ensue, and the neoclassical economists would be able to rejoice in the illusion that the ideal phase had been attained in which competition between entrepreneurs would rapidly do away with the fruits of those successive productivity increments, through wage increases. Moreover, they would be able to point out what favourable effects had been produced by the unrestricted play of market forces, with no need for trade-union and political power. But the illusion might be very fleeting, since the euthanasia of the surplus would pose a serious accumulation problem. There is indeed, nothing in the system which could spontaneously lead the labour force to compensate with its own capital accumulation for what could no longer be done by the upper strata.

This digression affords us a better understanding of the structural and essentially dynamic nature of the surplus. In short, it is a question of a historical category in the development of capitalism.

The periphery, of course, has a long way to go before it reaches this situation, owing both to its great structural heterogeneity and to the waste of accumulation potential. This wastage makes it exceedingly difficult to absorb the lower strata and those middle strata of the labour force that find a niche in the system by spurious means. Here is yet another element in the specificity of the periphery.

And as we have explained elsewhere, in the periphery the twofold pressure on the surplus exerted by the State and the labour force tends to bring the system, much sooner than to a distant phenomenon of euthanasia, to a critical phase; for when this double pressure damages the dynamic mechanism of the system to the detriment of capital accumulation and the privileged consumption of the upper strata, the system reacts with a rise in prices, which inevitably leads to an inflationary spiral. And the spiral, of course, is not accompanied by a new regime of accumulation. I do not say that the centres are exempt from this trend, but there it generally occurs in different conditions.

6. Specificity of population growth

When the technical advances which protect and prolong human life bring down the rate of mortality in the centres, the changes in their social structure, and the psychosocial consequences which these changes bring in their train, are also favourable to a fall in the birth rate. Whereas the rapid penetration of the same techniques into the periphery takes place within a social structure where high birth rates tend to prevail. Hence the population explosion of the last four decades.

This is another specific feature of the periphery. It sometimes severely aggravates the problem of insufficient capital accumulation, as regards both the absorption of labour and the investment that needs to be made before the new labour force reaches the age of productive activity.

7. Poverty and the structure of production

What was said above of agriculture helps to explain the problem of poverty in a general context of development: another specifically peripheral characteristic. For poverty looms large, alike in rural areas and among the social groups that have shifted to the towns.

In face of this poverty problem, we are witnessing a certain amount of ferment in connexion with one of those catchwords that are so seductive. It has been given currency, this time –perhaps mistakenly, in my view– not in the empty rhetoric to which we economists of the underdeveloped world are of course prone, but by some of the northern countries. Thence we are now being exhorted with apostolic zeal to combat poverty and satisfy the `basic needs' of the population. The poverty persisting in the developed world has been somewhat belatedly discovered, and we are being shown that this execrable social scourge exists in our countries too!

No heed is paid, of course, to CEPAL, and I really do not know which is preferable: that it should go unheeded or that it should be credited with what it has never said or proposed, as is frequently done. Its studies are unknown in the centres, or are known at second or third hand, through spokesmen who are not always well-intentioned and are often contemptuous of our ways of thinking. CEPAL has long been drawing attention to the persistence of poverty and the inescapable need to raise the rate of capital accumulation in order to employ the lower strata at higher levels of productivity and income.[8] In other words, it has advocated dynamic income distribution, as we have explained elsewhere.

What happens, however, is that those who are proposing to eradicate poverty generally put forward their formula without explicitly stating how it is to be applied. Is there to be a simple and direct redistribution? Could the problem of social equity be resolved without affecting the system? It is understandable that this may be feasible in countries where over a long period of time a great deal of capital has been accumulated, while poverty, in contrast, exists on a relatively small scale. But in the peripheral countries, where conditions in this respect are strikingly different, it is unwarrantable to shirk the necessity of raising the rate of accumulation as rapidly as possible. And we have already seen that beyond a certain limit this is not compatible with the dynamics of the privileged-consumer society.

If, on the contrary, the proposal is that distribution should be dynamic, if the need for a transformation of the system is recognized, it will be necessary to say so and to say so outright. And this does not appear to be the case.

[8] See *Towards a dynamic development policy for Latin America* (E/CN.12/680/Rev.1), United Nations publication, Sales No. 64.II. G.4. (Published in Spanish in 1963.)

Be this as it may, the ingenuity of the promoters of this formula is devoted mainly to discussing what needs must be met in order to eliminate poverty. And clearly their enthusiasm has already gone so far along this generous path as to compile a long list of basic needs of the human race, not only those inherent in poverty.

I recognize, however, that there are some who do get a little closer to the tangible facts and acknowledge the need for changes in the structure of production. But beyond this they do not go, perhaps imagining that these changes will come about in one way or another, especially if responsibility for the structure of production is assumed by the State.

I apologize, however, for not presenting here an eloquent chapter on basic needs. Presumably I too could bring some ingenuity to the task; but I prefer to expend mine, perhaps because I cannot afford to waste it, on criticizing the system and suggesting how it might be changed.

Moreover, I maintain that individual needs should not be regimented, because regimentation inevitably means authoritarian enforcement. I have voiced elsewhere my concern in this connexion. And now, more than ever, my overmastering preoccupation is with the essential concept of the freedom of the individual, bounded only by the rule of not encroaching on the freedom of others; but in the context of a new system.

I sometimes think –if I may be excused a touch of misgiving– that some of those who offer such formulas to the periphery from the centres do so in order to evade the problems of the new international economic order. Why listen to all this disturbing rhetoric, instead of mounting a direct attack on poverty? Would it not be easier to hand over a few funds for the purpose?

It would be unfair, however, to maintain that everyone thinks on these lines. There are some who sincerely believe in this solution for the problem of poverty; while others, without harbouring illusions, consider that only by this means, using the image of the under-nutrition, disease and ignorance that are rife in the periphery, will it be possible to awaken the slumbering ethical conscience of the centres.

Let it be assumed for a moment that by virtue of some such benevolent magic poverty could be eradicated without the need to accumulate more capital in order to absorb the lower strata at rising levels of productivity. At best, the exclusive tendencies of the system would have been precariously corrected, but not its conflictive tendencies. Rather might these latter be aggravated.

True, there are fortunate countries which have another kind of magic in their hands: abundant financial resources deriving from their non-renewable natural wealth. If instead of being squandered in the privileged-consumer society these resources were devoted as far as possible to capital accumulation, the problem of poverty could be effectively combated. And a higher proportion of the surplus might be earmarked for the satisfaction of immediate consumer pressures. But experience attests that opulence, as well as shortage of resources, is perturbing to the rationality of development.

The distinction –of such importance– between the exclusive and conflictive tendencies of the system should always be borne in mind. For the crisis of the system is generated not so much by the pressure of the lower strata with little or no redistributive power, but by the middle strata that have progressively increased their capacity to obtain a share in the surplus. Clearly, if the lower strata too acquire redistributive power, the inflationary spiral is intensified, with all the ensuing effects.

Accordingly, there are two evils to be attacked: two evils that are closely interlinked and cannot be arbitrarily separated. Yet some devote their entire attention to poverty and others to the inflationary spiral; it all depends upon the prism through which they look. And all alike refrain in general from penetrating to the deep-lying roots of the evils in question. I suspect that if they did so, they could not escape the incontrovertible conclusion that the system must be changed.

8. Specificity and the process of change

In the light of what we have just briefly set forth, pursuing the lines followed in our earlier studies, there is every justification for this anxiety to explore new paths in peripheral development.

We have made a decided break with neoclassical teachings; nor do we find the key to our process of change in Marxist theory. For the former, the problem of accumulation resolves itself of its own accord through the unrestricted play of market forces. And for Marx, accumulation was a spontaneous and systematic result of capitalist development. The periphery had no place on his intellectual horizon.

Deliberate accumulation on the part of the State was, however, a dominant concern in the praxis

of the socialism of Lenin and Mao: a socialism essentially based on the socialization and State management of the means of production. In this there was a measure of authenticity, correspondent with the intention of arriving at a socialism adapted to the objective conditions of a reality different from that postulated by the Marxist critique of capitalism; but on political bases very unlike any we should wish to accept in this part of the world.

There is also an inescapable need for authenticity in the periphery's process of change; that is precisely why we have stressed the specificity of the existing form of capitalism.

At all events, we must once again be wary of another imitative illusion. There is much to be learnt from the experience of others, of which advantage can be taken to reach a synthesis between socialism and liberalism. Such a synthesis would be the periphery's response to the specificity of its process of change.

Part two

VI

Centre-Periphery relations in the process of change

Significance of the present chapter

The dream of developing in the image and likeness of the centres that beguiled the imitative capitalism of the periphery has never come true; this has already been shown in our preceding articles. Neither have the great social disparities been gradually smoothed out –on the contrary, they have become more profound– nor has democratization made any progress: yet another hope frustrated.

What is more, the capitalism which it was sought to imitate is passing through a serious crisis which, because of its structural character, is much more complex and harder to cure than the great depression of the 1930s. Its repercussions on the periphery have already begun to make themselves felt. In our relations with the centres there has been a resurgence of pertinacious problems to which CEPAL has given priority from the time of its earliest writings.

These problems seemed to have vanished into thin air during the long-drawn-out boom years which preceded the present crisis in the centres. They were years of exceptional development in the centres themselves and also in the periphery, where, as we have so often pointed out, the prosperity of the privileged-consumer society was impressive.

The centres, and in particular the chief dynamic centre of capitalism, associated themselves more and more closely with this type of development based on flagrant social inequity. They resolutely played their cards in its favour. But as often happens in boom periods, attention was diverted from the basic problems, namely, the great contradictions in centre-periphery relations.

This situation can no longer subsist in face of the crisis in the centres. It is clearly out of our power to shed much light on the nature of this crisis, but we should like to point out certain factors that play a part in it so that its repercussions on the periphery may be better understood. First, however, the basic problems in relations with the centres will be briefly reviewed.

Capitalism in the developed world has been and still is centripetal. The concept of its power of expansion throughout the world scenario is a myth. However great the initiative and drive of its entrepreneurs may have been, it did not spontaneously carry industrial development to the periphery in the days of outward-directed growth. Industrialization was started deliberately by the periphery itself; it was a necessary result of the crisis in the centres. And this inescapable requisite of the periphery's development is being met with a time-lag so great as to give rise to a number of problems deriving from the disparity between the structure of production of the periphery and that of the centres. These problems primarily concern:

– the innate tendency towards external disequilibrium which acts as brake on the development of the periphery;

– the economic fragmentation of the periphery; and
– the considerable differences in economic and technological power which characterize the phenomena of peripheral dependence under the time-honoured hegemony of the centres.

The crisis in the centres is also the crisis of a development ideology which, from the chief dynamic centre of capitalism, has spread to the periphery, and in particular to Latin America. This chapter would be quite incomplete if we did not end it with a few remarks which, besides being relevant, are timely in face of regrettable deviations and backward steps in development policy and relations with the centres.

The centripetal character of capitalism

1. Deliberate industrialization and CEPAL's ideas

My assertion as to the centripetal character of advanced capitalism will not fail to cause surprise, since this, like other development phenomena, eludes the grasp of conventional theories. It is fundamentally imputable to the centres' retention of the fruits of their technical progress. These fruits, as well we know, do not spread to the rest of the world through a fall in prices as productivity improves. For better or for worse, capitalist development would have been entirely different if this retention had not taken place.

Whatever may have been the internal distribution of the fruits of technical progress, the demand generated by the growth of income in the dynamics of development operates in the centres themselves, except for that fraction which is diverted to the purchase of primary commodities from the periphery. Moreover, the periphery's corresponding export earnings are also converted into demand for industrial goods from the centres.

These industrial goods are being constantly diversified by virtue of technical progress and the investment connected with it. There is no incentive to place this investment in the periphery rather than in the centres themselves, where the process of diversification is stimulated by the expansion of demand.

Thus, the longer the time that goes by, the greater become the differences between the structures of production in the centres and in the periphery, with important effects on development.

We were saying earlier that peripheral industrialization was not the spontaneous result of capitalist expansion in the centres: initially, the periphery was compelled to resort to industrialization in order to produce technically simple goods which could not be imported owing to the crises by which the centres were affected (two world wars and the Great Depression between them).

Until then, in reality, it did not suit the immediate interest either of the centres or of the dominant groups in the periphery for the latter to embark on domestic production of goods that it imported at prices lower than would have been the cost of producing them at home.

In those times of crisis which imposed import substitution it was impossible to think seriously of exporting manufactures; but as the industrialization process gradually gained momentum, the need for doing so became clearly apparent. Perhaps we in CEPAL were the first to stress this necessity.[9]

2. The centres' reluctance to accept exports from the periphery

CEPAL has more than once recognized the periphery's responsibility for having concentrated all its effort

[9] Thus, in a study published in 1961, attention was drawn to the "excessive channelling of industry towards the domestic market", as a result of the "development policy pursued in the Latin American countries and of the lack of international incentives to exports of industrial goods from the region".

"Development policies have been discriminatory as regards exports. Assistance has been given –through tariffs or other restrictions– to industrial production for internal consumption but not to industrial production for export. The production of many industrial goods has thus been developed at a cost far above the international level, when they could have been obtained with a much smaller cost differential in exchange for exports of other industrial products which might have been produced more profitably. The same could be said of new lines of primary commodities for export and even of traditional export commodities within certain relatively narrow limits." See CEPAL, *Economic development planning and international co-operation* (E/CN.12/582/Rev.1), United Nations publication, Sales No. 61.II.G.6, pp. 14 et. seq. (Published in Spanish in the series commemorating the Twenty-fifth Anniversary of CEPAL, Santiago, Chile, 1973.)

In another study it is added that "protection has, of course, been essential in the Latin American countries. But it has not been applied with moderation, nor has there generally been a policy laid down rationally and with the foresight which is essential for the alleviation, if not the prevention, of balance-of-payments crises". And it is subsequently remarked that "the closed industrialization fostered by excessive protectionism, as well as the unduly high customs tariffs applied to some staple agricultural commodities, have created a cost structure which makes it extremely difficult for Latin America to export manufactured goods to the rest of the world". See *Towards a dynamic development policy for Latin America, op. cit.*, pp. 71 and 72.

on import substitution, without paying sufficient attention to exports of manufactures. But at the same time stress was laid on the responsibility of the centres, and it was asserted that to have placed production for export on an equal footing with import-substituting production for the home market would have not been enough. In the large centres, measures would have had to be adopted to facilitate imports of certain industrial goods from the developing countries, thereby giving these countries a greater capacity to import precisely those products for which cost differentials are bigger. In this way, an appropriate division of labour would have developed in the industrial field, widely different from the traditional pattern of trading primary commodities against manufactured goods.

Yet neither did the centres encourage exports of manufactures from the periphery, nor did the periphery itself determine to launch a policy definitely favourable to such exports until the exceptional rate of development attained by the centres, in the course of the 1960s, showed the possibility of doing so.

The advanced countries' prosperity had repercussions not only on the periphery's external sales of primary commodities, but also, and above all, on its exports of manufactures. In some cases, the latter developed at high speed and import substitution policy was not merely weakened, but actually repudiated.

During those years the centripetal tendency of capitalism was in some degree obscured, but it did not disappear. The periphery's strenuous export effort has not reached the centres to the extent called for by increasing import requirements and debt servicing.

The periphery has had barely a marginal share in the centres' voluminous and growing flow of industrial trade, which a clear-cut liberalization policy encouraged. Its new industrial exports to the centres, largely handled by the transnational corporations, either involve mainly goods in which innovations are no longer such, having been left behind by technical progress, or else are confined to parts of up-to-date goods in whose case the transnationals take advantage of the prevailing low wages, with no intention, however, of introducing advanced forms of integrated industrialization.

It is understandable that the transnational corporations, spontaneously incited by their own interests, as has been remarked elsewhere, should prefer to invest in the centres themselves, where the aforesaid ceaseless innovations have their origin, and where increasingly diversified demand is concentrated.

But the periphery could send to the centres technically less advanced goods in respect of which it is acquiring competitive capacity and has shown its ability to export them through the endeavours of its own enterprises. But liberalization policy has not been extended to these goods; quite the contrary.

All this bears on the present stage of peripheral development. But it by no means signifies that given a new industrialization policy the periphery could not tackle production and export of goods of increasing technical complexity. Such is the dynamics of development.[10]

Hence there is a blatant paradox in centre-periphery relations. In the Kennedy Round, as in the Tokyo Round, decisions have been adopted to liberalize trade in those products in which the periphery lacks comparative advantages for the time being owing to the technical and economic superiority of the centres, which is manifested chiefly through the transnational corporations. And the goods that escape liberalization –defended by various forms of protectionism– are the manufactures (and primary commodities too) in respect of which the periphery does enjoy comparative advantages, or easily could do so through its own enterprises' efforts.[11] And new manifestations of inveterate protectionism are emerging in the industrial centres.

Nothing of any importance has been done in the centres, then, during their spells of prosperity,

[10] This is the thesis that Hector Sosa develops in a study in course of preparation for the *CEPAL Review*.

[11] A recent appraisal of the Tokyo Round ends with the assertion that the results of the tariff reductions have been very meagre, whether they are measured by the fall in customs revenue that these reductions would bring about or by the increase that they would have caused in the developed countries' imports from Latin America if they had been in force since 1976. Similarly, the centres still maintain a tariff scaling which lays a heavier burden on final goods than on raw materials –particularly ores, hides and skins and textile fibres– as well as a vast and tangled network of non-tariff barriers. Lastly, while the six Codes of Conduct and the reform of the General Agreement itself clarify the rules of international trade, at bottom all they do is to confer institutional sanction on the practices already applied by the developed countries. See Pedro Mendive, "Evaluación de los resultados alcanzados en las negociaciones comerciales multilaterales (Ronda Tokio) hasta el 30 de octubre de 1979", CEPAL, mimeographed text, January 1980; and, by the same author "Protectionism and development: New Obstacles of the centres to international trade", in *CEPAL Review*, N.° 6, Santiago, Chile, second half of 1978.

to encourage imports from the periphery. It is common knowledge that the system of preferences established after long years of negotiation has proved of little significance because of the serious limitations it involves.

To all this must be added the adverse effects of the crisis through which the centres are now passing. The growth rate of peripheral exports has fallen, and although their volume is still relatively large, it is far from enough to allow the rate of development to rise again, if we are to avoid an exacerbation of the exclusive and conflictive tendencies of the system, which would have very serious social and political consequences. These are knotty problems to resolve, in view, moreover, of the need to boost exports still further in order to cover the higher cost of petroleum without indefinite recourse to borrowing from abroad.

3. The disparity in structures of production

To obtain a complete grasp of the nature of these problems it is worth while to examine them from the standpoint of the structure of production.

It has been explained elsewhere that development brings with it changes in the composition of demand, thanks to the increase in productivity and per capita income; to meet these changes, the structure of production also has to be modified. And here two vitally important options present themselves: to develop the structure of production in such a way as to satisfy part of the expansion of demand through trading exports against imports, or to gear it to producing at home instead of importing.

Clearly, the choice of the option that is more expedient from the economic viewpoint depends above all upon the attitude of the centres, apart from the periphery's own trade policy decisions.

The attitude of the centres was of course negative in the times of crisis that fostered the industrialization of the periphery. It has already been shown, and can bear repeating, that the periphery was inevitably obliged to resort to import-substituting domestic production. And it is a fact fully attested in the CEPAL studies that as a result the Latin American countries were able to keep up a rate of development which exceeded the growth rate of their exports to the industrial centres. The higher cost of import substitution was more than offset by the much bigger increment in the product. This was the economic justification of import substitution, which, as we observed before, could have been of greater importance if a more rational policy had been pursued.

I do not say it is just the same situation that is now confronting the periphery in consequence of the rate of development of the centres –so much lower now than in the days of buoyancy– and the stronger emphasis on protectionism. The periphery has learnt to export, and some of these exports do go to the centres. But, as we have already noted, their volume is a long way below what is required, especially if development is speeded up.

There has been a significant change in the structure of production, but it is far from enough. And in so far as the centres refuse to accept more imports from the periphery, the latter will also have to gear its structure of production to satisfying by means of import substitution the requirements that cannot be met through trade.

The inference is obvious: in this crisis, as in others of more distant date, the centres have forced and still are forcing the periphery to resort to import substitution.

The difference between this crisis and those of the past lies in the fact that it is now possible to combine the import substitution drive with the effort needed in order to continue expanding exports of manufactures.

The way in which the two types of effort are combined depends primarily upon the attitude of the centres with respect to these industrial exports from the periphery. If the endeavour to increase them were to encounter serious obstacles, either because of the centripetal tendency of developed-world capitalism or because of the other unfavourable factors mentioned above, the only solution open to the periphery would be to give its structure of production a more decided slant towards import substitution, in order not to restrict its own rate of development, or to develop more rapidly than would otherwise be possible. It is difficult to say whether the transnational corporations might in the event help to counteract the centripetal tendency by exporting advanced goods to the centres; they have not hitherto done so on any impressive scale, albeit they have played an important role in respect of exports to peripheral countries. And they might do much more still in this direction if import substitution were undertaken at the regional level, a point to which we shall revert in due course.

This situation, together with the siphoning-off of peripheral income, explains how it is that while

at first the transnational corporations help to correct external disequilibrium through import substitution, later on they are more apt to aggravate it, in relations with the centres when the amount transferred abroad in the shape of their profits and other payments exceeds their new capital contributions, while at the same time the possibilities of further substitution are gradually being exhausted.

Nor are these the only ways in which income is siphoned off; there are others deriving from the technical and economic superiority of the centres and the weight of their political power.

The disparities in the structure of production of course have their origin in the time-lag in peripheral development due to the centripetal tendency of capitalism in the advanced countries. Two important points need stressing in this connexion.

The first relates to the income-elasticity of the centres' demand for primary imports from the periphery. This elasticity is relatively low, but for a few exceptions. And the periphery's effort, in the days of outward-directed growth, to expand its exports beyond the limit set by the development of the centres was –as it still is– exposed to the risk of 'a deterioration in the terms of trade.

To this congenital weakness in primary exports is added their great external vulnerability, since cyclical movements in the centres are transmitted to such exports more intensively than in the centres themselves.

The low income-elasticity referred to also affects the centres' own primary production. And this has led them either deliberately to restrict production, as in the United States, or to restrict imports, as in the European Economic Community. Since these possibilities are not open to the periphery, the tendency towards a deterioration of the terms of trade has caused production to be slowed up, almost always spontaneously, at the expense of the greater surplus that might have been obtained if a larger proportion of the fruits of technical progress could have been retained in the periphery.

That is why, in the days of outward-directed development, and in so far as the centres did not welcome industrial exports from the periphery, import-substituting production was the only road open for development. There was no other way of counteracting the trend towards external disequilibrium generated by the great difference between the above-mentioned relatively low income-elasticity of the centres' demand for primary exports from the periphery, and the relatively high income-elasticity of demand in the periphery for the constantly-diversified industrial exports from the centres.

This is a transitory phase of development; but it is a transition that takes a long time. Conceivably, changes in its structure of production may enable the periphery to approach progressively nearer to external equilibrium of a structural character. This depends, in the last analysis, upon a favourable attitude on the part of the centres and upon import substitution at the Latin America level, as well as on trade with other peripheral countries.

There is certainly no lack of economists in the centres who, even setting aside these structural phenomena in centre-periphery relations, point out the advantages of importing less advanced goods against exports of more advanced goods characterized by a high level of productivity per worker. But these rational considerations do not suffice for the adoption of policy decisions to modify the structure of production both in the centres and in the periphery. What is more, during those years of booming development in the advanced countries, any unemployment that might have occurred in industries adversely affected by competition from the periphery could have been compensated by employment in those other industries and activities which were growing at an exceptional rate. It was thought preferable, however, to employ labour from less developed countries, a move which subsequently turned out to have some sort of rationality too, although the form it took was not very humane: dismissal and repatriation of these workers when the rate of development dropped.

4. Comparative advantages

In the light of these observations, fresh consideration should be given to certain theses which, like that of comparative advantages and trade reciprocity, are often put forward afresh without reference to the great disparities between the centres and the periphery in respect of the structure of production.

In face of the phenomena of centripetal capitalism and its reluctance to liberalize trade in those industrial goods where the periphery has the comparative advantages in question, the only course open to the latter is that of import substitution. But this substitution must satisfy considerations of economic efficiency. How could their recommendations be

followed up? Needless to say, import-substituting domestic production, particularly during a certain initial phase, represents a higher cost than imports would, which is a comparative disadvantage. Accordingly, considerations of economic efficiency suggest that the objects of substitution should be those goods in which the comparative disadvantage is least. That is, the direct disadvantage, for, as was pointed out in the relevant context, this disadvantage is more than offset by the increase in the product.

The situation in this respect differs widely from one country to another; there are some relatively small countries which could, for example, develop certain agricultural export lines without detriment to their terms of trade, especially in the case of commodities for which, on account of their special attributes, there is a steady demand in the centres. Some industrial goods, too, have this particularity.

Similar cases may also arise in larger countries, but there is no reason to suppose that this is a general rule, and that such exports could support a growth rate high enough to do away with the flaws in the prevailing type of development.

5. Trade reciprocity

While the centres do not acknowledge the comparative advantages of the periphery, they harbour some theorists who are returning to the attack on import substitution, with the old thesis of trade reciprocity as their weapon. According to this thesis, any liberalization of' imports from the periphery should be accompanied by similar liberalization of the latter's imports from the centres. The tendency to external disequilibrium in peripheral development attributable to the disparity in elasticities is still disregarded. And worst of all, these ideas, which might he supposed to have been discredited by the elucidation of development phenomena, are once again dominant in certain sectors in our own countries.[12]

In view of these ideas of CEPAL, which have lost no jot of their validity, it is surprising that in Latin America tariffs should actually have been lowered and industries exposed to ruinous competition from abroad, in the hope that the centres may decide to practice reciprocity by liberalizing imports from the periphery. I greatly fear that this is a hope which will be indefinitely deferred!

All this is only too well known in CEPAL. And if I recall it now, it is to bring back into touch with reality some of our economists who live in an aseptic world in which they hatch their learned lucubrations. For instance, they talk about the internationalization of production and external openness. Excellent, but let the centres be the first to begin! Long years of struggle, mainly in UNCTAD, have not succeeded in altering their restrictive attitude. Do those economists perhaps suppose it possible to move the centres to compassion with the spectacle of industries that are closing down because of external openness?

[12] It seems appropriate, therefore, to recall what we said in 1963:

"The peripheral countries are in a position diametrically opposed to that of the major centres with respect to trade reciprocity. The great industrial centres export manufactured goods for which demand increases sharply as income rises in the peripheral countries, whereas these latter export primary commodities for which the upward trend of demand is more gradual as income rises in the major centres."

"Thus the great centres have no need to engage in import substitution from this point of view, since the trade disequilibrium with the peripheral countries tends to be positive in their case; in other words, exports are in excess. On the other hand, the trend towards a negative imbalance in the peripheral countries compels them to resort to substitution within the present pattern of trade in order to avoid a deficit in their balance of payments."

"Moreover, if the major centres, for other reasons which may or may not be justified, embark on substitution with respect to imports from the peripheral countries, they aggravate this disparity in international demand. On the other hand, import substitution by the peripheral countries with respect to items from the major centres tends to reduce the disparity and thus to make development possible."

"This basic inequality calls for a revision of the concept of reciprocity accepted until now, for if the great centres reduce or abolish their customs tariffs, the peripheral countries can increase their exports to them. And if this happens, the imports of the peripheral countries will also increase, in view of the buoyancy of demand for the goods concerned..."

"To require a developing country to grant equivalent tariff concessions would hamper its industrialization, to the obvious detriment of its economic development."

It was next explained that the idea of implicit reciprocity did not imply that nothing should be done about correcting abuses of protectionism. Quite the contrary... "the customs tariffs in force for the rest of the world must gradually be lowered, both in the light of economic expediency and to ensure that industry is constantly encouraged by external competition to narrow the gap in productivity *vis-à-vis* the major centres."

"A reform of this kind obviously cannot be carried out where an increasing bottleneck exists. Relief must come rather from the external sector, in the shape of a speeding-up in the tempo of the export trade. In other words, a rational customs tariff must be part of an international plan to expand trade on new bases. Tariff reform cannot be a prelude to such a policy, but must stem from it." It should be borne in mind that this was written before UNCTAD came into being.

See *Towards a dynamic development policy for Latin America, op. cit.*, pp. 73-75.

That there are certain industries which must either step up their productivity or disappear, is not open to question; they are industries which in view of their considerable comparative disadvantage ought never to have been established. But it would be a grave mistake to demolish them before increased accumulation of reproductive capital and a rise in the rate of development have made it possible to reabsorb the labour thrown out of employment. This is a problem of proper timing. Advances must first be achieved in the structure of production, either towards exporting or towards import substitution, with due regard to comparative advantages or disadvantages; and then the abuses of protectionism must be thoroughly set to rights. We must not destroy until we can build better.

6. Economic fragmentation of the periphery

In the centres the change in structure of production has been brisk and continuous. But no country has attempted intensive production of everything required to meet the endless variations in demand: on the contrary, there has been a division of labour between the diverse advanced countries accompanied by a remarkable growth of trade, under the stimulus of incessant technological innovations. This has been the dynamic significance of the two liberalization rounds which were mentioned above.

Yet the establishment of rational forms of division of labour among the peripheral countries has been beyond their capacity. In so far as it has not been possible for them to export enough to the centres, each country has developed its industrial production without troubling about trade with the rest. For that reason it is essential that import substitution should be tackled at the Latin American level.

Ever since it published its first studies –in the early 1950s, and prior to the establishment of the European Common Market–, CEPAL has drawn attention to the trend towards exhaustion of the easier forms of import substitution and the necessity of moving on to technically more complex production calling for markets much broader than the watertight compartments of the individual country markets.

Hence originated the idea of a Latin American Common Market, based both on the progressive reduction of tariffs and other restrictions, and on industrial specialization agreements concerted by the governments.

The common market idea was opposed at first by the centres, and in particular by the United States. Influenced by their immediate interests, they did not realize the dynamic significance of this Latin American undertaking.

In the end they accepted it, but they objected to specialization agreements, on the grounds that these deprived the transnational corporations of their freedom to decide what best suited their interests.

I am inclined to think that this was an adverse factor, but what did most to discourage progress towards the common market was the trade boom brought about by the exceptional rate of development of the centres. I am referring not only to the periphery's trade with the centres, but also to trade among the various peripheral countries, which was powerfully stimulated by the repercussions of the development process aforesaid.

Now the same import substitution problem is once again rearing its head in the Latin American scenario. I do not suppose for a moment that recourse should be had to the original formulas; too much water has flowed under the bridges! We must profit by the lessons of experience and arrive at formulas which, *inter alia*, may ensure the equitable distribution of advantages alike for the more developed countries of the region and for the less developed and those at an intermediate stage.

The economic fragmentation of our countries must be brought to an end. This is another of' the manifestations of the time-lag in their development caused by the centripetal nature of capitalism; each of the peripheral countries made its contribution to the supply of primary commodities separately from the rest. And when industrialization supervened as a result of the crisis in the centres, we were not capable of breaking down the old centre-periphery pattern by means of a rational division of labour.

This pattern still largely governs inter-Latin American relations. To change it becomes essential now that the myth of the unlimited expansion of capitalism has again been dispelled. Moreover, even if the centres were to pursue a more favourable policy towards peripheral imports, we could hardly pour into their markets all the exports required to satisfy the dynamic exigencies of' development and the transformation of the system.

7. Hegemony and dependence

The time-lag with which the periphery embarked upon its integrated development –based on

industrialization– is strikingly reflected in the economic and technical superiority of the centres, particularly the chief dynamic centre of capitalism. And that superiority has economic and political effects between which a distinction should be drawn, although the two are closely related and evolve under the hegemony of the centres.

This hegemony affects the peripheral countries in different ways and degrees, as the centres exert themselves to promote and defend their economic, political and strategic interests. And in its direct exercise the centres have powerful instruments to use: financial, economic and technological co-operation, as well as military aid.

The transnational corporations, apart from pursuing their own objectives, are usually effective agents of this hegemony. The centres promote their penetration into different branches of domestic activity in the periphery; and the transnationals, in their turn, support in one way or another the hegemonic interests of the centres. Where their own interests are concerned, the transnational corporations wield a twofold influence. They exercise it both in the centres and in the periphery; on the mass communications media, on the political movements which support the system and on the governments. And in the centres there is, in addition, a whole constellation of interests which have an impact on the periphery and its governments.

All this goes to form the notorious relations of dependence, in degrees of intensity that differ according to the countries' ability to defend their autonomy. Dependence makes a peripheral country do what otherwise it would not, and refrain from doing what otherwise it would. And its bargaining capacity is limited.

Dependence is never more strikingly apparent than when a peripheral country acts in a manner counter to the centres' hegemonic interests, especially that of the leading centre. All the aforesaid constellation of interests is then mobilized against it, and it is penalized by measures of one sort or another which in the past –and not so very long ago at that– have culminated in military operations.

There are some economists and sociologists who extend the concept of dependence to all centre-periphery relations. There would be no harm in this if they were to analyse clearly the Different implications of the centripetal nature of capitalism, as we have tried to do in the preceding pages. Often, however, this does not happen; which is why I have exerted myself here to shed further light on its consequences, at the risk of repeating what has been said in other studies.

Furthermore, some have gone so far as to maintain that dependence, however it may be interpreted, is responsible for underdevelopment. Translated into our idiom, this means that the poverty of the broad masses excluded from development must have been generated by the action of the centres.

Nothing is gained in the field of theory, or in that of praxis either, by assertions of this sort; which by no means implies that they are not efficacious in political indoctrination.

A distinction must be drawn between the existence of poverty and its persistence. When the technique of the centres began to penetrate into the periphery's export activities, much of the population was living in poverty, and this poverty has gradually diminished with the spread of technique to activities in other fields. But the fruits of that technique, instead of being fully capitalized, have served to promote the privileged-consumer society and the siphoning-off of income by the centres, thus giving rise to the exclusive tendency of the system, the explanation of which need not be repeated here. Hence the persistence of poverty, aggravated by rapid population growth.

The centres and the existing relations of dependence do not create poverty, but because of the centripetal nature of capitalism they do help to make it last. It might be said that this happens precisely because the myth of the worldwide expansion of capitalism has never become a reality. If it had, very serious harm would undoubtedly have been done to the autonomy of the periphery, shaky though this may be as things are.

Again, the periphery has not lacked believers in the possibility that the transnational corporations might turn the myth into fact. But of course this has not happened, owing, once again, to the centripetal tendencies of capitalism. As we have said before, at the international level there are no factors that spontaneously lead to the counteraction of these trends. The transnationals have a different outlook, and they could not be expected to change their attitude on their own accord in order to help the periphery to carry technique deeper into its social structure.

But is the periphery itself doing this? Is it making thorough use of the capital accumulation potential deriving from its technical progress in order to absorb at rising levels of productivity the lower strata that are vegetating in a state of penury? The

interests of the fortunate members of the privileged-consumer society stand in the way.

The inference is conclusive: the mere interplay of private interests, however legitimate they may be, could never change the limited dynamics of the privileged-consumer society or the centripetal character of capitalism. These are, at bottom, largely structural problems which call for major political decisions both in the centres and in the periphery.

But the centres are passing through a crisis which makes it much more difficult for them to adopt such decisions; and the same thing is happening in the periphery. In the next section we shall attempt to single out the main elements in this crisis.

VII

The crisis of capitalism in its leading dynamic centre and its repercussions on the periphery

1. A preliminary survey

The present crisis of capitalism is very complex, and harder to resolve than the great depression of the 1930s.

It is, in my opinion, a crisis which the very vigour of capitalism has brought about. Capitalism has overreached itself; if has overflowed its own banks, and has not yet discovered how to channel development back into its regular course.

I have endeavoured to understand these phenomena, which, apart from their enormous importance for the centres, have severe repercussions on the periphery. I am looking at them from the periphery, at a distance, and my interpretation is open to errors which, I hope, will be no worse than those often perpetrated by some who, speaking from the centres, pronounce incautious judgements on the periphery.

Prior to the difficulties of recent times, there was an exceptional rise in productivity and the global product in the United States, whose repercussions made themselves internationally felt. This fact, however, incorporated an element of falsity, since the productivity in question had been mainly achieved by virtue of techniques which depredated non renewable natural resources and which, in addition, caused a serious deterioration of the environment. The natural capital of the biosphere was being gradually swallowed up.

Growing requirements in respect of consumption, investment and State expenditure accompanied this increase in the product, while its allocation was not guided by any criterion of compatibility. Moreover, largely because of the inflation stemming from state expenditure, these requirements came to outstrip the growth of the product, and have been covered at the expense of the product of the rest of the world, in exchange for currencies which have internationally propagated inflation; and to all this have been added the effects of the upswing in the cost of petroleum.

The rectification of this element of falsity in the dynamics of development will call for large-scale investment which, despite its positive ecological and social significance, will not bring with it new increases in productivity. Thus average productivity will decline.

This downward trend will combine with that already occurring both because of the organic evolution of the system and because of certain investments which, by reason of their nature and volume, were also depressing productivity.

The system is faced with an incontrovertible reality. The illusion of a prosperity achieved at the expense of the biosphere has vanished; and so has the illusion of the limitless power of the dollar.

That the system has immense vitality is beyond question. But a transition period would be needed, at present of indeterminate length, to introduce major adjustments in it with a view to remedying its distortions.

Both technique and capital accumulation will need to be reoriented. But to generate capital when productivity is falling poses a new and difficult problem for capitalist development: a problem which becomes more serious still if inflation is to be eliminated.

There will be no escaping a reduction of the rate of consumption, in a country accustomed to its constant expansion. But it would seem that as yet no clear awareness exists of what the hard facts will enforce.

Nor is this all. Over and over again I wonder whether the current accumulation and distribution mechanisms are adequate for the solution of those problems. All the more, inasmuch as the evolution of the system was already showing symptoms of disturbance.

We will now enlarge upon the ideas which have just been so briefly set forth.[13]

2. Exceptional productivity at the expense of the biosphere

It is now possible to obtain a clearer insight than before into the capitalist development of the centres. The exceptional impetus of the last few decades, up to recent times, was the effect not only of impressive technical progress, but also of the irrational exploitation of natural resources, especially energy, which, in turn, markedly influenced the orientation of techniques; whence the above-mentioned element of falsity, with its dramatic implications for the world.

In all this a role of decisive importance has been played by the hegemonic power of the centres, especially the United States, in the periphery of the world economy. The petroleum-exporting countries were not strong enough to make a stand against the centres' hegemony, although they had long been clearly aware that the non-renewable resource in question was being squandered; but any attempt on their part to restrain this insensate exploitation would have come up against tough opposition.

The exporter countries could concertedly restrict the expansion of production only in a international conjuncture which enabled them to acquire power themselves and so face up to the power of the centres.

A little thought will show the irrationality in the use of petroleum resulting from the application of new techniques and the profit incentive of the oil firms was propagated throughout the whole system. The low cost of petroleum considerably influenced technological research, channelling it towards extremely abusive forms of utilization of this non-renewable good, as well as of other natural resources; all this being fostered by the unequal distribution of the fruits of the increasing productivity of technique, given the nature of the social structure and the changes in it.

But this is not the whole story. It is only in recent times that technological research has concerned itself at all with the harm inflicted by technique on the environment. Such is the ambivalence of technique: its immense contribution to human welfare by virtue of the continuous increase in productivity, and, at the same time, its serious effects on the biosphere.

Philosophists and humanists have been devoting themselves for some time past to the psychosocial implications of technology, but economists have generally been unwilling to take its ambivalence into account in their interpretation of development phenomena. They have regarded it as an exogenous element like the political, social and cultural aspects of reality. In their concern for a peculiar doctrinal asepsis, they have withstood the incorporation of these elements, and of their mutual interrelationships, into the dynamics of development.

3. Requirements incompatible with the growth of the product

We were saying that in the chief dynamic centre of capitalism the product, notwithstanding its exceptional rate of growth, had not been sufficient to meet requirements which were competing with one another for an increasing share in it. These requirements derived from the growing volume of domestic and foreign investment, from the boom in private consumption and from the considerable expansion of State services, including social services and military expenditure.

This increase in State expenditure was to a great extent inflationary. The State, for understandable political reasons, was reluctant to step up taxation, preferring to resort to monetary expansion in order to cover the fiscal deficit. Even if it had done so, however, the consequences would have still been largely inflationary. If the additional tax burden had fallen, in one way or another, on the labour force, it would have tried to recoup itself by wage increases at the expense of the economic surplus, and that would have entailed a rise in prices. Enterprises would have defended themselves similarly if taxes had been

[13] In the following pages I have made use of part of the paper on "Biosfera y desarrollo", *op. cit*.

levied directly on the surplus, to the detriment of capital accumulation.

In any event, the inflationary financing of the deficit caused prices to rise; and the subsequent wage adjustments considerably intensified the inflationary spiral which had already been developing to a moderate extent. And to all this has now been added the fresh impetus given to inflation by the energy crisis and the protection of the environment.

These various pressures have been eased, however, thanks to the fact that part of the inflationary expansion of demand due to the fiscal deficit could be satisfied by increasing imports: that is, at the expense of the gross product of the rest of the world. The dimensions of this situation, aggravated as it has been by the growing volume of petroleum imports and the considerable rise in their value, have been appreciably affected by the regressive income distribution which has accompanied inflation. There has been a boom in imports of those goods which are in greatest demand among the social groups favoured by inflation, principally to the detriment of the consumption of those social groups which have less redistributive and defensive power.

This growth of imports in excess of exports and other external resources has been the most important factor in the United States' chronic balance-of-payments deficit. To this must be added the transnational corporations' investments abroad, in so far as they have not been covered by the enterprises' own external profits.

To put this in another way, the expansion of state expenditure has not been covered at the expense of consumption –except for the consumption of the disadvantaged social groups– but has been superimposed upon it and on private investment. And the consequent excess of demand in relation to the domestic product has spilled outwards, and has been met with imports.

4. Organic decline in productivity

To understand the decline in productivity which takes place in the advanced stages of capitalist development, the two ways in which it is manifested must be taken into account: the technological innovations which are continually incorporated into the system, on the one hand; and, on the other, the improvement in productivity which occurs as a result of the displacement of labour from lower-productivity occupations to others where productivity is higher.

As capital accumulation in the shape of physical goods and education of human beings increases, the proportion of the labour force employed at lower levels of productivity progressively decreases. In other words, there is a trend towards homogenization of technique and productivity, with significant effects on income.

The operation of this tendency will bring down the average productivity of the system unless the rate of productivity of the new capital accumulation necessitated by the innovations is stepped up. This improvement would be needed to offset the effect of the homogenization of technique.

But there is something much more important. As has been explained elsewhere, the productivity increment stemming from the accumulation of reproductive capital encourages the ceaseless diversification of goods and services via the accumulation of consumptive capital. The techniques concerned, while they do not increase productivity, improve the efficiency of the goods and their capacity to satisfy new requirements or considerations of social status and conspicuous consumption.

These techniques, like the corresponding accumulation, are closely combined, of course, with those that improve productivity, but as this happens the proportion of consumptive capital gradually increases, prejudicially to reproductive capital. This is a logical consequence of the organic evolution of the system: there would be no sense in increasing productivity if it meant continually adding to the available supply of the same goods and services, since obviously this reduces the rate of productivity.

Consequently, the rate of average productivity decreases both because of the effects of the homogenization of technique on the displacement of labour, and because a steadily increasing proportion of the labour force is thus displaced and is diverted, along with the corresponding capital accumulation, into satisfying the more and more decided bent of demand towards the diversification of goods and services in which efficiency is heightened rather than productivity.

It is sometimes said that the fall in average productivity is due to the progressive increase in the proportion of skilled services in relation to goods; this is true, but it does not suffice to account for the phenomenon. For, as has just been shown, there is also an increase in the proportion of goods which are diversified and in which techniques improves efficiency rather than productivity.

It was stated above that diversification is a consequence of the growing productivity of the system; but considerable influence is also exercised by the distribution of' the fruits of productivity. Thus, the social strata favoured by distribution tend to increase their demand for diversified goods and services much more intensively than the disadvantaged strata, whose demand is concentrated on goods where diversification is slight. This state of affairs is aggravated by the regressive effects of inflation, and sharpens the downward trend in the average productivity of the system.

Lastly, to all this must be added a very important factor: capital accumulation for the purpose of producing weapons of war. Obviously, this type of accumulation also contributes to the decline of average productivity, although it must no be forgotten that innovations in armaments technology have greatly influenced other innovations in the system.

If we have dwelt on this subject, although somewhat schematically, the reason lies in its great importance for understanding the incidence of the decline in productivity on the economic surplus, which represents the dynamic mechanism of the system; and also for grasping the complexity of the major adjustments which the crisis of the system necessitates, especially in the leading centre of capitalism.

5. The surplus and the decline in productivity

In the discussion of peripheral capitalism we have attributed paramount importance to the structural phenomenon of the surplus, which has also made its appearance in the historical development of capitalism in the centres. But in these latter, the trend towards homogenization noted above gradually reduces the surplus formed by successive productivity increments. The steeper this trend, and the greater the concomitant decrease in the proportion of the labour force occupied at lower levels of technique, the stronger becomes the workers' spontaneous ability to obtain better pay.

But at the same time the labour force has been developing its trade-union and political power, so that its pressure on the surplus steadily increases. Similarly, direct or indirect pressure on the surplus is also exerted by the intensive development of State services. Thus the surplus is subject to the effects of two opposite movements: on the one hand, new productivity increments, and, on the other, the twofold pressure of the State and the labour force. There is nothing in the system to regulate this double pressure.

This being the case, a stage is reached in the evolution of the system at which the twofold pressure in question prevents the surplus –especially that pertaining to the upper strata in the social structure– from playing its dynamic role. For the combined pressure of the State and the labour force is detrimental to the capital accumulation and the consumption of the strata referred to, notwithstanding further increases in productivity. Sooner or later the enterprises where these strata prevail raise their prices, in order to reanimate the growth of the surplus or, alternatively, of their profits, if in this skeleton outline of a complex phenomenon I may be allowed to identify profits with the surplus.

When the labour force acquires a great deal of trade-union and political power, as has happened in the centres, the rise in prices is followed by wage increases. This is the meaning of the inflationary spiral.

I am inclined to think that the spiral which was developing in the United States before the fiscal deficit became very large was the consequence of the phenomena described. In the foregoing argument we have preferred to sacrifice rigour to simplicity.

6. The requirements of the crisis and the accumulation and distribution regime

Everything suggests that in the leading centre, as in the others, the growth rate of productivity and the product will sink appreciably lower than in those years when it was exceptionally high. Accordingly, there will be a period of transition, after the major adjustments required in the system, as to the duration of which it would be unsafe to hazard an opinion. It may be, however, that important technological innovations, or full utilization of recent ones, may push up productivity again without those elements of falsity that we indicated at the outset.

But the progressive elimination of these elements of falsity calls for heavy investment. A new type of accumulation in respect of energy and protection of the environment will then proportionally increase in relation to reproductive accumulation. While this .is a form of accumulation of enormous importance, it will not immediately raise the productivity of the system; on the contrary, it will accentuate the downward trend of the rate of average productivity and of the growth rate of the global product.

Let us consider the incidence of these facts. The fall in the growth rate of the product will inevitably enforce a correlative decline in the rate of consumption, for if instead of this the rate of accumulation were reduced the product would decrease more rapidly still.

This adverse effect on consumption would pose a difficult social and political problem. Which social groups would be affected by these adjustments? What mechanisms has the system to put them into effect?

First and foremost, it should be borne in mind that investment relating to the biosphere represents a higher cost per unit of product, which the enterprises will transfer to prices. Petroleum prices have soared in immediate response to the increased cost of imports, and a similar upward trend will be progressively reflected in an appreciable rise in the cost of new sources of energy. Accordingly, given the power of the labour force, wage increases will ensue, with the consequent endeavour on the part of enterprises to protect their surplus by raising prices yet again. Will there be any way of avoiding this?

Clearly, if the labour force had only incipient trade-union power, or none at all, there would be no reason for this further rise in prices to supervene, with the consequent initiation or increase in the momentum of the inflationary spiral. The spiral is, in reality, the result of a confrontation of powers. Monetary policy can prevent it only if the unfavourable effects on employment produced by a restriction of the money supply weaken the trade-union and political power of the labour force and the play of market forces brings down wages. I do not think that this is the case in the United States, where the said trade-union and political power, despite unemployment, strives to offset the rise in prices with wage increases. What is more, wages will follow an upward trend, if the incidence of petroleum is combined with the operation of other factors that force up prices, among them the inflationary effects of subsidies to the unemployed and of other State expenditure. This is the new phenomenon of stagflation, an unmistakable symptom of the changes that have occurred in power relations.

The problem could be temporarily resolved if the labour force were to refrain from compensating for the rise in prices with wage increases. That would be the aim of those who advocate some kind of social pact. But consider what this means. This sacrifice of income, with the consequent constraints on consumption, would be endured in order to enable the privileged social strata to continue stepping up their own accumulation. Could this conceivably be a lasting solution?

Clearly, if the labour force were to offset these unfavourable effects by its own accumulation, the accumulation process would continue; the same might be said if the State were to fulfil this compensatory role. But obviously that is not how the system functions.

From these explanations a conclusion of the greatest importance can be drawn, and should be emphasized. The machinery for appropriation and retention of the surplus constituted a rational response to the dynamic requirements of the system in a social structure in which the economic, social and political power of the upper strata was virtually unchallenged. But it is no longer rational when, as a result of the changes in the social structure, the trade-union and political power of the labour force develops and gains strength, and State services are considerably expanded.

Moreover, this machinery does not seem designed to enable enterprises to absorb the aforesaid higher production costs by cramping their surplus, for therein lies the dynamic mechanism of the system, as we have said elsewhere. Unquestionably a very sensitive mechanism, and also of great importance because of the political power of those who have it in their control, and who mainly belong to the upper strata.

I have no possible means of quantifying the dimensions of this complex problem. Perhaps they are not disproportionate in relation to the high level of personal consumption in the United States; but this is only one factor in the problem, since the consumer society, which has spread throughout the whole of the social structure, although with wide disparities, has gained remarkable momentum. But this impetus will be impossible to keep up, at any rate during a very difficult transition period.

Difficult, not only because of the internal factors that come into play; for the euphoria generated by the consumer society in question and the large scale of State expenditure have been attained not merely thanks to the exceptional increase in productivity –which has been followed by a marked decline– but at the expense of the product of the rest of the world, as we have already pointed out. This is linked to another of the great illusions which is now being dispelled: the might of the dollar. The time has come to deal with this question.

7. Reflections on the might of the dollar

The crisis in the leading dynamic centre of capitalism is also a crisis in the financial ascendancy of the United States, finding dramatic expression in the depreciation of the dollar, the use of which as an international currency has signified a great advantage and an enormous responsibility for the United States.

The great advantage is that of seigniorage, i.e., the benefit resulting from the creation of its own currency in response to the development of world trade. This implicitly involved responsibility for regulating the issuance of that currency in the light of internationally meaningful as well as internal considerations.

This responsibility was fairly effectively discharged prior to the inflation caused mainly by the fiscal deficit. But in the end the deficit has disrupted the whole international monetary system, and on top of this have come the effects of the rise in petroleum prices. And seigniorage has turned into that gigantic transfer to the United States of part of the increase in the world product to which reference was made in earlier pages of this same chapter.

The serious implications of the use of the dollar as an international currency had long been perceived. An eminent Yale professor, Robert Triffin, drew attention to them with admirable persistence.[14]

In the United States the illusion of the almighty dollar held sway. Perhaps it was partly on account of this illusion that recourse was had to internal monetary expansion to cover the colossal expenditure on the war in Vietnam which was superimposed on the heavy social expenditure of President Johnson's "Great Society". The notorious unpopularity of the war made it difficult to resort to borrowing or taxation to finance it. In fact, what was the point of doing so, if instead of casting the whole burden of its cost on domestic consumption, the issuance of dollars made it possible to appropriate part of the product of the rest of the world at no expense?

Outside the United States, then, there was an overwhelming flood of dollars. Great international liquidity was what it was called at the time: a euphemism which certainly does nothing to mitigate the serious consequences of this state of affairs.

But matters did not stop there, since the dollars thus floating multiplied their inflationary effects in the Eurodollar market. Dollar deposits in favour of countries with a surplus were used to issue loans to other countries, so that to their original deposits new ones were added, with the result that the inflationary pressure was exacerbated.

These operations seem similar to those that occur within a country as the result of an increase in the money supply issued by the Central Bank. There is a great difference, however, for whereas the latter has the means of regulating the multiplier effects of this initial issue of money, no such regulatory mechanism exists in the Eurodollar market.

Thus matters have reached the pitch of a veritable monetary aberration, which, besides producing the effects referred to above, vitiates internal monetary policy.

It must be admitted, however, that not everything has been negative in the Eurodollar market; Eurodollars have played a useful role in helping to cope with the external disequilibria resulting from the sudden upswing in petroleum prices. As the International Monetary Fund was not prepared to meet requirements of such unwonted size, the countries affected obtained financing from the Eurodollar market. Thus they were able to avoid restricting imports of other goods essential for the maintenance of their economic activity.

Recourse was also had to this market's facilities by the socialist countries of Eastern Europe, in which military expenditure absorbs a considerable proportion of the global product. In the Soviet Union, for instance, this proportion is estimated at between 12 and 13%, that is, about twice the corresponding percentage in the United States. Obviously such figures are incompatible with the very widespread aspiration to increase the population's consumption and the necessary investment. Accordingly, these countries have resorted to the Eurodollar market.

It is certainly paradoxical that the inflation largely brought about by the military expenditure of the United States has helped to ease, in some measure, the financing of the same type of expenditure in the socialist sphere.

At all events, the United States has continued to launch dollars into the world in order to deal with the aggravation of its external deficit resulting from the rise in petroleum prices. This preference

[14] See "The international role of the dollar", *Foreign Affairs*, Vol. 57, No. 2, Winter 1978-1979, an article in which Professor Triffin, in face of the international monetary chaos, expresses his regret at the evidence that his timely and severe warnings went unheeded.

is readily explicable, since if it had resorted to the Eurodollar market it would have had to pay interest on its loans, like the other debtor countries. In any event, this further issue of money and its multiplier effects have increased inflationary pressure at the world level.

There can be no doubt that this monetary expansion was essential to avert serious world contraction, but neither is it open to question that the funds thus created could have been withdrawn from circulation, not in the form of deposits as in the Eurodollar market, but by investing them in international securities which would have averted the multiplier effects of the original expansion. However, the International Monetary Fund was not prepared for operations of this kind either.

Obviously, such operations would be stopgaps, maintained only until the deficit countries could expand their exports sufficiently to cover the increase in the cost of their petroleum imports.

From another standpoint, the United States has urged the need for countries with a surplus to increase their imports from it in order to assist in the correction of its deficit. For this to happen, the countries in question would have had to expand their credit on the basis of their augmented monetary reserves, and this would have accentuated the effects of the inflation of external origin. It is understandable, therefore, that the pursuit of a cautious monetary policy should have been thought preferable. Otherwise, the countries with a surplus would have returned to the United States dollars that had previously left it. But just as the exodus of these dollars alleviated the internal inflationary pressure by spreading it outwards, their conversion into demand for imports would have intensified it. Whereby a very old truth is confirmed: the only way to cure the effects of inflation caused by a fiscal deficit is to prevent it!

It has just been remarked that the countries with a surplus had opted for a restrictive monetary policy. In its endeavour to curb inflation the United States has had to follow suit. In both cases the growth of the product that could otherwise have been achieved is being sacrificed. This is the counterproductive dynamic effect of having covered the fiscal deficit by inflationary means: the aggravation of its incidence on a product which is shrinking!

In any event, there can be no doubt that the increasing severity of inflation in the United States not only steadily amplified the internal inflationary spiral but externally touched off the petroleum spiral. The original increase in petroleum prices was of course influenced by the inflation that had already been developing. The price rise intensified this inflation and the deterioration in the international value of the dollar. Thus oil prices were eroded again, and so was the value of the considerable dollar holdings of the petroleum exporters. And this, of course, led the latter to raise prices yet again. It can thus be seem that just as the capacity of the labour force to recoup itself from the adverse effects of inflation pushes up the internal spiral, so the power recently gained by the oil-exporting countries enables them too to recoup them selves and so give impetus to the international spiral.

8. Incidence of the crisis on the periphery

The non-petroleum-exporting peripheral countries are severely affected by the rise in oil prices as well as by the inflationary increase in the prices of their imports from the centres.

It would be difficult for them to recoup themselves for this deterioration in their terms of trade by raising the prices of their exports, subject as these are to a relatively low income-elasticity of demand at the international level.

Accordingly, the periphery will have to step up its effort in the field of exports of manufactures, where it has acquired well-attested ability. But it would be idle to hope that this would suffice to counteract the resurgence of the trend towards external disequilibrium, now aggravated by the fall in the growth rate of the centres and the recrudescence of protectionism on their part.

In face of this situation, import substitution has once again become inevitable, as it was during other crises in the centres, especially in the Great Depression. It is not a question of doctrinal preferences, but a necessity imposed by the international circumstances.

For obvious reasons of economic viability, import substitution should not continue in those watertight compartments which CEPAL has been impugning since its earliest days. Now more than ever is it essential to conduct the process rationally at the Latin American level and on a basis of formulas for trade with other developing countries.

But all this takes time, and in the meanwhile the external imbalance will still have to be faced. Clearly, continued recourse to borrowing in the

Eurocurrency market is not the best solution; but there is no other, as long as the petroleum-exporting countries fail to adopt compensatory measures in favour of the countries hardest hit by the high oil prices –a step that has long been canvassed. In reality, the proportion of petroleum consumed by these countries is not very large, albeit that would not excuse them, if compensatory arrangements were to be introduced, from adopting stringent energy-saving measures.

The adverse implications of all this for the periphery cannot be exaggerated. Its rate of development has declined, although less than it would have done without borrowing. The days of prosperity when the annual growth rate averaged more than 7% have come to an end.

It must be remembered, however, that even this rate was insufficient from the dynamic standpoint. A recent CEPAL analysis[15] maintains that in order to absorb the increment in the labour force a rate of 7.5% would be necessary. So the tendency to exclude from development the broad masses relegated to the lower strata of the social structure would still persist; and the conflictive tendencies of the system would be exacerbated.

What is the significance of these phenomena? Truly grave, which makes the social use of the surplus a yet more imperative need. But there is no room for illusion as to the possibility of so radical a change, since the tasks of doctrinal persuasion and political preparation are bound to take a fairly long time. However, in any event, it would seem inevitable to restrict privileged consumption, not only in order to increase capital accumulation, but also to lighten the incidence of external price increases on the broad masses of the population. This objective could hardly be attained by intensifying inflation!

It must be borne in mind, however, that as long as the trend towards external disequilibrium is not counteracted the effort to increase capital accumulation might be at least partially frustrated. It is not enough to accumulate more; there must also be a possibility of using the resources concerned for imports of capital goods which, at least for the time being, could not be obtained through peripheral trade.

In the light of these considerations, the need for financial resources from abroad for accumulation purposes is obvious. No very meaningful co-operation can be expected of the centres during the transition period which will be required to overcome the crisis. On the other hand, Eurocurrency loans cannot indefinitely take the place of financing from the international credit institutions. Such institutions, particularly if certain reforms in them are introduced, might constitute an appropriate mechanism for channelling large volumes of financial resources accruing from petroleum which are at present used in the Eurocurrency market or revert to the centres.

Little progress has been made in channelling these resources into the periphery, either via the credit institutions or directly through investment placed by the petroleum-exporting countries themselves.[16] This would be the best way of ensuring that funds would revert to the centres, in the form of payment for imports of capital goods effected by the periphery with the resources in question: a three-cornered reversion.

In this connexion, additions may be expected to certain proposals for setting up multinational enterprises among Latin American countries, petroleum-exporting countries and other developing countries; these multinationals might play a very important role in collective import substitution, especially in respect of capital goods and intermediate goods of some technical complexity. This would open up the possibility of advantageous participation on the part of the centres, in accordance with appropriate rules of the game.

9. The process of change in the periphery and relations with the centres

From all that has been said it is clear that even if the forces of democracy were to succeed in transforming the system in the periphery, they would be powerless to change on their own account the nature of relations with the centres. It is not enough to demonstrate the incongruity of these relations and their adverse effects on the periphery. Perhaps in the end the disasters overtaking the biosphere may convince the centres that the exercise of their hegemonic power and the free play of economic forces at the international level are intensifying the exclusive and conflictive tendencies

[15] Latin America and the New International Development Strategy: goals and objectives" (E/CEPAL/L.210), Santiago, Chile, mimeographed text, 1979.

[16] At the time of writing, news is being cabled of important decisions which the petroleum-exporting countries would seem to be prepared to adopt.

of development in the periphery, with very serious political consequences; but the periphery lacks the power to do so. Power it certainly has to disrupt, but not to transform!

Only a long-term view could lead the centres to face up to their world responsibilities; they might play a supremely important role in the process of change. Accomplishing it is the business of the periphery: accomplishing it and deciding how to do so. But the centres for their part could make a notable contribution to the success of the transformation and also –plain speaking is called for here– to its political significance.

But what interest could the centres have in performing this role? They have played their cards in favour of the privileged society, almost invariably prompted by their short-term interests. Now they see evidence that the basis of this type of development is social inequity. And perhaps they may also be bringing themselves to believe that in the advanced stages of development the privileged-consumer society can only be maintained by the real or potential exercise of force.

Social equity, genuine democracy and unequivocal respect for human rights are values that have struck deep root in the centres, after many historical vicissitudes. It is understandable therefore that signs of anxiety and disconcertment should be shown when those great human values are trifled with in the periphery. But this does not prevent the transnationals from displaying their skill in accommodating themselves to such political apostasies, if not actually exalting the merits of a complete eclipse of democracy!

VIII

Ethics, rationality and foresight

1. Human welfare: privilege and utopia

For the first time in life on this earth the prodigious development of technique offers us immense potentialities for human welfare –and human dignity too–, which are not unattended by pernicious effects. We are on the brink of the materialization of a utopia; yet these potentialities are being wrecked by the ambivalence noted earlier and by the privilege inherent in the social structure of the periphery, as well as in its patterns of linkage with the centres.

It is the privilege that has existed from time immemorial: throughout the long history of the human race, the fortunate life of the few has always been based on the wearisome toil and the social subjection of the many, barely alleviated by a rudimentary technique, evolving in the past at a snail's pace.

In reality, given those conditions, no substantial results could be expected in respect of income redistribution; nor, of course, a dynamic redistribution. Poverty seemed unassailable. And one may wonder whether western civilization would have flourished as it did without inequality. Did not Plato and Aristotle, and so many others, defend slavery? Without inequality, could the splendour of art and literature, of philosophy and science, ever have flashed out so vividly, in brilliant though fleeting episodes of human talent?

Be this as it may, the significance of privilege has radically altered, since it now represents a formidable obstacle to the materialization of that utopia of human welfare; a stumbling-block in the way of access for all to the conquests of culture; a bar to the exaltation of the abundant creative talent which is going to waste because of the social relegation of the disadvantaged.

2. The ethics of development

This is the privilege of the surplus. To whom does the surplus pertain? There is no scientific reply to this question, for the answer is ethical. By virtue of its origin and nature, the surplus belongs to the whole community and should serve the collective interest.

Without a measure of ethical consensus political movements in the direction of change will never acquire lasting vigour. But neither could they attain their objectives without rationality –a rationality ultimately imposed by the evolution and ambivalence of technique.

Two centuries of belief in the regulatory virtues of market laws have also helped to smother the

ethics of development. It is forgotten that Adam Smith was a professor of ethics before he wrote his monumental work; and indeed, in all his arguments there is an underlying ethic, as there is in the neoclassical doctrine which has followed after him. All this has come to nothing.

3. Joint responsibility

In its efforts to bring about a change in its relations with them, the periphery generally invokes the moral responsibility of the centres. But ethics is indivisible. And we are far from having recognized our own moral responsibility in face of the social unrest of peripheral development. Nothing solid can be achieved without a joint acceptance of responsibilities.

Let us speak frankly: under the impulse of their hegemonic power, the centres cultivate their own immediate economic, political and diplomatic interests, but they are basically lacking in ability to take the long-term view, in farsighted concern for the future, in self-restraint in the exercise of their power.[17]

Want of foresight with respect to energy resources has had dramatic consequences. Will this crisis teach people to think ahead in the exploitation and use of other natural resources?

Will the centres have learnt to set limits to their hegemonic power? Have they fully realized that this is essential if their own interests are not to be doomed to suffer?

It is the reckless exercise of that power and an inconceivable lack of foresight that have led to international monetary chaos.

Similar attitudes have also prevailed in relations with the periphery. Will there be nothing for it but to await a succession of crises before these attitudes undergo any change? Do the centres hope to weather the social storm that is brewing in the periphery?

All these vast and anxious questions, of profound world significance, are causing leaders perplexity and disquiet. And the ability to steer a course amid the tide of events seems to have been lost: that gifted leadership which has always been called for in the major vicissitudes of history.

What is to be done? Those who have the theoretical responsibility for shedding light on the path and discussing solutions can find no answer.[18]

The periphery's responsibility is likewise immense. I do not believe, however, that we are as yet prepared to carry out a major task of transformation, whence the ultimate significance of the present article. If it succeeds in giving rise to discussion in depth, if it leads to more searching examination of what the facts mean, and to consideration of how we ought to act on them in order to attain the major objectives of development, it will have served the purpose for which it is intended.

Needless to say, this is not our business alone. The effort at enlightenment and persuasion must also be extended to those in the centres who are earnestly seeking a response to the problems of the world of today: a world very different from that of yesterday, by reason both of the great possibilities it offers and of the great risks it presents. Possibilities and risks alike we must confront without delay, undaunted by the image of the past. For upon us too a clear moral responsibility is laid by participation in this great human adventure of development; in the realm of thought at least, if we can no longer play our part on the scene of action.

[17] Nothing important, nothing really constructive has been done since the developing countries began, two decades ago, to take a firm stand *vis-à-vis* the developed countries. The latter, with a few shining exceptions, have been at one in adopting negative attitudes.

It is understandable, therefore, that in the course of my international experience I have been increasingly dominated by grave concern: concern at witnessing how events are running adrift.

[18] See a letter from K. Galbraith to the *New York Times* of 7 May 1979.