

**ECONOMIC ANALYSIS OF UNDERDEVELOPMENT BY ECLA:  
A SELECT REVIEW**

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ECONOMIC ANALYSIS OF UNDERDEVELOPMENT BY ECLA :  
A SELECT REVIEW

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## PREFACE

"The fox knows many things, but the hedgehog knows one big thing", wrote Archilochus of Greece in the 7th century B.C. Development analysis also has its hedgehogs and its foxes. Knowing many things or knowing one big thing may refer to aims and objectives or it may refer to causes and obstacles.

We have had a large number of theories explaining the absence of development or distorted development in terms of a single cause or rather a single barrier, the removal of which would release the forces of progress. There are economists who see in neocolonialism and imperialism the chief barrier to development. Some stress a shortage of savings. Others see the main obstacle in the lack of incentive to invest. A few find it in the difficulty of constructing overhead capital which requires large, indivisible investments. By instinct and training these economists seem to be hedgehogs rather than foxes.

This study is a review, with no pretense to be comprehensive or exhaustive, of the development analysis of a group of economists who can be considered as foxes rather than hedgehogs in development economics. It is an attempt on over-viewing studies of the men who are committed to the process of development in the oppressed and underdeveloped

land of Latin America. A reorientation from a descriptive approach, drawing conclusion from a simple comparison between economic structures of rich and poor countries, towards a more "structural" and comprehensive approach stressing the interlink between the two historical processes of 'development' and 'underdevelopment' is a specific feature of the analysis of these economists. Their study, borne of the experience of shared efforts to change the current unjust situation and to build a different society — free and more human, provides a unity of thought and purpose to the Third World countries which otherwise have their own economic, political and cultural differences. Whatever the validity of these pages, it is due to their experience and reflection.

I am most obliged to Professor B.S.R. Rao, the R.B.I. Professor of Finance, Gokhale Institute of Politics and Economics, for sparing his valuable time and insight to guide me writing this dissertation. This piece of work would never have been conceived and completed without his constant encouragement, critical comments and valuable suggestions. I thank him for the same but mere words can not express my indebtedness to him.

I would like to express my deep sense of gratitude to Dr. N.Rath, the Director, and all the members of the faculty at the Gokhale Institute of Politics and Economics, for the goodwill extended to me during my study in the



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## CHAPTER I

### INTRODUCTION

#### 1.1 Importance of the Study

Beginning with Adam Smith's "An Inquiry into the Nature and Causes of the Wealth of Nations", classical economists sought to discover sources of economic progress and analyse the long-run process of economic change. As Arthur Lewis points out, what Smith called "the natural progress of opulence" is what we call "development economics". During a long interim, however, marginalist analysis of neo-classical economists introduced a different frame of thinking and shifted interest to the narrower problems of resource allocation and theory of exchange. In addition, the depressed conditions of the inter-war period gave rise to the Keynesian analysis of short-period business cycles and the possible threat of secular stagnation in mature capitalist countries. A "return to growth and development" as the "grand theme of economics" did not come until after the Second World War (Meier, in Meier and Seers, 1984, p. 3). The late 1940's and 1950's thus became, in many respects the "pioneering period" for the "new development economics" (Meier, *ibid*) that focussed on the development problems of Asian, African and Latin American countries.

Taking cue from Alfred Marshall's statement that

poverty constitutes the most important problem and the chief justification for the study of economics, the discussion on poverty and underdevelopment started on an optimistic note. The optimism of the period is reflected in the statement of Professor Albert O. Hirschman in his essay entitled "The Rise and Decline of Development Economics" : "(New) Development economics is a comparatively young area of inquiry. It was born just about a generation ago, as a subdiscipline of economics, with a number of other social sciences looking on both skeptically and jealously from a distance", (Gersowitz et al (eds) 1981, p. 372). But Hirschman's essay that began so cheerfully turns out to be really an obituary of the new development economics. In his illuminating essay referred to above, Hirschman puts his main thesis thus; "Our discipline had achieved its considerable lustre and excitement through the implicit idea that it could slay the dragon of backwardness virtually by itself or at least that its contribution to this task was central, We now know that this is not so". The would-be "dragon-slayer" seems to have stumbled on his sword.

The study and comprehension of the field of development particularly as it relates to the problems of underdeveloped countries has never been more crucial to the world than it is today. There is no lack of information on the extreme forms of deprivation which the majority of people in this world now suffer. The services of a statistician

are not required to establish that the majority of mankind is ill-fed, ill-clothed, ill-housed, under-educated and prey to preventible diseases. We have only to open our eyes to see the misery and suffering of our people. A few minutes walk on the streets of our towns confront us with slum-dwellers, undernourished children, beggars, unemployed and a great variety of sick and crippled. Our villages, too, can not succeed in hiding their problems of poverty and inadequacy for long. According to the World Bank's 1980 "World Development Report" there are about 800 million people or almost 40% of the population of the so called developing countries who live in "absolute poverty" : "a condition of life so characterised by malnutrition, illiteracy and disease as to be beneath any reasonable definition of human decency".

Elaboration of these and other facts like low per capita income, unequal distribution of the income, etc. can be found in most textbooks on underdevelopment. But they usually remain unexplained; or the explanations, if given at all, are partial and inadequate. Explanations are attempted to show why the people of underdeveloped countries are "poor", but the existence of their poverty is not related to the wealth accumulated elsewhere. The question addressed is not usually the question of why the international distribution of income is so unequal.

As we have noticed earlier, a few decades ago there was widespread public agreement that Economics as the Queen of Social Sciences was capable of steering economies to predictable levels of real growth and alleviate human squalor. Today the failure of Economics to provide either a reliable guide to policy or a credible picture of reality is painfully clear. The result has been an unprecedented and exciting crisis in economic theory relating to development, as economists have been forced to re-examine their basic assumptions in an attempt to account for the apparent failure of their discipline. "In its 400 year history Economics has passed through several major changes in its world view, its concerns, its paradigms. It is now in the throes of another scientific revolution or paradigm crisis" (Kristol, in Bell and Kristol (eds) 1981, p. 210).

Professor Dudley Seers in a classic article entitled "The Limitations of the Special Case" aptly sums up the present day "paradigm crisis" of development economics : "Economics seems very slow in adapting itself to the requirements of the main task of the day - the elimination of acute poverty in Africa, Asia and Latin America - just as the previous generation of economists failed to cope realistically with economic fluctuations until after the depression had brought politically catastrophic results". He proposed the "modest but revolutionary slogan" that "economics is the study of economies" (1969, p. 311),

implying thereby that different types of economies are in need of different types of theoretical framework. This is no doubt an extreme opinion.

The evident inadequacy of the development economics has given rise to much dissent within the profession. Even major contributors to the field were complaining that the study of the field did not add greatly to the understanding of poverty in the underdeveloped world nor to the bag of tools useful for policy (Higgins, 1973, p. 1380; Meier, 1970, pp 59-60 ). The trickle of disaffection with the orthodox literature on development economics in 1950's has enlarged to a deluge of discontent in the last two decades. These dissenting movements have quite a bit in common. To begin with, they all reject conventional development theory in its present form and they do so on similar grounds. Essentially, they argue that the prevalent development analyses are in whole or in part "scientific" simplification of economic reality that mislead rather than illuminate. These analyses far from being truly scientific are but "a form of mathematical mimicry of the physical sciences inappropriate for the understanding of human activity" (Kristol, in Bell and Kristol (eds), 1981, p. 210).

Whether one subscribes to the view of the existence of "paradigm crisis" in development economics or not, one thing is evident : the basic problems of poverty and underdevelopment lie beyond the conceptual matrix of orthodox



development economics. Most of the theorising on economic underdevelopment has been done by economists who live in the industrially advanced world. Some of them, in fact, have written about the underdeveloped countries before they have seen them. The most candid confession comes from C. P. Kindleberger : "This book is written by one who has not been there" (1958, p. ix). The reality of underdevelopment has been seen by them mainly from the vantage point of industrial revolution and modernization. According to them, the reality of underdevelopment began in the mid 19th century. The Industrial Revolution started in England spread rapidly to other countries which were also revolutionising their agriculture. But countries of low agricultural productivity had rather slow progress. "And so the world divided : countries that industrialized and exported manufactures and other countries that exported agricultural products". (Lewis, 1978, p. 11). The absence of an agrarian revolution in some countries that could have raised farm productivity is, therefore, the key to the process of underdevelopment. It was this historical deviation from the "norm" that brought in its trail a series of consequences culminating in the present gulf between rich and poor countrise. The path of development of these deprived areas now lies through fuller integration into the world capitalist system so as to allow free flow of resources, technology and capital from the advanced countries - which is the other name of "modernization".

Such an analysis of underdevelopment originating from the "mainstream" of development economics suffers from two serious handicaps : lack of knowledge about the broad historical forces associated with underdevelopment and ignorance of the institutions, behaviour responses and ways of life of the largest sector within the underdeveloped countries, the rural areas (Griffin 1969, p. 7). Thus while the issue of underdevelopment had been discussed, debated and acted upon, there was no evidence of a deep commitment and a genuine universal resolve to eradicate it through a relevant theorising. For one reason or another, the economists so far have failed to come to grips with it. There is indeed a need to revolutionize our perception of the issue of underdevelopment and transform our understanding of it. Perhaps, a Keynes in the development economics can alone achieve it !

Following Seers, we can distinguish three phases in the intellectual process that led to the Keynesian revolution.

1. The "Hobson Phase" (the discovery of underconsumption);
2. The "Kahn Phase" (the idea of multiplier); and
3. The "Keynes Phase" (the synthesis).

Understanding the dynamics of underdevelopment requires theoretical conceptualization. That point is

common knowledge. The problem is what kind of theory would suit the requirement. In the case of underdevelopment analysis, it is felt that the road towards a theory relevant to our time has not yet been discovered. As Seers puts it : "We are not even in a position to judge what has to be demolished of the old doctrine, or what can be saved and adapted for further use. This is still somewhat in the "Hobson Phase" or early in the "Kahn Phase" of development economics ....., only in the "Keynes Phase" can its historical significance be appreciated" (1969, p. 56).

According to Seers the most befitting person to be honoured as "Hobson of development economics" is Raul Prebisch, associated with the United Nations Economic Commission for Latin America (ECLA). In 1950's, the ECLA economists under the dynamic leadership of Prebisch prepared certain documents which had far reaching repercussions on development theory. For the first time, fundamental criticism of existing conceptions of reality in development studies originated among the Latin American group of economists. They were the first to argue that development problems confronting the Third World are of different nature and quality than those the First World had experienced. Referring to their original contribution to the development debate, Jagadish Bhagwati states that they belong to "a most distinguished small group of pioneers - if 'pioneers' refers to Columbus rather than the Mayflower immigrants, Vasco-da-Gama

rather than Robert Clive, or Adam Smith rather than Milton Friedman", (Meier and Seers (eds) 1984, p. 197).

To review the key ideas of ECLA on underdevelopment is the purpose of the present study. Such a review has considerable importance - theoretically and practically. ECLA has outlined certain key problems. Even if one disagrees with some of their analyses or feels that other solutions might have been more effective, international thinking about development did receive a fresh impetus by their theorising. In the words of Prebisch, "three fundamental considerations" have guided the ECLA in its efforts to contribute to the analysis of development:-

Firstly, "to resist the easy allure of theories conceived in the major 'centres' which despite their apparent universality were unable to describe a reality and social structure very different from theirs".

Secondly, "to engage in systematic analysis of this reality in order to act upon it, using an approach which is authentic and not seen through the eyes of the 'centres', and

Thirdly, "to recognize the continuous changes in real phenomena and the need for perpetual revision of our thinking" (1978 : p. 167).

Thus, major themes of ECLA analysis include, an emphasis upon : a disharmony of interest between economically less

developed countries and the developed countries; an explanation of economic underdevelopment not merely in terms of domestic factors of a given country but in terms of the international economy as a system; and the use of the analytical framework of 'Centre-Periphery' system with its dynamic evolution. As Isiah Frank puts it "By challenging the basic assumption that the developing countries would have to go through the same stages of development as the advanced countries, by asserting the uniqueness of the developmental process in the developing countries and by raising to the status of a general rule the need for protection, ECLA was able to inspire a whole generation of economists, particularly in less developed countries" (1964, p. 214). In the opinion of Gabriel Palma, ECLA attempted "to reformulate the conventional theory of economic development just as Keynesianism had set out to do with the central body of conventional economic theory" (Seers (ed.) 1981, p. 50). Such is the significance of ECLA's theoretical analysis.

The ECLA analysis of underdevelopment is not merely a theoretical issue, however. In contrast to the general tendency for economic life in the Third World to be dominated by the 'metropolitan thought', the ECLA could succeed to a considerable extent in shaping a Third World Consciousness about economic problems. The ECLA forced leading economists of the West into a confrontation, succeeded in creation of

a new international organization to serve the interests of developing countries in trade and development and laid the foundation for a process of rethinking in which developing countries came closer to wresting major concessions from developed countries on vital economic issues, the details of which we will be elaborating in appropriate sections.

Unfortunately, the theoretical and practical importance of the ECLA analysis has remained unrecognized for a long period of time. Few economists could, even today, give an authoritative assessment of the ECLA analysis. In most cases later writings hardly acknowledge, let alone incorporate, the elements of ECLA analysis. The story is told of a graduate student who stated in answer to a question by a very eminent Professor, that he wanted to specialize in the economics of development. "Oh" ! said the Professor, "What economics is that" ? This was in the 1950's. Even in 1980's attempts for evaluating and studying ECLA thesis can evoke similar spontaneous reactions. Professor Seers attributes this to the "hangover from the colonial past". "It is hard to resist" Seers states, "the conclusion that most of us do not care, assuming tacitly that nothing of intellectual significance is produced in the backward continents ..." (1981, p. 3). That must be one fine explanation for the widespread ignorance about this ECLA school.

Although points of ECLA analysis have been criticized

by academic economists, it is our impression that the ECLA analysis has never been fully evaluated.

It is, therefore, the purpose of this review to present and interpret the ECLA thesis as a whole, as it comes from various ECLA documents, to examine its components and to evaluate its scope and limitations.

However, we can hardly embark upon an intellectual history of the ECLA here. We shall limit ourselves to indicate some of the major points in relation to their theoretical themes. Moreover, as these authors have developed their analysis in divergent directions since the "heyday" of the ECLA between the 1950's and early 1960's, it is impossible to present their ideas in a single logical structure. Besides, as we delve deep into the ECLA documents, we come across quite a number of incoherent statements, policy proposals taking precedence over theoretical propositions, superficial comments, etc. Nevertheless, it is hoped, we can discuss the essential points in a schematic way without doing too great a disservice to its complexity.

## 1.2 Organization of the Study

This review is presented in six chapters. The Second Chapter provides the basic components of the ECLA doctrine on underdevelopment. The principal task of the chapter is to show that the 'vision' of ECLA is based on a set of fundamental ideas which were formulated in the earliest ECLA



documents bearing on such questions as international economic relations, the phenomenon of secular deterioration of the terms of trade, the unequal distribution of technological progress between "central" and "peripheral" countries, industrialization and state intervention. The Third Chapter shows how ECLA analysis stands in relation to the emerging situations of the 1960's leading to the enlargement of the ECLA's original paradigm. The aim of the chapter is to emphasize that the new concepts used by the ECLA like 'dependence', 'marginalization', 'malignant style of development' 'peripheral capitalism', etc., are largely developments of various aspects of the original conception. A review of the most important criticisms against the ECLA analysis, presented in Chapter IV, helps to clarify and further define the basic features of ECLA's thinking. In Chapter V, an attempt is made to evaluate the scope of ECLA in economic analysis in its theoretical and policy points of view. Besides, the main limitation of the analysis is also dealt with. Chapter VI provides a brief summary of the review and some conclusions based on the study. Bibliographical reference relating to the background of the ECLA thinking and to the critiques published in industrially advanced countries are included at the end.



## CHAPTER II

### THE COMPONENTS OF THE ECLA DOCTRINE

During the nearly forty years of its existence, the United Nations Economic Commission for Latin America (ECLA)<sup>1</sup> has been making continuous effort for the diffusion of a set of economic theses concerning the causes and conditions of underdevelopment. It is the purpose of this chapter to examine the main ideas in the scheme of ECLA's economic doctrine.

However, the task is not an easy one. The components of the ECLA doctrine are scattered in numerous documents.<sup>2</sup> Besides, most of their theoretical ideas originated in the context of analysing specific policy problems. Still we can discern a unity and an internal coherence in the whole economic analysis of ECLA. The most important ECLA studies on development and underdevelopment are their two initial documents : "The Economic Development of Latin America and its Principal Problems" and "The Economic Survey of Latin America 1949". The analysis outlined in this chapter is primarily based on the tenets of these doctrines, hereinafter referred to as "Principal Problems" and "Survey" respectively. Certain writings have identified as many as nine separate but closely interlinked topics as covering the components of the ECLA doctrine.<sup>3</sup> However, we propose to give here a synopsis of a few selected topics only.

## 2.1 The ECLA "Vision" and Approach

The ECLA vision sketches out a theory of the "poor economy" or a "theory of underdevelopment". To ECLA, the underdevelopment is not a mere state of backwardness. It is postulated that underdevelopment is part and parcel of the historical process of the global development of the international economic system. Therefore, 'underdevelopment' and 'development' are simply the two faces of one single universal process and the two faces have been interacting. More specifically, underdevelopment of the nations is part of the long-term economic relations with the industrial heartland. The evolution of this global system has, over a period of time, given rise to polarisation which has found its main expression in geographical terms - with the developed, industrial, advanced "central northern ones" on the one side and the underdeveloped, poor, dependent and "peripheral southern" ones on the other. Development and underdevelopment should, therefore, be understood as partial but independent structures which form part of a single whole.

The nucleus of the ECLA 'vision' on under underdevelopment is its critique of the current ideas on international trade as expressed in Heckscher-Ohlin-Samuelson version of Ricardian Theory of Comparative Costs and its role in economic growth.

In opposition to the view prevailing among the orthodox

and liberal economists who accepted the fundamental premise of market theory relating to the comparative advantage of international division of labour, the ECLA theorists assert that international economic relations between the advanced countries and the developing countries tend to "propagate" the condition of underdevelopment. The invisible hand of the wicked step mother, instead of correcting inequalities, aggravates them.

According to the ECLA stand, "..... reality is undermining the outdated scheme of the international division of labour which achieved great importance in the 19th century and as a theoretical concept, continued to exert considerable influence until very recently" (Principal Problems, p. 1).

Classical economic theory had led one to expect that international trade based on comparative advantage would ensure spread of its benefits and that the free movement of goods and of capital and labour would prevent anything more than a momentary advantage. Economic theory thus seemed to rule out the possibility of more than temporary inequality between countries. International inequality could, therefore, persist only if the market mechanism was prevented from functioning freely. The classical economists viewed trade as "engine of growth". It was shown that, under certain restrictive conditions, free international trade is a perfect substitute for the complete international mobility of factors and is sufficient to equalize not only the prices

of the products being traded but even the prices of the factors of production, e.g., Samuelson's "factor-price equalization" theorem. This traditional view may be summed up as postulating that trade is capable of transmitting development.

The ECLA analysts have argued that the facts are completely at variance with the predictions of traditional economic theory. The extensive empirical studies of ECLA revealed considerable inequality between the producers and exporters of manufactured commodities on the one hand and the producers and exporters of the primary commodities on the other. In particular, ECLA gave considerable attention to the question of inequality in the international dissemination of technology and the distribution of its profits. The nature, causes, and dynamism of this inequality and its manifestations, such as disparities in demand elasticity and the tendency towards deterioration of terms of trade for primary commodity exports which industrialisation could counteract, laid the tenets of what came to be called "The ECLA Doctrine" In trying to find an explanation for these phenomena, the ECLA laid special emphasis on the fact that the countries of the third world formed part of a system of international economic relations which they named 'The Centre-Periphery' system, the structure and characteristics of which are analysed in the next section.

## 2.2 The "Centre-Periphery" System : Its Structure and Formation

The cornerstone of the ECLA theory of underdevelopment is that of the 'Centre-Periphery' system. The ECLA documents divide the world into two : "The Centre" and "The Periphery". The former consists of the industrial countries of the world and the latter comprises most underdeveloped countries which specialize in agriculture and in the production of other primary products.

The two terms 'Centre' and 'Periphery' were popularized, if not introduced, by the ECLA. Implicit in this pair of concepts is the idea that development has been unequal from the start : the economies that were the first to be penetrated by capitalist production techniques constitute the 'Centre'; the 'Periphery' on the other hand is constituted by those economies whose production has lagged behind, technologically and organizationally, from the outset.

Thus, 'Centre', and 'Periphery' are regarded as the historical outcome of the way in which technical progress had spread in the world economy. Technical progress started at the 'Centre' and its fruits spread throughout the whole of the production system. For better or worse, technical progress did not spread to the 'Periphery' through a general fall in prices in relation to increases in productivity. The new techniques were introduced only in the primary-export sectors and in some economic activities directly

connected with exports, having very limited backward and forward linkages with the rest of the economy. The 'Periphery' was left behind not because of any malicious design but because of the dynamics of the system.

There was, in effect, an economic "constellation", at the centre of which were the industrialized countries. Favoured by this position and by their early technical progress, the industrial countries organized the system as a whole to serve their own interests. The countries producing and exporting raw materials were thus linked with the 'Centre' as a function of their natural resources, thereby forming a vast heterogeneous 'Periphery' incorporated in the system in different ways and to different extents.

As the impulse of the formation of the 'Periphery' was given by the striking expansion of the 'Centre', the structure of production in the periphery acquired two essential features. One of these is its "heterogenous" character. Its production structure is heterogenous because economic activities with significant differences as to the productivity existed side by side, with the two extremes provided by an export sector with relatively high productivity of labour and a subsistence agriculture in which it is particularly low. Contrasted to this is the production structure of the 'Centre' which is "homogenous" in the sense that no difference in productivity can be found in different economic activities. Secondly, the

'Peripheral' structure is 'specialized' in the sense that the export sector tends to concentrate upon a few primary products with production characteristically confined to an "enclave" within the economic structure. In contrast to this 'specialized' character of the 'Periphery', the 'Centre' is characterized by 'diversified' production activities having very high forward and backward linkage effects. Thus, in contrast with the Periphery's 'specialized' and 'heterogeneous' structure of production, that of the 'Centre' is 'diversified' and 'homogenous'.

The ECLA analysts stress the strong influence of the external sector on the "peripheral economies" : exports contribute to the generation of a substantial share of the national income as also its growth, and imports as the flexible source of the supply of the various types of goods and services needed to satisfy an appreciable part of the domestic demand. In the development process of the industrial 'Centre', the external sector generally predominated and essentially performed both those functions. However, according to ECLA, the role of the external sector in the two types differs qualitatively.

First, take the question of exports. In the case of "industrial central economies", although exports were an important and dynamic factor in generating the national income and essential to its expansion, the growth of the economy did not depend wholly or even primarily on exports.



In fact, the external factor was combined with a highly important internal factor : viz., autonomous investment coupled with technological innovation. The combination of these two made it possible to take advantage of the opportunities offered by the external market as also to diversify and integrate domestic production capacity.

In the "peripheral countries", on the other hand, not only are exports virtually the only source of income growth, but the export sector is the dynamic centre of the whole economy as well. Admittedly, its impact on diversifying production capacity is necessarily limited, since the external sector rests on the narrow basis of only one or two primary commodities. Generally speaking, development of export sector gives rise to a fairly intensive urbanization process during which what are known as the "residential" industries (textiles, footwear, clothing, furniture, etc.) are established. These are, of course, traditional, low-productive industries that are found in nearly all the "peripheral countries" and arise out of the primary export model itself.

The pertinent fact, however, is that this small-scale industrial activity combined with a subsistence agriculture is insufficient to impart vigorous growth to the domestic economy. Thus, economic growth remains essentially harnessed to the behaviour of external demand for primary commodities and this has given "peripheral economies" their



permanently dependent and vulnerable character.

Moreover, imports, besides being different in structure, play a different part in the "peripheral economy". In the open economies at the centre of the system, the function of imports was primarily to supply food and materials that could not, on the basis of country's natural resource, be easily produced domestically. In the "peripheral economies", on the other hand, imports are required, in addition to meeting much the same needs, to supply whole ranges of finished consumer goods and practically all the capital goods required for the investment process induced by the exogeneous growth of national income. Thus, the role of the external sector, as a means of filling the gap between demand and domestic production is of a different nature in the two systems.

In the "central countries" there is not and never has been any clear dividing line between the two sorts of production capacity — one to meet domestic and another to meet external market needs. There is no export sector as such : manufactured goods are both exported and consumed in large quantities within the country, and any existing specialization for the external market is in terms of specific products rather than of different sectors of production.

In the "peripheral countries", on the other hand, there is a clear social division of labour between the

external and internal sectors of the economy. The export sector is a well defined sector of the economy usually with a high level of productivity, specializing in one or two commodities of which only a small proportion is consumed within the country. The internal sector, on the contrary, with its low productivity level, is primarily a subsistence sector and meets only part of the food, clothing and housing needs of the population.

Moreover, the high concentration of ownership of natural resources, especially capital, in the more productive export sector gives rise to an extremely unequal distribution of income. Thus, while the income of the bulk of the population is so low as virtually to exclude them from the monetary economy, the high income groups maintain levels and patterns of consumption similar to those prevailing in the large industrial countries.

The combination of this heterogenous pattern of division of labour with a marked inequality in personal income distribution is, therefore, responsible for the great difference between the structure of production and the composition of internal demand in a typical "peripheral economy".

### 3.3 Terms of Trade and Fruits of Technical Progress

As will be seen (Section V), besides the static connotation implicit in the foregoing description of the characteristics of their structures, the concepts of

Centre-Periphery have also a dynamic connotation.

The assumptions relating to the disparate evolution of average levels of productivity and income constitute the most direct expression of this dynamic content. Technical progress is held to be more rapid in the 'Centre' than in the 'Periphery'; it is likewise postulated that increases in labour productivity are also more intensive in industry in the 'Centre' than in the primary exporter sectors of the 'Periphery', and that this, in its turn, is reflected in the unequal rates of increase of average productivity in the two types of economy. It is further posited that the growth rates of average real income are unequal too — faster in the "central countries" than in the less developed economies (Survey, p. 74; Principal Problems, pp. 1 and 4).

From the ECLA standpoint, these two kinds of inequality — i.e., the dynamic disparity between levels of labour productivity and the increasing difference between average income levels — are related to deterioration of terms of trade.

It is maintained that the deterioration phenomenon is the manifestation of a long-term trend inherent in the trading of primary exports from the 'Periphery' for exports of manufacturers from the 'Centre'. By definition, deterioration of the terms of trade implies that the purchasing power of one unit of primary exports in respect of

manufactures diminishes in course of time. But more important than this variation in the commodity trade are its implications as regards the real income generated in the production of the goods traded.

A clear idea of this aspect of the deterioration phenomenon is given by the following equation :

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

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

Given the assumption that productivity increases more in the industrial than in the primary sector, a fall in the terms of trade necessarily implies that the relation between income levels will follow a downward trend; and that average real incomes will become more sharply differentiated through time than levels of productivity. When the reasoning is applied to 'Centre-Periphery' relations, it becomes obvious that in view of the hypothesis on the disparate evolution of productivities, the trend towards deterioration implies that there will be a growing difference between

average real incomes, and that in the "peripheral countries" average income will be increasing more slowly than labour productivity.

This is the significance of deterioration from the standpoint of underdevelopment. Even if the terms of trade do not deteriorate, as many critics vehemently argue, the mere inequality of the rates of increase of labour productivity implies a difference in average income levels; if, in addition, deterioration occurs the gap between average incomes becomes much wider. To use the ECLA terminology "deterioration of the terms of trade implies that the fruits of technical progress are concentrated in the industrial centres".

There is a second aspect of deterioration which is of interest from the angle of its possible quantitative importance for development. As can be inferred from the foregoing remarks, a decline in the terms of trade implies that in the "peripheral economies" average income increases by less than labour productivity; in other words, these economies 'lose' part of the fruits of their own technical progress, "transferring" them in part to the great 'Centres'. This "transfer" may be of little importance for the 'Central economies', but will have considerable adverse effect on the development of those forming the 'Periphery' of the world economic system.

#### 2.4 Causes for Deterioration of Terms of Trade

The ECLA thesis began with a study of the terms of trade of Great Britain, predominantly an exporter of manufactures and importer of primary products. Prebisch examined its terms of trade in 1876-80 and 1938 and found an improvement in them from 163 to 100 and thereby concluded that during this long period terms of trade of the primary producing "peripheral countries" had seriously deteriorated in relation to Great Britain and other 'Centre' countries. Moreover, Prebisch and others in ECLA argue that this tendency is likely to continue because it is a reflection of underlying economic trends.

The argument rests upon some fundamental factors, of which technological progress is the most important one. The fruits of technical progress, as it is pointed out by ECLA, accrue solely to the "centre countries". When there is technical progress in manufacturing, the "peripheral countries" should in principle benefit from the ensuing fall in the prices of their imports, but prices do not fall because manufacturing firms operate under conditions of imperfect competition and are thus able to prevent prices from falling. Moreover, they do not face a perfect market in the factors they employ : the labour market is dominated by trade unions which are able to claim for their members part of the fruits of technical progress. Thus, the proceeds of improved methods of production are alleged to accrue

in part to capitalists in the form of higher profits and, in part, to the trade unions in the form of higher wages. The consumer has no share in it and since the only way that the primary producing countries could benefit is through lower prices of their imports, their gain is zero.-

If there is technical progress in the process of production in the "peripheral countries", the reverse happens. Unlike manufactures, primary producers operate under competitive conditions both domestically and internationally. Consequently, technical progress leads to fall in prices and the benefits flow to the consumer in the "centre countries" importing their food and raw materials from periphery countries.

It should be noted that this way of looking at primary production problems from the technical progress point of view is the approach adopted in the abovementioned two documents. ECLA analysts also furnish evidence to show that there is a long term disparity in the demand for manufactures and primary products. In the "centre countries" the income elasticity of demand for primary products is less than unity while in the "peripheral countries" that for manufactured goods exceeds unity. Thus, in the U.S.A. the increase in the demand for imports of primary products is 0.66 for every 1% increase in GDP, while in Latin America, on an average, every 1% increase in GDP is associated with a 1.58% rise in the demand for manufactured



imports. In the later documents, a number of reasons for the low income elasticity for imports of the centre are mentioned. Thus, the lack of dynamism of demand for food is alluded to Engel's law. The slow growth of demand for raw materials is attributed to the partial or total replacement of these by synthetic products, and/or to their more efficient utilization, both being the result of technical progress itself. This implies that the income elasticity of imports at the 'Centre' would be low. Similar arguments suggest that income elasticity of imports of "peripheral countries" would be greater than one.

The difference in the income elasticity of imports in the 'Centre' and the 'Periphery' will mean a long run decline in the terms of trade for the 'Periphery'. The tendency to deterioration manifests itself through the cyclical fluctuations characteristic of capitalism. During boom periods prices of primary commodities rise more than those of industrial products, but they fall more during the phases of recession, so much more, indeed, "that the prices of the 'Periphery's export products generally lose more during the downswings than they gain during the upswings, whence the long term trend towards deterioration of the terms of trade" (Survey, p. 58)

These price fluctuations and the consequent trends are influenced by the fact that in the 'Centre' owing to the relatively greater shortage of manpower and to better trade union organization the labour force is in a stronger



position to obtain wage increases or prevent reductions. The advantages that entrepreneurs in the industrial countries enjoy in regard to safeguarding the level of their profits as compared with entrepreneurs in the 'Periphery' further contribute to the trends. Demand for the Periphery's primary commodities derives from and is dependent upon demand for final goods in the "central economies", "so that entrepreneurs in economies of this type are in a position to exert pressure, during the downswings, on those who precede them in the production chain, until the decline in monetary prices of the primary commodities they purchase - and at the back of that, the fall in profits and/or wages in the periphery - enables them to restore satisfactory profit conditions". (Survey p. 70)

## 2.5 The Dynamics of the System : Unequal Development

The principal elements of the long-term dynamic of the Centre-Periphery system, according to ECLA analysis, could be summarised as follows :

i) The structure of production in the 'Periphery' remains backward, making it difficult to generate technical progress or to integrate the technical progress into its productive activity. Thus labour productivity increases more slowly in the 'Periphery' than in the 'Centre', and the primary export sector of the former advances more slowly in this respect than the manufacturing sector of

the latter.

ii) The sectors in the 'Periphery' with low productivity, especially subsistence agriculture, generate a continuous excess labour supply, which exerts a strong downward pressure on wages in the modern sector. Low unionisation also contributes to this phenomenon which not only affects the level of domestic effective demand, but also the level of prices in the peripheral export sector resulting in the deterioration in the terms of trade between the two poles.

iii) The differences between the rates of increase of average labour productivity found at the poles of world economic system underlie the inequality between the structures of production. The 'Periphery' is prevented by the relative backwardness of its own structure from generating technical progress and incorporating it into the production process to the same extent as is possible in the 'Centres'.

iv) The obvious disparity in the structure of production does not allow the 'Periphery' to attain such high levels of saving and rates of accumulation as are reached in the 'Centres'. These, in its turn, limit the possibilities of eliminating or reducing the structural lag which underlies the differentiation between incomes and productivities.

The ECLA's initial hypotheses on Centre-Periphery

system were based on the evolution of world economy in the 1930's and 1940's. A review of the polarisation of the two poles in relation to selected variables like relative economic capacity, and external trade based on the events from 1950-70 was undertaken by Anibal Pinto and Jan Knakal.<sup>4</sup> The dynamism of the system in terms of the unequal development between the two poles can be illustrated as in Table (I). The total gross domestic product of the 'Periphery', as shown in the table, grew at an annual average rate of 4.8% between 1950 and 1968. The rate is slightly higher than that of the 'Centre' where it was 4.4%. But the advantage disappears when respective population increases are considered; in per capita terms, the 'Periphery' could record only 2.5% growth rate against 3.3% in the 'Centre'. The degree of polarisation is glaring in external trade. Between 1948-68 the annual average rate of growth of exports from the 'Centre' was 7.9% against 4.8% of the Periphery; consequently, the role of the 'Periphery' in the system's total trade fell from 26% in 1958 to 21% in 1968. The exports of manufacture from the Periphery noted a rise to 22% in 1968 from 13% in 1955 while in 'central countries' the share increased from 64% in 1958 to 74% in 1968. The substantial difference in the share of manufactures in exports from the two poles towards the end of 1960's illustrates the respective situation with regard to the division of labour in world trade — the

TABLE I

Centre-Periphery Polarised Expansion

Indicator	Period/Year	Centre (Developed countries according to UN classi- fication)	Periphery (Developing countries according to UN classifi- cation)	Total System
<b>I. Gross Domestic Product</b>				
a) Share in percentage	1963	83.00	17.00	100.00
b) Annual average growth rate : Total	1950-68	4.40	4.80	4.60
	1960-68	5.00	4.80	4.90
Per capita	1950-68	3.30	2.50	2.80
	1960-68	4.00	2.30	3.15
<b>II. Exports</b>				
a) Annual average growth	1948-68	7.90	4.80	6.35
	1958-68	9.00	5.90	7.45
b) Share of Pole in System's Total exports in percent- age of Percentage/Pole's total exports	1938	72.00	28.00	100.00
	1948	68.00	32.00	100.00
	1958	74.00	26.00	100.00
	1968	79.00	21.00	100.00
	1955	64.00	13.00	33.70
1968	74.00	22.00	48.00	

Source : 1. Adaptation from Pinto, A., and Knakal, J. 1973, "The Centre-Periphery System Twenty Years Later", Social and Economic Studies, Vol.22.  
 2. UN Statistical Yearbook, 1965 and 1969.  
 3. Monthly Bulletin of Statistics, March 1961, 1962 and 1970.

'Periphery' continues to produce and export primary commodities while the 'Centre' dominated in export of manufactures.

Thus, the transformations that had taken place in 1960's accentuated the distance between the two poles. And according to Pinto and Knakal, "The fruits of technical progress" arising in the 'Periphery' continued to be transferred to the 'Centre'.

## 2.6 The Case For Import-Substitution And Industrialisation

The recommendations in favour of industrialisation, import-substitution and planning constitute the basic tenets of the proposed development policy, closely linked with the ideas relating to the mode of operation of the "Centre-Periphery" system.

The proposed development policy had industrialisation as its main objective. In reality, the ECLA policy proposal sought to provide theoretical justification for the industrialisation policy which was already being followed, especially by the developing countries, to encourage the others to follow it too, and to provide all of them with an orderly strategy for carrying this out.

Theoretically, the problem was put in the following dynamic terms. What is to be done with productive resources when further expansion of primary exports would bring a fall in prices? Should these resources be used to

generate additional exports or should they be allocated to industrial production for domestic consumption?

To the ECLA analysts the most economically advantageous solution depends on the combination of these two compatible options. Additional primary exports would be more advantageous provided the export income lost through the fall in prices was not greater than the income lost because of the higher cost of domestic industrial production in relation to imported industrial goods. Once beyond the point where such income losses were the same, the option would be in favour of industrialisation.

Conventional economists have always attacked and continue to attack protection as a form of intervention violating the laws of market. Industrialisation, they argue, should be spontaneous. If costs of production are higher than in the 'Centres', wages should be adjusted so that products become competitive. And exchange devaluation is the best instrument to promote exports as well as import substitution. The position of ECLA, however, is that the additional primary exports even if currently competitive would bring a loss of income through the deterioration in the terms of trade.

From this analysis emerged the conclusion that import substitution stimulated by a moderate and selective protection policy is an economically sound way to achieve certain desirable effects. Such a policy would help

correct the tendency toward a foreign constraint on development resulting from the low income elasticity of demand for imports of primary products by the 'Centre' compared with the high income elasticity of demand at the 'Periphery' for manufactures from the 'Centre'. Import substitution counteracts the tendency towards the deterioration in the terms of trade, by avoiding the allocation of additional productive resources to primary export activities and diverting them instead of industrial production. Industrialisation, in addition to assisting the overall penetration of technology and creating employment, promotes changes in the structure of production in response to this high demand elasticity for manufactures.

The term "import substitution" is used in conventional economics in a simple and literal way to denote the reduction or elimination of certain imports and their replacement by domestic output. This interpretation obscures the real nature of the import substitution process advocated by the ECLA and even gives rise to a false notion of its dynamics.

In the ECLA scheme "import substitution" process is not intended to reduce the overall import quantum. Such a reduction, when it occurs, is the outcome of restriction in the external sector rather than an aim in itself. It is these restrictions, whether absolute or relative, that make it necessary to produce in the country goods formerly being imported. But the place of the ousted goods is taken



by other commodities and as the process gathers momentum it generates an increase in derived demand for imports of intermediate and capital goods which may lead to greater dependence on the external sector than during the earlier stages of the substitution process.

Generally speaking, ECLA's attack on protectionism of the 'Centre' and their defence of protectionism of the 'Periphery' have been misinterpreted. The ECLA envisaged the latter type of protection as necessary during a rather long transition period in which these disparities in demand elasticity should be corrected. Protection at the 'Centre' aggravates these disparities, while that at the 'Periphery' it tends to correct them, provided the disparities do not exceed certain limits. The wider the disparity, the greater the need for import substitution, especially if the rate of growth of "peripheral countries" is higher than in the 'Centre'.

An important policy recommendation emerges from this assertion. The insistence of the 'Centre' on reciprocity in trade concessions is generally detrimental to peripheral growth. An increase in export to the 'Centre' by virtue of concessions from the 'Periphery' implicitly brings with it an element of reciprocity. Given the high income elasticity, an increase in peripheral exports to the 'Centre' is followed by a corresponding expansion in peripheral imports from them. Quite apart from this, the ECLA



considered that rationalisation of protectionism in peripheral countries is in any case a requirement for sound development.

## 2.7 Planning and the Market

According to ECLA analysts planning is essential for effective implementation of industrialisation policy in the "peripheral countries". The two works of Raul Prebisch, viz., "Theory and Practical Problems of Economic Growth" (1951) and "Towards a Dynamic Development Policy for Latin America" (1963) give a fair idea of ECLA's understanding of planning. The recommendation in favour of economic planning in these works is closely linked to the ideas relating to the operation of the "Centre-Periphery" system and the interpretation of the industrialisation process which records several anomalies inherent in it — the intersectoral distortions of production and the trends towards underemployment and external disequilibrium. An endeavour is made to establish appropriate criteria for the allocation of resources which will offer guidance in regard to distribution of investment between export sector and each of the several internal activities and the technologies to be used for easing the external disequilibrium trend, while at the same time maximising employment, labour productivity and social income. (Theory and Practical Problems of Economic Growth, Chapter IV). These recommendations were

put forward only at a general level and constituted a preamble to the planning technique which began to be devised in the late 1950's with the explicit aim of imparting greater precision and consistency to the ECLA development policy, i.e., of expressing the objectives just mentioned as a set of mutually compatible ends and means, within each period and between different income periods.

In the ECLA discussions the question of the most suitable economic system for peripheral countries played a key role. It was a choice between "plan" versus "market" and "state ownership" versus "private ownership" of the means of production. The question was raised as to whether a free-enterprise system would be possible at all and how far the necessary conditions for this are, or could be, satisfied. The possible or necessary role of the state and the question as to how far "planning" would be possible and appropriate were also discussed. The view evolved by ECLA at an early stage emphasized the "state" and "planning".

The ECLA notion of planning implies the existence of an 'authority' capable of exercising 'power' over the productive apparatus, the commercial apparatus and the financial apparatus. The basic objective of economic planning is to create conditions for rapid industrialisation.

Internally, the agrarian economic and social structures must be profoundly modified in order to maximise the agricultural surplus. The major concerns of the ECLA policy of

agrarian reform are :

- 1) the regimes of land tenure;
- 2) the distribution of big landholdings;
- 3) the reorganisation of small holdings into cooperative societies of production;
- 4) the creation of structures capable of providing productive employment to farmers without land and without work.

But the industrial structures must also be adapted to the requirements of planned development. The ECLA underscores two essential imperatives.

On the one hand, industries which make up the nucleus of the industrialisation policy cannot be left to the hazardous principle of private maximization of profit, the more so if the owners are foreigners. In the literal meaning of the term, these are activities for the common weal and only the state is in a position to administer them correctly by placing them at the service of the community.

On the other hand, as the peripheral countries are obliged to economize on their scarce resources (constituted by capital), one must distinguish between the central processes — necessarily highly mechanized — and the auxiliary processes in which the more labour-intensive techniques are advisable.

The ECLA also placed emphasis on the control of essential resources. According to the ECLA the necessity

for exactness regarding a) maximization of the surplus, b) maximization of the mobilised share of the surplus; and c) maximization of the effective utilisation of the mobilised share of this surplus must lead to the threefold control by the public authority :-

1. Over the "natural resources" which implies, in one form or another, the nationalisation of mineral deposits and the direct control of their exploitation;
2. Over the "distribution channels", so that they may meet the plan targets and fulfil the function of mobilising the surplus;
3. Over the "financing channels", which implies nationalisation of insurance companies and banks.

The external conditions for planned industrialisation envisaged by the ECLA consist in throwing off the bonds of dependence with respect to the dominant international powers as well as in building up partnership links with countries of comparable levels of development. This is for the common attainment of the targets which are indispensable for each of the "peripheral countries", but which none of them can reach alone, except when its size is exceptional for a peripheral one.

To the ECLA, planning is compatible with the market and private initiative. Planning is advocated not by considerations relating to the anarchical character of capitalism and its mode of operation; it stems directly

from the evaluation of the special structural condition of the periphery which limits its capacity for growth, when this type of economy is left to the mercy of market forces. The ECLA always upheld the need for a certain amount of competition. The implicit or explicit policy recommendations that are contained in the ECLA studies do not state that, for example, socialism as a national ideology or as an expression of certain social priorities is incompatible with rational economic policy. Thus, ECLA's advocacy for intensified state intervention in the economic process and planning must not be equated with complete abandonment of the market mechanism. Planning is needed to establish certain basic conditions for adequate functioning of the market in the context of peripheral development.

Foot notes :

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1. The ECLA was established in February 1948 by the United Nations Economic and Social Council (ECOSOC) with headquarters in Santiago de Chile.
2. The person largely responsible for the earlier and more influential ECLA studies was Raul Prebisch, ECLA's Executive Secretary from 1949 through 1963. His team consisted of a number of gifted economists including Victor Urquidi, Jorge Ahumada, Celso Furtado, Frank Wolfe, Anibal Pinto and Osvaldo Sunkel, but Prebisch has been the central directing force throughout the

ECLA's existence. Indeed the words "ECLA Doctrine" and "Prebisch Thesis" are often used interchangeably in development literature.

3. See "Development Problems in Latin America : An Analysis by the United Nations Economic Commission for Latin America", a special publication of the Institute of Latin American Studies, the University of Texas Press, Austin, 1970 pp xi-xii. As that publication stated :
- "In broad outline, these nine topics are as follows :
- i) A criticism of traditional theories of foreign trade and, more specifically, on the nature of the economic relationships between the "Centres" and the "Periphery";
  - ii) A justification of industrial development and an analysis of some of its main aspects .....
  - iii) Planning as a sine qua non for development : its general context and technical direction, and regional planning experience;
  - iv) The raison detre of external financing and investment : ways of meeting economic growth requirements;
  - v) Regional integration as a primary means of getting away from the 'closed' type of economy in post-depression industrial development;
  - vi) The nature of inflation .. : an analysis of its underlying causes and of traditional stabilization policies;

- vii) The social dimension of economic development :  
social determinants and effects of the development  
process, and changes in the structure of employment  
and of the social sectors;
  - viii) The position of ..... world trade policy, and trade  
between developed and developing countries; and
  - ix) An overall and integrated view of the development  
problems ... and the structural changes needed to  
ensure more dynamic development and an equitable  
distribution of its benefits".
4. Pinto and Knakal, "The Centre Periphery System After  
Twenty Years", in Social and Economic Studies, Vol.22(1),  
1973.

## CHAPTER III

### FURTHER DEVELOPMENT OF THE ECLA PARADIGM

The 'ECLA Doctrine', as we have outlined in the previous chapter, explained that the market economy countries are divided into two main groups i.e. the 'Centres' and the 'Peripheries'; that the existing conditions in international economic relations are not in consonance with the development requirements of the peripheral countries; that radical changes in the socio-economic structure are necessary in the peripheral countries; and that such changes can be made on the basis of private ownership of the means of production under planned guidance of the state.

The ECLA analysts, however, found that their thinking had to be enriched by enlarging the basic paradigm of 1950's. There were questions of paramount importance which had previously been left without convincing answers. For example, why did growing disparities in income and wealth accompany the development process? What were the reasons for some important contradictions in the development process at the 'Periphery' which had not occurred in the historical development of the 'Centres', at least not with comparable intensity? In fact, upto this stage, ECLA did not pay sufficient attention to the problem of income disparities nor to the fact that growth had not benefitted large masses of the low-income population when at the other extreme of the social structure



high incomes flourished.

By the beginning of 1960's, the ECLA thinking changed fundamentally. The above-mentioned and other questions dominated ECLA writings and prompted new efforts to find consistent answers. In the terminology of Kuhn, they sought to change their "paradigm". They arrived at the conclusion that to start building a relevant system it was necessary to enlarge the scope beyond purely economic theory. Indeed, economic factors could not be isolated from the social structure. From this renewed efforts of ECLA economists sprang the "dependency" school and "the critique of peripheral capitalism".

This chapter picks up the thread of contributions of ECLA economists in the above-mentioned lines of thought. However, the chapter does not pretend to give a full account of such views. Instead, it presents some of the main points in the hope of stimulating interest in the kind of analysis and interpretations that are currently being favoured by a substantial group of ECLA economists.

### 3.1 Dependency and Underdevelopment

Among the interesting interpretations in 1960's, we may include the concepts of "dependency", "marginality" and "malignant style" of development. The most creative contributions in this new line of thought were that of Anibal Pinto, Osvaldo Sunkel and Celso Furtado.

The central themes of the "dependency" analysis are :

first, the question of linkage between exogenous and endogenous factors in the formation and reproduction of dependent economic and social structures; and secondly, the questions of the dynamics of development and the potential for development in the dependent countries. Given the widespread tendency at that time to equate development with growth, the dependency theorists had to reconsider the definition of development. The conclusions of the new research orientation are, however, in no way clear-cut and coherent. There is no consensus on the exact meaning of dependency, or the line between dependency and underdevelopment.

According to one line of thought within the ECLA school, the fundamental trait of dependency lies in the exploitation of the developing countries by the industrialised countries, and underdevelopment is viewed as a consequence of exploitation. Two forms of exploitations are distinguished, each of which receives varying attention from different authors. While some authors primarily underline the indirect forms of exploitation (e.g. deteriorating terms of trade, Marini, 1969) which can be explained from the specifics of the international division of labour, others emphasize the direct forms of exploitation. The latter appear as a transfer of profits of foreign companies to their home offices in the industrialised countries, as excessive patent fees and as excessive costs for the transfer of technology (e.g. Dos Santos 1970). Occasionally both forms of exploitation are

seen in historical sequence. While indirect exploitation is typical of the phase in which the 'Periphery' is primarily a supplier of food and raw materials, direct exploitation gains in importance with industrialisation and the growing penetration of the industrial sector by foreign capital.

The connection between indirect exploitation and underdevelopment can be summarised thus : the decline in the terms of trade for peripheral products in the world market forces "peripheral countries" to continuously increase production for export, for which they get less and less income per unit, since only in this way can a decline in the level of imports be counteracted. The income transfer which results from the deteriorating terms of trade does not, however, correspond with falling profit rates, but rather with a decline in real wages of workers, and, therefore, with steadily increasing exploitation. This, in turn, constricts the internal market for domestic industry, which explains both the well-known difficulties with economic growth in the later stages of industrialisation through import substitution, as well as the export-oriented strategy of growth which was designed to overcome the limits of the internal market. Thus, indirect exploitation is directly connected with the inability of dependent capitalism to bring about development guided by the material needs of the population.

A similar nexus between exploitation and underdevelopment is presented by those authors who emphasize the direct

forms of exploitation : here it is argued that the transfer of profits made by the multinational firms to their headquarters in the industrialised countries exceeds their investments in 'Periphery'. This affects the accumulation of funds in the "peripheral countries" and contributes to a hindrance of the development of the productive forces in them. The continual transfer of profits coupled with the parallel blockages of the development of the productive forces, leads as a matter of course to the exploitation of the workers; this means to a loss of real income for a large part of the population and, therefore, to a constriction of the internal market.

According to Pinto, 'dependence' as well as underdevelopment are to be seen primarily in a qualitative perspective in the sense of "style of development". A clear distinction is to be made between 'internal' and 'external' factors for underdevelopment. On the one hand, there are the domestic economic sectors or groups of people (i.e. foreign subsidiaries, foreign-oriented middle and upper class, etc.) which have a harmony of interests with the dominant foreign powers and thereby shift the relationship of dependence to "inside" the country. On the other hand, economies of the dominant countries with their multinational operations create the factors "outside" the country. The result according to Pinto (1979, p 4) is to produce a "perverse" or "malignant" style of development. The

"malignant" style brings in its turn "internal inequity" of the distribution of the fruits of increased productivity and increased "social marginalisation". What he does expressly affirm is that this form of development implies that the 'marginalisation' of a large number of population has become a permanent and integral feature of the model.

The concept of "marginality" has given rise to many discussions. Without going into it in detail, it is enough to say here that, in general terms, the concept refers to that part of population which as a consequence of its unstable and insecure position in the occupational structure, has the lowest incomes and standard of living and cannot benefit from economic growth. The peripheral "marginal mass" is different from the classical "lumpenproletariat" of the Marxist literature or "the industrial reserve army". The former's characteristics are largely associated with its occupational position : lack of adequate educational levels, limited participation in political processes, the lowest levels<sup>of</sup>/consumption and savings, chronic unemployment, low levels of job training combined with high rates of turnover in employment and a multiplicity of inconsequential low paying jobs.

The theoretical arguments advanced both inside and outside the ECLA to support the hypotheses that "dependency" leads to "perverse" or "malignant style" of development include the following :-

- i) Foreign economic domination of multinational corporations accentuates inequality since foreign investment is regionally and socially concentrated in such a way as to benefit a small minority of privileged local people (Sunkel, 1973, p 134);
- ii) Large foreign firms displace small and more labour-intensive local enterprise;
- iii) Foreign capitalists reinforce the power of reactionary ruling groups who resist redistributive policies ;
- iv) Foreign economic dominance of the multinationals leads to the use of excessively capital-intensive techniques of production imported from the metropolis; and imparts a "demonstration effect" to domestic consumers whose pattern of consumption shifts away from relatively labour-intensive indigenous products to relatively capital-intensive alien products.

Thus, the 'dependency analysis' provided an approach with which the "crisis" of the ECLA strategy in the 1960's could be explained and helped to broaden the ECLA's perception of the social nature and effects of capitalist development in the "peripheral economies"

### 3.2 The "Peripheral Capitalism" Analysis

In the search for finding a more relevant paradigm for

ECLA analysis, Raul Prebisch, ECLA's intellectual leader published in the 1970's a series of articles.<sup>1</sup> Dr. Prebisch begins his new analysis by recognizing the disappointment of expectations with regard to income redistribution and the consolidation of the growth process in the peripheral development strategy (1976, p 7). The presentation of his argument is linked with an old issue which has always been a concern of the ECLA - the social forms of appropriation of the benefits of growing productivity.

Prebisch, in his earlier writings, analysed this question in order to subject to critical examination the theory of comparative advantages which then predominated in international trade. He argued that productivity increases in production of the manufactures exported by the 'Central Countries' led to a proportionally smaller drop in unit costs because workers in the 'Centres' had greater power to increase their real wages in line with the rise in productivity. At the same time, prices did not tend to coincide with unit economic costs or to decline in proportion to the fall in such costs in the case of the manufactures exported by the 'Centres'. This difference between average prices and unit costs with regard to each specific level of rising labour productivity led to the appropriation of part of the benefits of technical progress, either by the owners of the factors of production or by the exporting enterprises in the 'Centres'.



The essence of his new interpretation of "Peripheral Capitalism" is centred around the concept of "economic surplus" : "that portion of successive increments of productivity that is appropriated by the owners of the means of production". The surplus comprises, "the profits of enterprises, the interest paid on capital and amortization of fixed capital" (Prebisch, 1967, p 37). The surplus formula of Prebisch reflects the difference between the cost of production and the total value received by the enterprise. For Marx, the existence of a surplus results, from a phenomenon of exploitation which is based on the labour theory of value and is perfectly compatible with a situation of general equilibrium in all markets. What is more, Marx's theory makes it obligatory to proceed from this situation of general equilibrium, to demonstrate that the surplus is a phenomenon arising from exploitation.

For Prebisch the surplus is a "structural" phenomenon. In the heterogeneous social structure of the periphery, a great proportion of the labour force is employed in activities of very low productivity. By virtue of the process of capital accumulation, this labour force is gradually absorbed into occupations of greater productivity. However, their remunerations do not increase correspondingly because of the regressive competition of those who have remained in occupations of much lower productivity and income. Only a relatively small fraction of the labour force qualified to



the growing requirements of technological advance is in a position to share in the fruits of productivity, thanks mainly to its social power.

Prebisch is sharp to point out that the distribution of wealth and incomes in peripheral societies derives not from market forces but from the initial distribution of power. Peripheral capitalist development enables the powerful few to continue to siphon-off a lion's share of the fruits of development in their own hands. The distribution of power and the sluggish labour-absorptive capacity of the economy guarantee that the initial poor and weak will remain excluded from the development process.

The distribution of power and incomes generates the 'consumer society' with its concentrated, wasteful and imitative form of industrial 'Centres'. It also influences the patterns of introduction of technologies and the failure to generate technologies better adapted to the conditions of the "peripheral countries".

The privileged "consumer society" is detrimental to reproductive capital accumulation. It promotes a premature diversification of demand with adverse social effects. To this should be added the disproportionate siphoning-off of income by the 'Centres', specially through transnational corporations, which are closely geared to the privileged consumer society. Here lies the main explanation of the tendency of the system to exclude a sizable proportion of

the labour force.

In the foregoing paragraphs, we have attempted to present three aspects of the argument contained in Prebisch's new paradigm. Firstly, there is the analytical category used in this model which is the concept of the 'surplus'. Secondly, there is the analysis of the economic mechanism whereby a part of the fruits of technical progress is appropriated in the form<sup>of</sup> 'surplus'. Finally, the long term phenomenon of income concentration and its trend in the sphere of consumption is dealt with. In addition Prebisch refers to the perpetuation of the distribution struggle, the powerlessness of market mechanism to resolve problems of income redistribution, and the economic incapacity of peripheral capitalism for rationally assimilating technical progress as well capital accumulation at a normal rate and along such lines that investment will not cause a decline in the absorption of labour.

Thus, 'peripheral capitalism' is analysed from different points of view, and its context reveals the wide variety of driving forces which set it going as a system. Even without a detailed examination of these aspects, it may very well be asked as to how far the general line of reasoning - the pre-eminence given to phenomena in the sphere of distribution, and the emphasis placed on the need for a more than merely economic approach to explain them - constitutes a satisfactory path towards enrichment of the theory of under-

development. The comments on this question are postponed to a later chapter/<sup>devoted</sup>to the evaluation of the ECLA Analysis. However, we can observe at this juncture that Prebisch's analysis of "peripheral capitalism" represents an endeavour to synthesize the basic ideas worked out by the ECLA in the early 1950's with those germinated subsequently, within ECLA and outside it, on such topics as dependency, patterns of consumption, marginality, income concentration and the role of internal social groups.

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Foot note

1. "A Critique of Peripheral Capitalism", CEPAL Review, no.1 (first half of 1976); "Socioeconomic Structure and Crises of Peripheral Capitalism", CEPAL Review, no.6 (second half of 1978); "Towards a Theory of Change", CEPAL Review, no.10 (April 1980); "The Latin American Periphery in the Global System of Capitalism", CEPAL Review, no.13 (April 1981).

## CHAPTER IV

### REACTION TO THE ECLA ANALYSIS

It is not particularly surprising that ECLA should have attracted its share of criticism. Liberal as well as orthodox economists were critical from different points of view of what came to be known as "ECLA thinking". In this chapter, a review is attempted of some of the principal criticism relating to ECLA's innovative propositions, especially the importance attributed to the external sector in problems of development and the 'Centre-Periphery' analytical tool for examining the phenomenon of under-development.

#### 4.1 Repudiation of the ECLA Views on Deterioration of the Terms of Trade

This sub-section summarizes the criticisms relating to the empirical data and theoretical basis of the ECLA proposition of the operation of the secular deterioration in terms of trade of the "peripheral countries" and the process of transfer of real income from the 'Periphery' to the 'Centre'.

The first and the principal attack is at the empirical level, i.e., the statistical foundation of ECLA's analysis of the deterioration of the terms of trade. The ECLA theorists rested their statistical case on the net barter terms of trade of U.K. for the whole of its merchandise.

trade. They applied two partially overlapping series (those of Schlote and British Board of Trade) as given in the UN (1949)<sup>1</sup> table 5 to provide a run of index numbers from 1876-80 to 1946-47, which showed an unmistakable secular improvement in Britain's terms of trade. Since for a greater part of this period, Britain was the most important importer of primary products and exporter of manufacture, the ECLA analysts took this to imply a secular deterioration in net barter terms of trade of primary products as traded worldwide. This has generated an enormous controversy even to the extent of denouncing the ECLA analysis totally erroneous - "a mistaken view .... enshrined by constant repetition into a myth" (Little, 1975, p. 227).

According to the opinion expressed by Kindleberger (1956; pp 261-3), Haberler (1963, pp 275-297), Johnson (1967, p. 27), Lipsey (1963, p. 5) and Morgan (1959, p. 4) Britain's net barter terms of trade were not representative of the industrial countries as a whole and hence their inverse can not serve as a proxy for the terms of trade of primary products.

However, this criticism is rather biased. The ECLA chose to rest their case exclusively on British data because the U.N. source from which they obtained their data were compiled in the same tenets. The U.N. terms of trade series were based on British data upto 1929, but with the important difference that the price index for manufactures was based

on both British exports and imports of manufactures, the latter intended as a proxy for manufactures of non-British origin.

In the second place, it is argued that in the analysis of British imports and exports, no change in transportation costs through time has been taken into consideration. These costs have been gradually declining, and by taking the CIF figures<sup>2</sup> for British imports and FOB figures<sup>3</sup> for exports, the ECLA analysts introduced a bias in the sense that there appeared to be a decrease in import prices - including freight - in relation to export prices, which excluded shipping.

In the third, place, the question of the adequacy of the sample has been discussed : even if the ECLA analysis is correct, the conclusions obtained from the analysis of the British case cannot necessarily be extended to other countries.

At the empirical level, these are the main critiques of the statistical foundation for the ECLA Doctrine. But the conclusions reached on the basis of the available data have been rather inconclusive. Thus, an authoritative review of the statistical sources on this issue by John Sparos (1980) came to the conclusion that, over the seven decades to 1939, the evidence did not contradict the ECLA thesis, though the series chosen by its protagonists did exaggerate the deterioration in terms of trade.

The orthodox economists on the other hand, have tried to make a critical evaluation of the theoretical foundations of the ECLA idea of secular deterioration of the terms of trade. Those who are prominent in this regard are Haberler (1963), Flanders (1964, pp 305-326) and Meier (1968, p 59).

Haberler presents, along with the empirical objections mentioned above (transportation costs and other services, significance of British terms of trade, etc.), some theoretical aspects which may be briefly mentioned. He refers to the ECLA explanations given for the deterioration of the terms of trade on the grounds of (a) the existence of monopolistic factors in industrial countries and (b) the operation of Engel's law. Regarding point (a), in an obscure paragraph, Haberler tries hard to contradict the ECLA argument. In his comment, he alludes to the monopoly structure in industrialized countries, but disregards the conditions in the underdeveloped world. He recognizes that in most advanced countries, monetary as well as fiscal policies have led to increase in monetary wages and stable prices. Haberler concludes that there is no evidence to show that this wage-price behaviour will injure raw materials producers, but rather those who receive fixed incomes in developed countries. As for point (b), it is argued that Engel's law refers to foodstuffs and hence can not be applied to every export from underdeveloped countries.

Flanders deals with the ECLA analysis in its relation to economic cycles. After a critical review of the arguments and evidence contained in the ECLA documents, Flanders concludes that past developments have been given an unwarranted pessimistic interpretation and have led to an exaggerated preoccupation with terms of trade and the transfer of technical progress. However, we are constrained to observe, that Flander's analysis ignores the possibility that different structures in the labour market of the 'Centre' and 'Periphery' may encourage the fruits of technical progress to move from underdeveloped countries to more advanced ones.

Finally, it has been argued that the ECLA position places undue emphasis on the commodity terms of trade, whereas what is perhaps more relevant would be an analysis of trade at the national welfare level or the single factor<sup>al</sup> terms of trade explaining productivity changes. Thus, Meier argues that it is possible that a country's income terms and single factor<sup>al</sup> terms might improve at the same time as its commodity terms deteriorate. Since exports from poor countries have grown significantly, and productivity in export production has increased, the income terms and single factor<sup>al</sup> terms have improved for poor countries. In his opinion, although their double factor<sup>al</sup> terms of trade might have deteriorated, this did not affect the welfare of poor countries. The mistake is to confuse



the static 'terms of trade' with the "dynamic gains from trade". Thus, Meier insists that the capacity of the poor countries to import and their import per unit of productive resources exported have increased, regardless of any changes in the relative prices for their products.

In our opinion, the critics have not appreciated the context of the ECLA analysis of the secular deterioration in the terms of trade. The weak point in the above criticisms is fairly clear : it consists in that the arguments on which the explanation of the deterioration trend is based are considered in isolation and refuted separately, regardless of the theoretical framework in which they are advanced. The aim of the ECLA in insisting upon the deterioration of the terms of trade of "peripheral countries" has been to bring out the dynamics of the disparity between the rates of increase in productivity and the transfer of the fruits of technical progress from 'Periphery' to the 'Centre'. Besides, in the ECLA theory, terms of trade deterioration is only one of the results of the working of the 'Centre-Periphery' system. The analysis of this system is, strictly speaking, the principal characteristics of the ECLA theory.

#### 4.2 Repudiation of the ECLA's View of Underdevelopment

There are certain critics who object to the entire body of the ECLA analysis based on the conception of the 'Centre-

Periphery' system.

The most typical critic in this line is Professor Jacob Viner. He alleges that the ECLA ideas identify agriculture with poverty, by virtue of a supposed natural law under which technical progress occurs pre-eminently in industry, and the fruits of technical progress are concentrated in industrial sector through the favourable movements of relative prices. It is, likewise, pointed out that this simplification of the actual facts is given the lie by the existence of rich agricultural countries, such as Australia, New Zealand and Denmark, and, on the other hand, of countries where industrialization has not been altogether synonymous with widespread prosperity such as Spain and Italy. In contrast, it is argued that in the so-called "peripheral economies" the problem is not "to be found in agriculture as such, but in underdevelopment owing to poverty and backwardness, to poor agriculture and poor industry". (Viner 1953, p 63).

It seems that Professor Viner's arguments are based on an alternative point of view which envisages underdevelopment as a situation of backwardness in relation to the standards of modernity proper to industrialised societies. When this view is adopted, there is also a tendency to assume, as Hirschman does, that the conception of the centre-periphery system constitutes an ideological position, according to which "..... the Periphery's difficulties are

to be blamed on the Centre"; and that this conception is, in essence, "..... a modern sophisticated version of the old idea that trade can be a vehicle for exploitation rather than a means of increasing welfare all round" (Hirschman, 1961, pp 23 and 15).

If the conception of the Centre-Periphery system is briefly reconsidered there will be little difficulty in perceiving the irrelevance of the above appraisals. The ECLA conception of 'Centre-Periphery' system postulates the existence of conditions of backwardness in the 'Periphery', but gives priority to those which it regards as general : relatively low levels of productivity and lack of intersectoral complementarity in production. Another of its assumptions is that this lag is likely to persist, since it is based on the difference between the two poles of the system in respect of average real income, which in turn affects the possibilities of saving, capital accumulation and readaptation of the backward production structure. Clearly, for none of these and other special features of the "peripheral economies" is the responsibility imputed to the great industrial centres. In particular, no assertion is made that the deterioration of the terms of trade is the cause of peripheral backwardness, or that it is due to any exploitation of the 'Periphery' by the 'Centres'; rather, it is viewed as a phenomenon inherent in the operation and derived from the peculiar structural features

of the system as a whole. It is, therefore, hardly legitimate to criticise the conception of the 'Centre-Periphery' system on the basis of its ideological character.

For the zealous defenders of the idea that "the logic of the market" is the best mechanism to promote true development, the ECLA policy analysis represented the "Trojan horse" of leftism. Behind the cautious recommendation concerning the necessity for state intervention for correcting distortions, the defence of protectionist policies, etc., orthodox economists find the risk of bureaucratic control and regulations.

The Marxist economists, criticize the class element in ECLA's formulations. They allege that the ECLA could not expose the mechanisms of social and economic exploitation that keep the working class subordinated to the bourgeoisie and the imperialist centres. (Frank, 1967)

The critical reaction to the ECLA analysis, in general leaves us with the impression that most of the critics failed to comprehend the way in which underdevelopment is viewed from the stand point of the conception of the 'Centre-Periphery' system. Except in certain cases, the ECLA's contributions are not judged in their entirety, nor is ECLA's contribution to the literature on underdevelopment theory properly evaluated.

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Foot notes :

1. U.N. Economic and Social Council, Post-war Price

Relations in Trade Between Underdeveloped and Industrial Countries (New York, 1949).

2. "Cost, Insurance and Freight" meaning that insurance and carriage from the port of embarkation are included in the valuation.
3. "Free on Board" meaning that carriage and insurance are excluded from the valuation.

## CHAPTER V

### SCOPE AND LIMITATIONS OF THE ECLA ANALYSIS

It would be a difficult task to attempt a synthesis of the consequences which the ideas emerging from ECLA have had either on economic theory or economic policy. In the first section of this chapter, an attempt is made to offer a view, necessarily an incomplete one, of the impact of the ECLA doctrine upon the existing economic analysis and sketch out certain consequences of ECLA's propositions on economic policy of less developed countries. The second part attempts at outlining some of the limitations of the ECLA analysis.

#### 5.1 The Impact of ECLA Analysis

As we have noted, the ECLA economists interpreted lagging economic development and income disparities in the developing world as the result of market failure : private calculations and market incentives did not succeed in directing resources where these long-term social returns would be greatest. Unlike many of their fellow pioneers such as Arthur Lewis or Paul Rosenstein Rodan, for example, the ECLA analysts formulated their views explicitly within an international economic framework and derived important and immediate policy implications. At the heart of the matter is ECLA's argument that the gains of technological progress, concentrated at the 'Centre', will not be

appropriately distributed by the prices of tradables of the 'Centre' and 'Periphery'.

The original line of ECLA argument may seem almost conventional now. But in the context of the then prevailing orthodoxy, it was radical enough in the 1950's, especially in contrast to the neoclassical dominance of international trade theory current at the time. This essentially Ricardian-Mill model implied that all parties would benefit from specialisation of production based upon resource endowments. In opposition to this set of ideas, the ECLA school argued that the economic relations between 'Centre' and 'Periphery' tend to perpetuate the condition of underdevelopment and increase the gap between developed and underdeveloped countries.

It is possible to argue that the most important function of constructing, be it a model, a paradigm, or a theory, is to show up the limitations of other constructions and thereby add to the flexibility of our intellectual understanding. Thus, it is to be acknowledged that even if the ECLA did not expound its discoveries in indisputable theoretical terms, the ECLA economists have put forward sound criticism of neoclassical theory respecting international division of labour and in the analysis of the dynamics of underdevelopment. In fact, the originality of ECLA is to be found in bringing together the classical, Marxist, Keynesian and neoclassical explanations of market price mechanisms and

economic growth into an integrated pool of analysis.

Thus, the ECLA formulated its model of technical progress and terms of trade in terms of the Ricardian model with many commodities. The economic logic predominant in the 'Periphery' bears a marked Keynesian flavour. The aggregates of the analysis - employment, income, product, technical change and the related arguments - revolve in that orbit. The ECLA's ideas on economic development coincide with those contained in the neoclassical analysis. Thus, for ECLA as also for neoclassical economists, economic development finds expression in an increase in material well being, normally reflected in a rise in real per capita income and conditioned by the improvement of average labour productivity. But the strategic logic inspiring the ECLA thought contains echoes of Marxism, since it involves international and local projections based on the struggle of interests and classes. It is to the credit of ECLA theorists that they could open up a channel for a confluence of categories and approaches.

At the theoretical level proper, the originality of the ECLA version of the development theory is more implicit than explicit. During the 1950's, in which the ECLA doctrine was formulated in opposition to the neoclassical predominance, Sraffa of the Cambridge School was formulating theoretical criticism of the concept of the neoclassical production function and 'accumulation' theories. Despite the non-existence of intellectual interaction, there are points of



contact between Sraffa's criticism of the neoclassical theory and ECLA's criticism of the theory respecting the factors of production and the optimization of profits through relative prices at the level of international trade. What Sraffa demonstrates is the weakness of neoclassical assumption that the ratio between product-per-man and capital-per-man can be measured for the economy as a whole without taking value in to account, since the physical goods measured are heterogenous. Consequently, it is essential to ascertain 'relative' prices, which over the long term depend on existing technical conditions, on the relation between consumer and production goods and on the distribution of the product between capital and labour. It is impossible, therefore, to 'optimize' the 'factors of production' as if capital, wages and technology were given, and were 'profitable' in accordance with a technical relationship between them. In Sraffa's studies, it can be seen <sup>how</sup> some of the problems implicit in the ECLA analysis, especially problems linked to value theory and relative prices, could be dealt with rigorously making a thoroughly searching critique of marginalist theories. It is beyond the scope of the present study to dwell in greater detail on this point. What we intend to say is that, if redefined, Sraffa's criticism of neoclassical paradigm could afford a better explanation of the theoretical repercussions of ECLA's criticism of the neoclassical theories of economic growth. To recast them with the aid of Sraffa's theoretical

tools, is, therefore, a tempting task for economic theorists.

The prominent ECLA economists, Raul Prebisch, Celso Furtado, Osvaldo Sunkel and Anibal Pinto have achieved insights which collectively constitute a major "contradiction" to established paradigms. A number of scholars have projected these "contradictions" into the central arena of development thinking. Hirschman (1971) has done this to some degree. Kari Levitt (1971) has carried the ECLA paradigm, especially its dependency thesis, effectively into Canadian economic thinking. Norman Girvan (Social and Economic Studies, Vol.22, 1973), in the course of introducing a special number of translated articles, has made a major contribution towards such a synthesis.

A reference should, also, be made to the considerable degree of coincidence between the ECLA analysis and the neo-Marxist thought on the obstacles facing the developing world. The ECLA, as the neo-Marxists, located the principal obstacle to development in overseas, and ECLA shares with the neo-Marxists the conviction that without a strenuous effort the process of industrialization would be greatly impeded. More recently, the ECLA theses have been reappraised by Marxist economists. Thus, twenty years after ECLA's original analysis, Arghiri Emmanuel proposed a theory of "unequal exchange". Instead of finding the causes of inequality in the production system and the special features of the organisation of enterprises, as ECLA does, Emmanuel emphasizes the in-

equalities exclusively, "at the level of trade transactions". This is the main difference between the two analyses. Apart from Emmanuel, several other economists have renewed the attack on the theory of the international division of labour and have again taken up ECLA's theme. The best illustration is the work of the Egyptian economist Samir Amin (1974). Drawing upon mainly the history of Africa, Amin analyses the aggression by the advanced capitalist mode of production, from outside against the prevailing pre-capitalist formations.

In the sphere of economic policy, the ECLA doctrine became accepted as the proper development strategy by many Third World regimes. (Hettne, 1982). The reform programme which Fidel Castro's Government sought to implement immediately after its seizure of power in 1959 was an almost classical version of ECLA's proposals. (Roxborough, 1979) It is in the analytical framework of ECLA that the concepts and movements of regional integration, NIEO and UCTAD, were forged (Urquidi, 1976:p 71).

UNCTAD is one of the outcomes of the joint action in the economic sphere, based on the ECLA analysis (Hettne, 1982, p 32). Despite the deplorable tendency on the part of several economists of developed countries to treat it as unwanted, the UNCTAD will indeed be seen, in the long sweep, as an important contribution of ECLA economists.

The demands for a "New International Economic Order" (NIEO), articulated in the mid-1970s, were partly related to

the breakthrough of the ECLA paradigm. (Hettne, 1982, p 52)- Perhaps, the ECLA element in the dependency paradigm is the most important here. The NIEO represents a vision on the part of developing countries, of a future in which the latter will be an integral part of the world economy, instead of existing at its margins.

The notion of a NIEO has guided the ECLA in elaborating a set of propositions which was to be internationally applicable. Proceeding from the assumption that the terms of trade between developing and developed countries would always favour the latter, the ECLA urged the adoption of the following international measures to redress that imbalance : (1) financial aid; (2) preferential tariffs; (3) commodity agreements; and (4) integration of markets. Of the four policy-prescriptions made by ECLA, two - international financial aid and preferential tariffs - have been taken care of in several steps taken by the agencies of United Nations as part of the Second Development Strategy of UN (1971-81). The idea of "trade-union" type pressure groups formed by commodity producers on an international scale came to the fore with the notion of NIEO. While numerous associations of this kind have sprung up in recent years, it is well to recall that in the absence of a world famine of commodities, the pressures exerted can be fully felt only where a small number of producers is capable of achieving oligopolistic results. The last of ECLA's recommendations -

the merger of the market of developing countries on a regional scale - has been left to the appropriate regions to develop. The ECLA provided an initial impetus for the preparation of schemes of regional economic integration and collaborate in the functioning of two Latin American common markets : The Latin American Free Trade Association (LAFTA) and the Central American Common Market. Owing to the great number of studies on regional integration undertaken by the ECLA, the idea of cooperation has taken firm root in the minds of economists and political leaders of Latin America (Tinbergen, 1962, p 248).

## 5.2 Some Limitations of the ECLA Analysis

The most important of the criticisms levelled against the ECLA doctrine by conventional economists have been briefly reviewed/<sup>in</sup>the preceding chapter. The survey of comments appearing in the economic literature of the West confirms the overall impression recorded earlier : save in exceptional cases, ECLA's contributions are not judged as a whole, nor are their scope in the area of underdevelopment analysis properly evaluated.

However, a critical analysis reveals a significant lack of cohesion in the ECLA's interpretation of underdevelopment. The ideas proper to the "Centre-Periphery" system are not satisfactorily related with one another. To put it more exactly, no satisfactory explanation has been outlined which

makes a strict and precise examination of the major trends of the system, viz., the deterioration of the terms of trade, external disequilibrium and structural unemployment. The lack of precision just indicated brings in its train a second important deficiency. There is no specification of the conditions that should be simultaneously fulfilled in order to prevent the emergence of these trends during the developmental phase.

It is in its 'structuralist' character that the originality and the chief merit of the ECLA analysis are to be found. But, at the same time, it is also in this very same structuralist nature that the limitations of the ECLA thought lie. The three most important characteristics of the structure of production in the 'Periphery' referred to above are to be tackled in terms of ideal pattern of transformation. This leads to the formulation of the "law of proportionality" required in the transformation of the different sectors of material production. But even when pushed to the limit of its potential internal coherence, the "structural approach" is inadequate for the analysis of the long-term evolution of the whole economic system, as it clearly involves more than the mere transformation of the structure of production. In other words, if the intention is to analyse the "bipolarity" of the 'Centre-Periphery System', it is not enough to postulate the inequality of development of the production forces; it is necessary also to bear in mind that these forces of

production develop in the framework of a process of generation, appropriation and utilization of the economic surplus.

Generalising on the basis of the foregoing observations summed up from the brilliant article of Octavio Rodriguez entitled "On the Conception of the Centre-Periphery System", it may be said that ECLA's basic analysis, by virtue of the structuralist approach adopted, succeeded only in enunciating the "laws of proportionality" proper to sectors of physical production. It would seem essential, in order to attain an overall vision of underdevelopment, not only to re-articulate ECLA's analyses of the trends that characterise it, but also to try to detect the basic causes of these trends. Their re-articulation would entail investigating the social relations that are established in the sphere of production, i.e., the basic economic relationships evolving in connection with the generation, appropriation and utilization of the economic surplus.

The latest ECLA analysis on "peripheral capitalism" has, no doubt, taken up the issue and tended to place the accent on a set of new hypotheses. However, these hypotheses are articulated by means of a socio-political analysis, which is not integrated with the economic analysis. Let us take the illustrative example of the 'surplus' formula. Altogether, the surplus represents the value transferred from the installed means of production to the final product. However, the 'surplus' formula lacks specificity in respect of the



labour factor. The formula obscures the fact that part of the value created is received by the labour force and the rest, never reaches it. Thus, the 'surplus' formula becomes incomplete, if account is taken of the difference referred to above, i.e., the social character of work and the manner of distribution of its results.

In addition to the aspects and problems of ECLA analysis already mentioned, others remain unexplored.

In summing up this part of our analysis, it seem worthwhile to touch on one central economic proposition of ECLA: its emphasis on the need for achievement of higher rates of capital accumulation. The criticism of the consumer society and the pattern of industrialisation that has shaped it and has been shaped by it in a process of circular causation in the later ECLA documents suggests that equal emphasis should be placed on the "kind" of accumulation. If it is true that a high proportion of present capital accumulation simply helps to consolidate the consumer society and strengthen the case for its irreversible perpetuation, does it not follow that the aggregate rate of accumulation contains components that are irrelevant and components that are positive from the standpoint of eventual achievement of adequate livelihoods and meaningful activities for the whole population ? If one really agrees with the ECLA-analysts that present consumer society is permanently inaccessible to the masses of the population and maintainable only at their expense,



does it not follow that rates of accumulation as now calculated can not legitimately be presented as objectives ? In this area, it would seem that a systematic demystification of accumulation rates and economic growth rates may be needed as an integral component of the ECLA doctrine.

## CHAPTER VI

### A SUMMING UP

The pioneering role of ECLA lies in challenging the established paradigms of underdevelopment. As it was pointed out in Chapter I, the academic interest in the underdeveloped countries was first awakened after the Second World War. There arose a series of theories on the nature of development and on the most appropriate strategies to promote it. The common denominator of these conceptions was the assimilation of the concept of "development" in that of "modernization". Development was envisaged as a univocal process necessarily passing through pre-established stages, in pursuit of a path along which all countries alike must travel. The possibility that the cause of underdevelopment might be precisely in the nature of the prevailing relations between the backward societies and the industrialised countries was never even mooted; a sort of "natural harmony of interests" between the two groups of countries was presumed to exist.

This traditional approach to underdevelopment overlooked the historical background and structural characteristics that had shaped, in the course of time, the relations between the underdeveloped and industrialised countries. It assumed that development was a process that could take place independently of and in the same way in different places and at different times, and that it consisted in reproducing,

in different circumstances, a pre-established model. In this sense, it helped in endorsing the primacy of the industrial powers, and in consolidating an international system constructed in their image and likeness.

The ECLA called these assumptions in question from the very outset of its activities, in the beginning of the 1950's under the leadership of Raul Prebisch. On the basis of the 'Centre-Periphery' analytical framework, the ECLA economists put forward a development doctrine or model which despite its shortcomings, is decidedly dynamic and more important still, offers a system of ends, means and mechanisms and motive forces. In ECLA's view, underdevelopment did not consist merely in the lack of growth, but, on the contrary, constituted the style of growth peculiar to the "peripheral economies". Its analysis contained from the start the elements, which with the passage of time, were to affirm the existence of a world economic system that simultaneously generated development in the 'Centres' and underdevelopment in the 'Periphery'.

According to this analysis, the 'Centre' (made up of the developed countries) had established an international division of labour whereby it reserved for itself the production of manufactures and capital goods, and assigned to the 'Periphery' (the underdeveloped countries) the role of producers of foodstuffs and raw materials. In the framework of this type of specialisation, the international

markets systematically operated against the interests of the developing countries, giving rise to a secular trend towards deterioration of their terms of trade and of their capacity to import, as well as to persistent external imbalances.

The trend in question consisted in the relative secular decline in prices of the primary commodities which the "peripheral countries" specialised in exporting compared with those of the manufactures and capital goods which they had to import from the 'Centres'. This was due, in the first place to the fact that, the entrepreneurial and labour sectors in the industrialised countries, instead of transferring to the 'Periphery' the benefits accruing from productivity increments induced by technical progress, through a correlative reduction of prices, converted them into a steady rise in their own income. A second contributory cause was the relatively inelastic demand for primary commodities, as can be inferred from Engel's law, which implies that the growth of demand for products of this type is slow and irregular. Thirdly, the same effect is produced by certain characteristic biases in modern technology, which tends to encourage the generalised substitution of synthetic for natural products, and material-saving production processes. The protection that the industrialised countries have traditionally accorded to their primary sectors by making the access to their markets difficult for the commodities in which the 'Periphery' specialised did the rest.

As has been pointed out, this line of analysis attained world-wide currency from the mid-1960s when it inspired the proposition formulated by the developing countries in UNCTAD and the non-existing, in present day international reality, the NIEO. Indeed, it serves as the basis for the new trade strategy of the Third World.

From the standpoint of the developed countries, it was only to be expected that such theses should be contested. Thus, the trend towards deterioration of the terms of trade has more than once been called in question in the light of empirical evidence. In broad outline, however, the ECLA argument still holds good, especially if its validity is evaluated not so much in terms of real evolution of basic commodity prices but in relation to the trend which the developing countries had reason to trust they would follow.

The industrialisation of the "peripheral countries" and import substitution emerged in the light of this analysis as the two paths which, by modifying the developing countries specialisation in the international division of labour and improving their terms of trade, would lead them towards the acquisition of a larger share in the fruits of technical progress. Protection of trade plays different roles in developed and underdeveloped countries. In the developed countries it interferes with the optimal allocation of resources; but in the 'Periphery' because of disguised unemployment in agriculture and a natural increase in popula-

tion that cannot be absorbed there, protection of industry is required from the very point of view of resource allocation. A corollary of what ECLA has frequently insisted is that in the 'Periphery' the impact of import restriction is different from that in the 'Centre'. In the latter such restrictions will lead to a shrinkages of total trade, whereas in the 'Periphery' they will merely lead to a re-direction of total imports.

More searching analysis was to await the mid-1960s. The ECLA analysis tried to provide more systematic and far-ranging answers to the puzzle of economic development. Dependency, marginalisation and the concept of economic surplus were brought into the core of their analysis. The new analysis has taken the form of a broad assault upon peripheral capitalism as a viable economic form. The incapacity of peripheral capitalism to sustain the accumulation of 'economic surplus' causes the non-viability of the system. Accumulation becomes impossible since it is checked by redistributive claims upon the surplus by the labour force, on the one hand, and the state, on the other. Peripheral capitalism is unable to solve the conflict between equity and accumulation in a tolerable way.

The alternative, the ECLA holds out, is a humane, market-oriented socialism which may not be readily attainable.

These ideas, which so clearly emerged from the empirical reality of Latin America, constituted the most

formidable challenge that the Eurocentric concepts and theories on development had faced so far and were received with enthusiasm by intellectual circles in the Third World. They also had a strong impact on Western scholars working in the area, notably Gunnar Myrdal, Jan Tinbergen, Ragnar Nurkse, A.O. Hirschman, A.G. Frank, and others.

We are in full agreement with the ECLA economists as regards their criticism that the arguments of neo-classical development theory were evolved "in the void, outside time and space" which constitutes a very serious limitation of its explanatory force and with respect to the necessity of taking into account social structures and their historical evolution in economic theories. It can hardly be expected that the economists of the industrial countries, absorbed in serious problems of their own would give preferential attention to a study of poverty of nations. The study of the Third World's economic life is primarily the concern of its own economists. Only if this regional economy can be explained rationally and with scientific objectivity, can effective proposal of practical action be achieved. It must not be thought that this desire arises from an exclusive individualism. On the contrary, Third World economists can only accomplish it on the basis of a sound knowledge of the theories expounded in the 'Centre' countries with their wealth of universal ideas. However, an intelligent knowledge of the ideas of others must not be confused with our

mental subjection to them from which we are slowly learning to free ourselves.

One of the questions that can be raised by this review is <sup>the</sup> applicability of the methods used in Latin America to underdevelopment in Asia and Africa. How far has the study of history, institutions, and structures of dependent underdevelopment proceeded in these regions, and to what extent can the experiences of these regions be integrated to build a general theory of underdevelopment? A useful basis for collaboration between scholars should be provided in the effort to answer such a question.

In brief, ECLA offers in their documents, a characteristic blend of history, theory, insight and provocation. That the long-neglected international context of development and underdevelopment was made a subject of research is certainly the major contribution of the ECLA discussion. Its importance has not just in its contribution to the analysis of underdevelopment, but also in its specific role as the unofficial spokesman of the interests of the developing countries. Its attitude of sticking to its "classic" line of 'Centre-Periphery' system does not make ECLA's ideas a banner of revolution, but it does at least assure it a measure of consistency while leaving it open to criticism from more radical points of view.

Quite a large number of "pure" theoreticians, both from 'Centre' and 'Periphery', regard the views of ECLA economists as lacking in rigour or as broad sided incapable even of



scratching the surface of the economic analysis set out on more "serious" foundations. We do not neglect the fact that at the present time, the ECLA doctrine, as a scientific phenomenon of practical significance, is confronted with a number of problems which ought to be further studied. Some have arisen in the course of the practical implementation of the doctrine. In our view, these scientific and practical problems include the following : inward-directed or outward directed development; institutions and machinery for regulating the economy within the system of market economy under conditions prevailing in developing countries; possibilities and means of resolving social development problems; rights and obligations in international economic relations and in the economic integration process; formulation of theoretical apparatus and practical projects for promoting and mobilising domestic capital accumulation and channelling investment, etc. Clearly there are also other problems like the failure to achieve complete logical articulation of the ECLA analysis about which references have been made earlier.

We must end our analysis with a question prompted by a certain bewilderment : if the ECLA analysis does not help to explain the innermost nature of development or the concrete dynamics of the process attributed to development, then what purpose does it serve ? There is an answer to this question. The analysis of ECLA based on specific condition of Latin America does not strictly play a "theoretical"

but more of a "practical" role as instrument for the scientific legitimisation of a specific view of the world which justifies a "praxis" : it moved in to fill the vacuum with what Schumpeter liked to call "Vision" defined as "a pre-analytic cognitive act". Although the ECLA analysis has not proved to be persuasive or rigorous enough for incorporation into the central core of economic thinking so far, we have to acknowledge its enormous intuitive appeal. The theoretical contributions of ECLA open up fresh possibilities for their further elaboration. The most that an economist can be expected to do is to clarify great issues and point to the direction of their solution. The sine qua non of greatness, therefore, is insight into contemporary historical problems. The great stature of ECLA analysts as economists stem from the fact that they do take positive stand on the great issue of our present time — the poverty and dehumanising misery and squalor of two-thirds of world population.

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