

On peripheral capitalism and its transformation*

Comments by Octavio Rodríguez

Introduction

I have already twice commented on some aspects of Raúl Prebisch's latest work: I shall now attempt a more comprehensive critique. This is certainly no easy task, even though I shall deal only with the interpretative aspects of his arguments in the articles published in the *CEPAL Review*, Nos. 1 and 6, and not with his 'theory of change', which, while most thought-provoking, may be considered incomplete in more senses than one, as the ideas in it are still being worked out.

In order to undertake a comprehensive critique, it is necessary to have a more or less exact idea of how Prebisch's various arguments concerning the functioning of peripheral economies are articulated. The first objective of my comments will therefore be to indicate how those arguments are organized.

It seems that there are six moments, or six analyses, in the new interpretation, all of which

are, of course, closely interrelated. We shall use the following concepts to differentiate them below: employment, surplus, distribution, consumer society, economic and political crisis of the system, and international relations.

My second objective will be to point out some technical problems in the arguments in each of these spheres. Once again these are partial criticisms —what Borges would call '*tecniquerías*'— generally relating to a lack of precision or of consistency which may be overcome with a varying degree of difficulty; this would, in my opinion, make the argument as a whole clearer and more solid.

My third objective is to put forward a more comprehensive critique. The aim will be to point out some discrepancies in Dr. Prebisch's way of tackling the problems of underdevelopment, which in his latest articles are approached from the standpoint of distribution.

I

The basic arguments

We shall attempt very summarily to describe here the central core of the argument in the various spheres of analysis listed above. For reasons of space, I shall refer to only the first five of these.

(a) *Employment*

For examining the problems of employment there is an implicit benchmark which might be succinctly designated by the term 'sufficient dynamism'. This can be linked with the sectoral and global rates of accumulation required to ensure that, as technical progress penetrates production, the labour force is displaced and reemployed in successive 'technical layers' of ever-higher productivity, in each of which higher skill levels are

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needed and higher wages paid. This conceptual basis is more complex than that of traditional CEPAL studies, as it does away with the assumed homogeneity of the labour force and the exaggeratedly simplistic dichotomy between the modern sectors with normal productivity and the archaic, backward, low-productivity sectors.

The tendency towards unemployment is explained by reference to this implicit benchmark: in the periphery the conditions of 'sufficient dynamism' are not satisfied, and instead there is 'insufficient dynamism'. At bottom, this last term refers to the weakness of the growth rate of the demand for labour, compared with the rate at which the supply is growing.

What *basic* factors are brought to bear in the explanation of the tendency towards structural unemployment? On the demand side: the slow accumulation of capital, linked with the high propensity to consume of the strata with saving capacity, and the inappropriate capital-intensive technology generated in the centres. On the supply side: the rapid growth of the population and of the active population, and the existence of what are called 'heterogeneous' sectors, in which the productivity of labour is very low.

Additional factors which are linked with the problems of employment are: the consumption patterns associated with the concentration of income, leading to the production of goods involving the use of highly capital-intensive technology; the forms taken by investment, such as its distribution between directly productive assets and construction; and inadequacy and inefficiency in the training of the labour force.

(b) *The surplus*

A corollary of the analysis of employment lies at the heart of the concept of the surplus and of the reasoning connected with that concept. As there is labour employed in conditions of very low productivity, or else underemployed or unemployed, the wages for the lowest skills tend to remain at very low levels. This in turn tends to depress wages for the entire range of skills. Consequently, as labour rises to more productive technical layers, the

corresponding wages do not rise in proportion to the growth of productivity, but at a lower rate.

A second corollary, derived from the preceding one, is that only a small proportion of the larger real incomes made possible and generated by the rises in productivity accrue to the wage-earners, and the remainder is therefore concentrated in the hands of the owners of the means of production in the form of the surplus.

Prebisch's latest articles stress the structural nature of the surplus. I think that the key to this assertion lies in the reasoning summarized above: the surplus is *structural* because it is generated as technical progress gives rise to new technical layers, penetrating and transforming the production *structure*.

This concept of the surplus, which refers fundamentally to the long term, must be distinguished from the analysis of the economic mechanism which makes it possible to increase the surplus, or more precisely, to transform the growth of productivity into property income. The latter analysis belongs to the monetary and credit field, and will not be discussed here.

(c) *Distribution*

The articles under consideration stress the key nature of the concept of the surplus: it is central to the set of analyses of the phenomenon of underdevelopment. One of the reasons for affirming that this is so is that it constitutes a bridge between the analyses of employment and of distribution.

The articles argue that there is no law regulating income distribution of the sort described in classical or neoclassical economics. However, it is tacitly recognized that there is a tendency towards concentration at the level of the functioning of the economic system, a tendency which may be corrected or modified at other levels of the social structure (for example, through the use of trade-union or political power).

It is argued that this tendency has two sides to it: functional concentration whereby the surplus grows faster than the wage bill, because the growth of wages is restricted by the existence of unemployment, urban underem-

ployment and sectors with very low productivity, particularly in agriculture; and personal concentration: the reasoning here is apparently that as property income grows more than labour income, there will be a tendency towards the gradual concentration of income in the top income deciles.

(d) *The consumer society*

When seeking to make clear the relationship between the various analyses which form Prebisch's new interpretation, it is worthwhile considering separately two groups of ideas concerning the 'consumer society' (an abbreviation of his original 'privileged consumer society').

The first set of ideas concerns employment problems. It is stated that consumption imitates that of the great industrial centres, and tends to become steadily broader and more differentiated through the incorporation of new goods. This has two implications for employment, which are linked with factors mentioned earlier as acting on the demand for labour: accumulation tends to take place well below possible levels, and there is a tendency to use capital-intensive, labour-saving technology.

The second set of ideas is connected with the analysis of the crisis of the system, and may be summarized as follows: in the centres, at any given moment, average income has already reached a very high level, but the rises in productivity resulting from technical progress allow it to rise still further. This gradual growth of income, extending to large sectors of the population, means that the demand for some goods becomes saturated, but at the same time demand is generated for other new goods. On the supply side, innovation makes it possible to launch on the market goods of higher quality than those previously sold: the demand for these higher-quality goods is very elastic, and they are purchased with the steadily rising income.

In the periphery, the growth of the economic system is similar to that outlined above, but it does not extend to all members or even to the majority, being confined to a small segment of society. It would seem that income must be concentrated for some sectors of the population

to obtain high income levels. Those sectors are thus able to generate demand for the new goods created in the centres. In addition, that demand makes it possible for the surplus to be used partially for accumulation for the production of those conspicuous consumption goods, which in turn are acquired by the privileged strata with the part of the surplus devoted to that purpose.

In short, in the peripheral countries the expansion of capitalism takes place within the sphere of what Prebisch calls the 'privileged, consumer society'. At the same time there is a tendency for vast sectors of the population to be excluded from that sphere, at least in the sense that they do not consume those goods and largely have an inadequate level of consumption.

(e) *Economic and political crisis of the system*

Hence, the dynamics of capitalism is viewed as basically set in the sphere of the consumer society. The ideas relating to the economic crisis of the system may be summarized as follows. Apparently, if the dynamics of the system —the continuity of relatively balanced growth— are not to be jeopardized, certain proportions must be maintained between the growth rates of productivity of labour, the surplus, capital accumulation, consumption paid from the surplus and real wages.

The articles point out some of the possible incompatibilities. Of these, particular mention should be made of the incompatibility which might arise between the rates of growth of productivity, the surplus and wages. If wages grow more than productivity, the surplus tends to grow less. This may be aggravated by the impact of higher public expenditure on the size of the surplus or its growth rate. It is considered that in the final analysis it is this decline which undermines the dynamics of the system.

The remainder of the argument is political in nature, and is closely linked with a political analysis.

There are social groups fighting over the surplus, a struggle in which the State itself takes part. When the impact of the struggle on the surplus becomes significant, to the point of jeopardizing the functioning and growth of the system, the upper strata (particularly the

owners and entrepreneurs) seek to restore it by raising prices. The subsequent demands of the middle and lower strata increase the inflationary pressure, and inflation is then exacerbated by the continuing distributive struggle, until a point is reached at which the normal

functioning of the system is jeopardized. The upper strata then resort to the use of force, thus restoring the functioning of the system and thereby the generation and appropriation of the surplus.

II

Critique of the basic arguments

(a) *Employment*

The new concepts of 'sufficient dynamism' and 'insufficient dynamism', which represent a complication of concepts used in older documents, are presented rather loosely. The imprecision lies in the fact that the links between the generation of new technical layers of higher productivity and the variations in labour training which are *pari passu* required and produced, are only mentioned in a general, descriptive manner.

This lack of precision really stems from the fact that, in order to deal with employment problems, besides relating them to the problems of accumulation and technology it is also necessary to analyse the transformation of the production structure in some detail.

This is precisely the heart of the criticism made here: the articles under consideration do not adequately deal with changes in the production structure. For the sake of greater clarity, it is worth referring separately to the following aspects of this question: structural heterogeneity, the roles of agriculture and consumption patterns and the pattern of industrialization associated with them.

(i) Structural heterogeneity.

In sum, it may be said that in Prebisch's articles the basic explanatory factors of the trend towards unemployment are combined as follows: full employment of the labour force in the periphery calls for a high rate of accumulation which is very difficult to achieve; this difficulty is due firstly to the high propensity to consume of the upper- and middle-income

strata which have the capacity to save; secondly, to the high growth rate of the overall population and/or of the active population; and finally, to the capital-intensive nature of the technology generated in the centres and the growth of productivity of labour accompanying technical progress, as higher capital intensity and labour productivity are accompanied, *ceteris paribus*, by a rise in the rate of accumulation required to achieve full employment.

Our purpose here is not to reformulate the analysis just summarized, but rather to point out what elements have not been taken into account or have not been considered satisfactorily.

The most important of these is structural heterogeneity. In this connexion, the articles under consideration refer to the existence of a residual technical layer of very low productivity, constituting a real or potential surplus active population which continuously presses down on wage levels. But this heterogeneity is not integrated into the explanatory analysis of the tendency towards unemployment, nor does it play in it the crucial role which it appears to have in fact.

The above-mentioned analysis also fails to examine satisfactorily the impact of the inappropriateness of capital intensity. It assumes that labour productivity and capital intensity increase, thereby reducing the need for labour per unit of product and of investment. This overlooks what might happen if technical progress should also lead to a rise in the productivity of capital. An alternative line of reasoning, adopting this additional assumption, could lead to the following conclusions: the rise in

capital intensity has a favourable effect on the growth rate of the demand for labour, on condition that the investment does not compete with investment already existing in the heterogeneous sector. Only in the case where it does compete with such investment may it happen that the growth rate of the supply of labour due to technological unemployment may be higher than the growth rate of the demand, producing a net negative result, although this is neither necessary nor inevitable, as it depends on the proportion of the competitive investment with respect to the total.

His analysis also fails to consider the problem of inadequate scale. In other words, it overlooks the fact that the productivity of capital declines in the same proportion as it remains idle, which reduces the rate of accumulation for any value of the saving rate.

In brief, it seems that the analysis should bring in the following elements in a suitable manner: the existence and relative importance (dimension) of the heterogeneous sector; the degree of heterogeneity, in other words, the difference in 'technological intensity' between investment in the modern sectors and existing investments in the more backward sectors; capital intensity, the rising or high level of which may favour accumulation and employment, particularly if modern technology is introduced in the form of investment which does not compete with existing investment; and inadequacy of scale, which is unfavourable to accumulation inasmuch as it forces capital to be left idle.

(ii) The role of agriculture.

The articles under consideration appear to pay insufficient attention to agriculture, particularly bearing in mind that in underdeveloped economies it is the heterogeneous sector *par excellence*.

The agricultural sector may be considered partly modern and partly archaic, containing different forms of technology of varying capital intensity, which in principle should make it possible for the sector to catch up within a given timespan. The procedure postulated is that the modern — industrial, agricultural and other — sectors should grow to such an extent

that they absorb the natural growth of the population of the system as a whole, and also gradually the manpower previously employed in agricultural sectors with very low productivity (and/or in the service sectors already existing in the cities).

The difficulty with this analysis is that while the examination of the rates and proportions of accumulation required in the various sectors may represent a step forward, the issue itself is closely linked with prevailing ownership relations in agriculture, which may vary enormously from one case to another. It may be necessary to discover, for example, to what extent employment problems are caused by the destruction of the peasant economy, and to what extent the subsistence or resurgence of the peasant economy attenuates or perpetuates them, but without solving them.

(iii) Consumption patterns.

The argument here is as follows: income tends to be concentrated in the social strata with a high propensity to consume; in itself this high propensity undermines the accumulation effort, with a negative effect on employment; in addition, however, there is a tendency to imitate the consumption patterns of the centres, which increasingly include higher goods whose production involves the use of very capital-intensive technology.

As far as the high propensity to consume is concerned, this is not a clear-cut phenomenon in the case of some of the larger economies of the region (to which the analysis of the crisis of the system refers, at least in part), where rates of investment reach very high levels. Contrary to what is argued, it would seem that in those cases the diversification of consumption constitutes a condition of continued accumulation and growth.

Nor is it clear that the diversification of consumption, and the parallel diversification of the production system, which together form what is called the 'consumer society', have a negative effect on employment to a degree that may be considered significant. It is not evident that luxury goods require capital-intensive technology compared with other kinds of goods. Furthermore, while it is possible to

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think of altering and rationalizing the production structure —by avoiding duplication and waste of capital, for example— there seems to be little likelihood of altering the structure of demand in such a way as to exclude new goods; and what is still more important, it seems improbable that the rationalization achieved will have a significant impact on the solution of employment problems, in comparison with the effect upon them of structural heterogeneity.

(b) *The surplus*

In the articles under consideration, it is possible to distinguish between three concepts of the surplus:

—The increment in the quantity of money created during a production period in order to finance production in the following period (on the hypothesis that production increases in each successive period); this increment makes it possible to raise the prices of goods and thus transform the fruits of the higher productivity of labour into property income.

—That part of the increments in the social product achieved by the growth of labour productivity which is appropriated by the owners of the means of production.

—That part of the social product which accrues to the owners of the means of production, or more precisely, the *ex post* amount of property income.

The first of these definitions is used in the first article published in the *CEPAL Review*, but it has been dropped in the subsequent articles, which refer to the structural nature of the surplus. In my opinion, of the two remaining definitions only the latter is correct, and it alone is coherent and compatible with Prebisch's line of reasoning as a whole.

(c) *Distribution*

It is argued that the distribution of income is not governed by any economic law, but depends on the power relations among the different social strata, including those in the political sphere. As suggested earlier, it would seem that the analysis would be more coherent if it distinguished between two levels. The first of

these is economic; here the articles postulate the existence, if not of a law leading to wholly definite results, at least of a **general trend towards income concentration, deriving in the final analysis from the downward pressure on wages exercised by surplus labour.** This does not represent an obstacle to the identification, at a second analytical level dealing with social and political relations, of the way in which the exercise of power in its different forms affects that basic tendency, heightening or lessening it or even checking it at specific periods.

(d) *The consumer society*

Everything would seem to indicate that the concept of 'consumption capital', which is partly related to that of the consumer society, is very difficult to define precisely, from both the theoretical and practical standpoints. To include it blurs the analysis without compensating by adding anything which may be considered of fundamental importance for the argument as a whole.

(e) *Economic and political crisis of the system*

The reasoning here is not convincing in a number of respects, chief among which are the following: the conceptual framework itself; the theoretical reasons why the system cannot continue functioning; the applicability of the analysis to the periphery, or its compatibility with the assumptions concerning the periphery; and the analysis of the crisis in the political sphere.

(i) *The abstract (economy) analysis of the crisis.*

The articles under consideration establish a kind of boundary or reference point on the basis of the growth of the productivity of labour. It is argued that if wages rise more than productivity, there is a tendency towards crisis because the surplus grows less. The capitalists will seek to restore the surplus, apparently in connexion with the drop in the profit rate, since obviously, if wages rise more than productivity and the surplus diminishes, this rate will decline too.

The first weakness of this crucial aspect of the argument is that it neither examines nor

sheds light upon what happens to the profit rate. The second weakness is that the argument is not itself as self-evident as might appear.

Even without undertaking any exhaustive analysis, mention may be made of a number of other possible relationships between wages, the surplus and profits, leading to different conclusions from those discussed above. Wages may rise faster than the productivity of labour and the surplus more slowly, but with a growing surplus the profit rate may decline to a level which, though low, is nevertheless compatible with continued accumulation and expansion of the system. If it is further assumed that the productivity of capital also increases, it is logically possible that the profit rate may not decline.

There is a second aspect of the argument which does not appear to link the crisis of the system to the drop in the profit rate but rather to problems of the actual realization of production. It is argued that if wages grow more than the consumption of the capitalist class, this will jeopardize not only the growth rate of that privileged consumption, but also the rate of capital accumulation, which again checks the dynamism of the system.

Such arguments are vulnerable, particularly taking into account that the existence is admitted of technical progress and of rising productivity of labour. In that case, it is not clear why a certain rate of accumulation may not be combined with a certain growth rate of consumption paid from wages, in such a way that the system does not go into crisis, in the twin sense that accumulation continues and that output is sold, period after period.

(ii) Is the analysis of the crisis applicable to the periphery?

Even admitting that in a central economy, or in a capitalist economy in the abstract, the limit established by Prebisch is meaningful, can it also be said to apply to an economy with surplus manpower?

Putting this another way, on the one hand it is admitted that there is a trend towards a personal and functional concentration of income, linked in the final analysis to the overabundance of active population; on the other, it

is recognized that the margins for increasing labour productivity are very broad. On the basis of these assumptions, is it logical to accept that in this type of economy wages will steadily grow more than productivity? Would it not be more reasonable to suppose that average wages would grow, but at a low rate?

Thus, it is not clear to what extent the argument concerning the crisis is in keeping with the specific conditions of the periphery and is applicable to that type of economy. There is also a failure to examine the connexion which may exist between centre and periphery in the sphere of wage levels and trends. For example, there is no investigation of how far differences in wages —besides technical progress— underpin profits in the world capitalist economy and avert the crisis of the system as a whole, despite the vast wage rises occurring in the centres.

From an empirical standpoint, it is not clear in what cases the crisis of the system may have occurred in peripheral countries as a result of a too rapid growth rate of wages. The reader cannot help but wonder if the argument in fact only reflects the limited experience of the economies of the Southern Cone of Latin America.

(iii) The analysis of the political crisis.

The above concept of economic crisis is complemented by that of the political crisis of the system. It is argued that the distributive struggle so far distorts the functioning of the economy that the property-owning classes, in seeking to restore it (and allow the generation and appropriation of the surplus), call into question the democratic forms of government, which they replace with authoritarian forms.

At this stage, suffice it to repeat briefly a criticism made by Alberto Couriel in his comments. The categories used —economic power, trade-union power, political power— do not seem adequate for tackling the broad sphere of social dynamics as Prebisch seeks to do. In particular, the analysis does not include the State in a satisfactory manner, or take into account the fact that the play of political forces largely takes place through the organizations and institutions it comprises.

III

Outline of a comprehensive critique

I wish to stress at the outset that I do not claim to present here a fully-fledged critique which properly articulates all the foregoing considerations, and also deals with the most important aspects of the argument under consideration. This is rather a preliminary critique.

With regard to the fundamental points of Prebisch's argument taken as a whole, it would seem that there are three closely interrelated aspects which distinguish it from the usual approach of the 'structuralist school', while at the same time placing it in clear opposition to the ultra-liberal currents currently fashionable in Latin America.

The first of these key aspects is that of the crisis of the system. The idea that the evolution of the underdeveloped societies will not bring an end to the 'peripheral conditions' but rather lead to the breakdown in the long term of the functioning of the economy and the loss of democratic institutions and values, possesses what Fernando Fajnzylber has referred to as 'ralling power',¹ and it forcibly sums up the stalemate in which much of the Third World seems to be stuck. The analysis of the crisis of the system—closely linked with that of the distributive struggle—is based on the analysis of income distribution, where the key idea stressed is the general tendency towards concentration. As the other side of the coin, it is admitted that the privileged-consumer society is a specific characteristic of the relatively less developed societies developing under capitalist relations.

One criticism which should be borne in mind has already been suggested. From an empirical standpoint, none of these three key aspects of the argument appears to be generalizable to the underdeveloped world. The political crisis and its basis, the distributive struggle, for instance, appear to summarize the ex-

perience of some semi-industrialized countries, which constitute special cases in comparison with the periphery as a whole; there are examples of underdeveloped and capitalist economies where no tendency towards concentration has existed, and in some cases studies reveal that the consumption of durable goods and other 'new' goods has been spreading to quite broad sectors of the population.

In our opinion, however, what is of interest here is to criticize Dr. Prebisch's argument from a conceptual standpoint. Fernando Fajnzylber has already pointed out that Prebisch's approach highlights the sphere of distribution, at the expense of the analysis of the production sphere. The latter may be said to have two major components: those characteristic of the forces of production and their degree of development, and those characteristic of the relations of production (or of the structure and relations of ownership in which they are expressed).

A crucial aspect of the forces of production (or alternatively, of the way in which the peripheral economies have developed) is that of the production structure proper, in other words, the sectoral make-up of the production system and the levels of productivity achieved in the various sectors and branches. It would seem that by starting from and highlighting the sphere of distribution, the analysis of the production side is inadequate and, furthermore, overlooks progress already made in traditional CEPAL thinking.

Implicitly, the production structure is considered as a reflection of the consumption structure, which reflects the structure of demand, in turn conditioned by the distribution of income and the trend towards its concentration. Thus, the analysis is undertaken on the basis of a reflex ideal production structure which does not take into account highly important characteristics of the real production system. In this connexion, two major omissions

¹See his comments in *CEPAL Review* No. 11, August 1980.

may be pointed out: the fundamental fact of heterogeneity is not suitably integrated in the argument (although it is mentioned and recognized); and there is a failure to take into account the characteristics of the industrial structure which the transnational enterprises have been shaping, as well as the implications of 'uneven' industrialization for the functioning of the economic system as a whole.

With regard to the second aspect of the production sphere, which we feel has been insufficiently considered, i.e., production relations, the main points to be examined are those outlined below.

The articles seek to undertake a 'more than economic' analysis of social reality; but in them the social groups are not defined on the basis of production relations (or the relations of ownership in which they are reflected), but rather on the basis of income strata. This limits the possibilities and realism of the political analysis, as the latter only recognizes the action of certain ill-defined 'groups' and neglects the class structure of peripheral societies and ultimately the ways in which the classes act and are interrelated.

In order to carry out a 'more than economic' analysis, it is probably first necessary to have a suitable analysis of the 'economic base'

of the economic sphere, to use the language of conventional economics.

This in turn means that it is necessary to take into account and include those social relations which exist at the economic level, defined as such, while excluding non-economic social relations.

The analysis of non-economic social relations in general, and of political relations in particular, belongs to the realm of the superstructure. For that very reason, it cannot attain the degree of generality which may be achieved by the analysis of the economic base. Its level of generality is similar to that of short-term analyses in economics: it must take into account the specific features of the country or case under consideration.

The foregoing comment strengthens the suspicion raised by Lucio Geller² that perhaps crises cannot be explained as linearly, starting from economic factors, as Prebisch's article would suggest. They are closely linked with the impact of political factors whose specific features must be taken into account in every concrete case.

²See his comments in *CEPAL Review* No. 12, December 1980.