# Comments on Peripheral Capitalism and its Transformation*

## *Comments by Lucio Geller*

1. It is necessary to state from the outset a fundamental coincidence of opinion with Prebisch's article on "Socio-economic structure and crisis of peripheral capitalism", if the selection of the critical points chosen by the commentator and the content of his remarks are to be intelligible. This area of coincidence can be broken down into two propositions: firstly, that the crisis of the system in the Latin American countries is a structural crisis, a theoretical understanding of which calls for analysis of the specific forms of capital accumulation, and of the social and political conflicts linked with these; and, secondly, that the analysis of the dynamic operation of the structure in question must begin with the internal factors. I understand, and accordingly agree, that this is a matter of the priority of internal over external factors at the start of the analysis, although the latter must not be left out of count. This second point is of great interest for the commentator, because it allows him also to invoke the authority of the article under consideration in discussions of a more punctual character; thus, for example, some time ago certain Argentinian economists, seeking to account for the military coup of 1976, gave a foremost place in their explanation to references to the new trends in the international division of labour (external factors) which would seem to be determining the resolution of internal conflicts. I note in passing that this ranking of the explanatory factors is, in that respect, akin to theoretical analyses such as those of Gramcsi (see *Note sul Macchiarelli - Sulla Politica e sullo Stato Moderno*), in which, in a few pages, he expounds a methodological proposal for the study of political conjunctures in which for the purposes of analysis internal factors acquire priority.

One initial digression before concentrating on the points selected for these comments: in Prebisch's article there are two texts, one economic and one political. The fusing of the two is very salutary; the article thus regains the analytical perspective of classical economics. In following this path, however, some risks are run to which reference must be made and which, in my opinion, have not been altogether avoided.

Thus, for example, Prebisch sets himself the following programme of work: to make "full knowledge of the system that is to be transformed" and "precise awareness of where its great defects lie" the first step towards a subsequent "theory of change". However, the fact that the article begins with the structural diagnosis and then goes on to political considerations does not mean that in the overall process of theoretical reflection some politico-ideological *a prioris* have not been accepted. The exposition of his line of thought would seem to differ in order from its elaboration. This is a question which is admittedly difficult to resolve, but it must be tackled because of the risk that political preconceptions may be doing violence to certain economic categories, or passing over other aspects of the economic and social process, or attributing the wrong relative weight to certain analytical variables.

A classical example illustrates the aforesaid risks. Ricardo's labour value theory and his theory of land rent provided grounds for eliminating the tariff protection by which English farmers were benefiting. To that end, Ricardo established the theoretical principle —historically incorrect— that the expansion of agricultural production would be accompanied by diminishing returns, and failed to take into account that there was also a part of land rent which derived from the technical progress incorporated into the economic units, and which for Marx constitutes differential rent II.

Prebisch expresses very legitimate con-

*These comments on the recent articles by Raúl Prebisch published in this *Review* —"Socio-economic structure and crisis of peripheral capitalism" (No. 6), "The neoclassical theories of economic liberalism" (No. 7), and "Towards a theory of change" (No. 10)— are some of those that were formulated at a special seminar organized by the Centro de Capacitación para el Desarrollo (CECADE, Mexico) at the end of 1979. The rest of the comments will be published in forthcoming issues.

cern at the fact that processes of transition to more socialized patterns of production have sanctioned political inequalities and repressive systems; although this has not always been the case. But it is one thing to devote theoretical consideration to the social inequalities that existed in the original socialist accumulation, as well as to the social and political dynamics that have permitted the crystallization of these inequalities, and quite another to criticize them in the light of criteria pertaining to political liberalism and western civilization, applied on the plane of ideology, and not in a context of specific social relations. Hence it is that many of his opinions are difficult to share in this respect.

2. The following is the argument advanced by Prebisch on which I am proposing to comment: the crisis of the system breaks out when trade-union power, in the course of the democratization process, competes with the upper strata for the distribution of the surplus. To this competition a limit is set by equality between the growth rate of the surplus and the growth rate of the product; once this limit is passed, the upper strata use their economic power to raise prices and invoke monetary expedients to make the increase possible.

The result is social inflation which allows the surplus to be restored to its usual size; and as the distribution struggle becomes increasingly conflictive, the inflationary spiral gathers momentum and the chaotic state of social behaviour leads to the use of force.

This outline interpretation, which certainly does not do justice to the many nuances present in Prebisch's reasoning, nevertheless affords a useful opportunity to note the following points: in the first place, the social protagonists of the crisis are confined to two major groups called trade-union power and upper strata (if a different terminology is adopted, reference may be made to the social conflict between proletariat and bourgeoisie), to which two economic categories correspond - wages and surplus; secondly, in the dynamics of the conflict, it is trade-union power that takes the initiative in attack; the upper strata will adopt a defensive strategy (even the use of force will be merely defensive), once the limit in question has been reached.

(a) The two foregoing observations imply, in my opinion, two incorrect simplifications. Let us begin with that relating to the social protagonists. Of course, the class struggle cannot be excluded from the study of political events in Latin America, especially in the countries of the Southern Cone, where trade-union power has attained significant dimensions. But from this neccesary association an interpretation of political processes, including crises in systems, cannot be linearly derived. Suffice it here to note that in several Southern-Cone countries interbourgeois conflicts have dominated political events in recent years; neither the triumph of the *Unidad Popular* in Chile in 1970, nor the upsurge of Peronism in 1973, can be understood without reference to the clash of interests between sectors of the bourgeoisie. It may even be said that some characteristics of the accumulation process in the countries concerned, which actively exacerbated these interbourgeois conflicts, might shed light on the radicalization of broad sectors of the petty and middle bourgeoisie. We are alluding particularly, in the first place, to the rapid process of capitalist centralization which led to the social disruption of large segments of the domestic entrepreneurial sector; in Argentina, for example, the number of employers in industry decreased by over 50%, and similarly that of employers in agriculture and business dropped sharply, while the 1970 census shows a marked fall in the number of own-account workers in industry and agriculture. Secondly, employment difficulties also affected middle-class sectors, despite the increase in professional jobs in the State and services sectors (especially in the services with a capitalist content); as a result, employment opportunities, or earnings, fell short of the demands and aspirations of some of the social sectors in the middle strata.

These observations are important because in Prebisch's text manifestations of violence seem to come from the lower strata, and no mention is made of the extent to which middle-class sectors have called the capitalist State in question, both from the ideological standpoint and through concrete political action. The omission of the interbourgeois conflicts also implies overlooking the fact that the first armed encounters in Argentina —taking them as indicators of violence and of the crisis of democratic ways of life— occurred between segments of the army.

It is true that some allusions are made in Prebisch's text to the conflicts to which I am referring, but they figure in connexion with an explanation of traditional inflation, and are never finally incorporated into the line of reasoning concerned with the crisis of the system.

(b) The second simplification is that which attributes to the upper strata a purely defensive strategy. And herein, in my opinion, lies the origin of the restricted conception of the surplus as it emerges from the text under discussion.

It should be noted that the surplus is not, as in classical theory, the difference between value and wages; or, expressed in more conventional terms, the difference between the price of output and the cost of producing it. According to the text, the surplus is the productivity increment resulting from technical progress and not diverted to wages because of the structural heterogeneity that operates through the labour market. It is a substream of the value added which the upper strata appropriate by virtue of capitalist production relations;. we insist that it does not constitute the whole of the value added which is distributed as profits, interest or income. This is not an arbitrary interpretation of the text; otherwise, there would be no foundation for that critical limit in the system which is represented by the point where the rate of increase of wages becomes identical with the growth rate of productivity.

This theoretical proposition poses some problems when an attempt is made to reconcile it with empirical evidence. Inasmuch as the growth of real wages would be subordinate to the rate of increase of productivity, some correspondence between the historical trends of the two variables might be expected; for example, that the rate of increase of productivity should push wages upwards, while the explanation of the difference between the trends of the two variables would lie in the structural heterogeneity that trade-union power fails to offset. Another problem stems from the fact that this theoretical approach excludes the possibility of significant reductions in real wages until the critical limit is reached (the use of power first, and of force later, by the upper strata would squeeze wages only when they exceeded that limit).

By way of example, I adduce the following empirical evidence: in Argentina, between 1950 and 1970 global productivity in the industrial sector increased by about 140%; average wages in industry rose by approximately 30%. Such a difference cannot be explained by reference to structural heterogeneity, nor can the importance of trade-union power be underestimated. In addition, therefore, account must be taken of the action of political variables in order to understand not only the changes between the beginning and end years but the changes during subperiods. And the action of political variables would seem to stem not only from the difficulties of the global accumulation process, but also from the acerbity of inter-bourgeois conflicts.

On several occasions, during the period 1959-1972, a disposition to take the offensive must be recognized in certain segments of the upper strata which, in 1959 using all the extra-economic coercion of the State, appropriated the labour value (almost 30%); and which took further steps in the same direction, and with different results, in 1962, 1966 and 1972. It is true that during the period in question trade-union power launched political offensives, but on the economic level it had no other alternative than to try to regain positions.

This offensive attitude on the part of the upper strata is connected with their internal conflicts, and particularly with the characteristics of the industrialization process:

Given the relative inefficiency of the new durable consumer goods industries (comparing the international ratio between production prices and average wages with the corresponding domestic ratio), the lower strata have no access to the markets concerned, which can be expanded only in so far as the surplus is basically appropriated by the upper and middle strata. Once the initial stages of import substitution have been completed in these markets, their subsequent expansion implies the adoption of decisions that affect the entire surplus, not merely that component which derives from the productivity increment;

Given the relative inefficiency prevailing in the intermediate and capital goods industries, progress in the import substitution process implies comparatively higher costs; hence one and the same rate of monetary saving presupposes lower rates of real accumulation. The aim of keeping wages down and possibly even lowering them still farther is to get rid of the negative effects on real investment resulting from the structural characteristics of the import substitution process.

Hence it may be maintained that neither theoretically nor empirically are wage ceilings as high as is assumed in Prebisch's text, according to which these ceilings are fixed by the rate of increase of productivity. Rather are they related to the periodical redefinition of global accumulation processes. And this perspective requires as its basis a more classical notion of the economic surplus concept.

Why this revisionist interpretation of the concept of surplus in the article on which we are commenting? To account for it we suggest the following two reasons. In this text not much attention is paid to the specific and increasing difficulties in the structure of production resulting from progress in import substitution, and their implications as regards the size of the surplus required to sustain steady rates of economic activity. In addition, a concept of the surplus springing from social production relations is replaced by another springing from technical production relations. The latter, in its turn, stems from an ideological *a priori* according to which it would be the surplus and not the means of production that would have to be socialized in the period of transition or transformation.

3. In chapter II of the study under discussion, in connexion with the surplus other derivations emerge which call for additional comments, in particular, the arguments accounting for the retention of the surplus by the upper strata. In the end it is the surplus retention mechanism that explains why this category is not a temporary phenomenon, destined to disappear in the course of inter-capital competition, but is a permanent feature of every expanding reproduction process.

Prebisch maintains, in the last analysis, that the surplus is retained because prices rigidly resist a decrease when productivity is increasing. Logically, if prices behave like this, given constant monetary wages (although this assumption is not absolutely necessary), the surplus will be retained in its entirety by the owners of the means of production.

But this price rigidity calls for an explanation in its turn; according to the one offered in the text, demand for capital goods and labour in an expanding reproduction process generates the income that is absorbed by the supply resulting from preceding production circuits. The monetary authority, with its regulatory ability within the spontaneous play of market laws, will furnish the means of payment whereby the demand in question can be made effective.

In barest outline, our critical comments on this explanation are as follows:

(a) The argument relating to the retention of the surplus is equivalent to formulating a theory of prices for a system in process of growth in which, in addition, productivity increments are taking place. In this context, "if prices do not fall in accordance with rising productivity, and in so far as the latter is not correlatively reflected in higher earnings, the reason is to be found in the expansion of demand generated in the circuits that are to increase future production". Which is tantamount to saying that if demand expands in real terms sufficiently to absorb the real increase in supply, productivity increments will be reflected in a rise in the rate of profits. The question to be elucidated is whether the rigidity of prices results from phenomena appearing in the commodities market, or from specific behaviour patterns in the earnings of the factors of production (wages and profits). Unquestionably, for Prebisch the explanation of this price rigidity is to be found in the commodities market, and to support this contention he has to resort to a normative proposition: "The growth of income and the corresponding monetary expansion generate demand which *must be at least sufficient* to absorb the final goods emerging, augmented by the productivity increment, if this increment is not to be reflected in a fall in prices" (p. 192; the italics are the commentator's).

(b) If Marxist terminology is adopted, the process of expanding reproduction of global capital in the economic system can be expressed as follows:

$$M - C \ldots P \ldots C'_1 - M' - C'_2 \ldots P \ldots C''$$

The monetary authority regulates the expansion of the means of payment so that capital in the form of commodities ($C'_1$) can be converted into capital in the form of money (M'), a conversion which is possible in so far as expanded reproduction of the production process occurs ($C'_2 > C$). And the monetary authority intervenes in that part of the capital circulation process indicated by $C'_1 - M' - C'_2$. But what is $C'_1$? It is the economic units' demand for money at the close of the current production cycle; a demand for money which permits the realization of the surplus value. If the productivity increments were partly transferred to prices, the economic units' demand for money would be less than in the case of productivity increments reflected entirely in profits. Hence the problem of price behaviour in a growing economy cannot be viewed independently of the structure of production (degrees of capitalist concentration and centralization in the production markets), and reduced to a question of global commodity demand and suplply. In any expanding reproduction process the monetary authority can regulate the means of payment so as to accomodate the enterprises' policies in respect of prices and utilization of production capacity. But in a structure of production in which various degrees of monopoly exist in the different commodity markets, price policy will have more to do with the plans for utilization of production capacity in the leading enterprises, and with the aim of keeping new enterprises out of the market. Of course the monetary authority can make mistakes in its regulation of the means of payment; if it overestimates, prices will tend to rise; if it underestimates, inventories will tend to pile up, and enterprises will have to revise their price or production policy. But these are questions relating to the economic cycle and not to a system with a propensity to growth.

Moreover, this approach to the problem of price rigidity, attaching particular weight to the question of demand in commodity markets, is another way of analysing earnings outside the framework of concrete social relations in the sphere of production; a point to which we have already drawn attention in our critique of the 'surplus' category.

4. We will now concentrate on Prebisch's observations on the crisis of capitalism and its "leading dynamic centre". They incorporate a lucid argument as to why the consumer society in the central countries has had a negative effect on environment and has depleted natural resources, in particular petroleum. It is true that the need to remedy those effects on the environment and to resort to new sources of energy will compel the central countries to increase their efforts to overcome the present crisis in both quantitative and qualitative terms, since this crisis cannot be described in terms of economic indicators alone; the investment which those efforts will entail will not have an immediate impact of the productivity of labour, measured in capitalist terms. The necessity of meeting these challenges, however, is superimposed upon the economic crisis of the capitalist system but is not its underlying cause. Petroleum prices were put up by the producer countries in 1974, and it is likewise true that throughout the 1970s an ever-growing body of public opinion has been exerting political pressure for defence of the environment. The first symptoms of the economic crisis to which we shall be referring in greater detail became apparent at the end of the 1960s, and it was officially recognized in the devaluation of the dollar by the Nixon administration in 1971. According to the text under review, there are two indicators of the crisis in the central countries: stagnation and inflation. We will now attempt a further look at them, keeping to the sequence of Prebisch's ideas.

(a) Stagnation results from a decline in the growth rate of average productivity in the system. The factors accounting for this decline would appear to be, firstly, an increasing homogenization of the structure of production which reduces the possibilities of a marginal increase in productivity when production strata using inferior techniques are superseded; secondly, the fact that while the consumer society implies the development of branches of production to satisfy the consumption of high-income sectors, much of the investment in such branches is aimed at stepping up the efficiency of the goods rather than productivity; lastly, expenditure on armaments, to which should be added expenditure on the space industry. Here Prebisch notes a certain ambiguity in respect of which we share his opinion: it would be a mistake to underestimate the effects on labour productivity resulting from the incorporation of certain technological innovations generated in the munitions and space industries into the processes of production of capital and consumer goods.

Not only is the size of the surplus affected by the aforesaid trend in the average productivity of the system, but it is also subject to pressure deriving from the rise in salaries and wages and in State expenditure.

The term ' pressure ' suggests the following comment: in some growth models, like that of Kalecki, the tendency is for the public deficit to sustain the bulk of earnings. How would it be possible to counteract the trend towards capitalist overproduction, given the great development of the forces of production, and how could the surplus value be realized, if no demand additional to that of the capitalists and workers existed? Some items of public expenditure, in particular the public sector's contribution to military outlays and to the space industry, allow some sectors of production, and certain enterprises in particular, to enjoy high rates of profit. Of course the production resources connected with those industries imply a use of the surplus divorced from other productive uses, but these latter do not necessarily correspond to a capitalist concept of rationality.

(b) Inflation is explained in the text by reference to the pressure of trade-union power for wage increases, which are transferred to costs; by the increase in the public deficit; and by the energy crisis and the protection of the environment, factors whose addition to those previously mentioned multiplies the original impetus of the first two.

In this connexion I have a reservation to make with regard to the importance of the first variable, since wage increases would have repercussions on unit costs if they exceeded the increase in labour productivity.

Stagnation and inflation are not the only indicators, since Prebisch suggests that another element in the world crisis consists in the weakness that the United States is displaying as the leading centre of the capitalist system, with its effects on international economic relations. But the inflationary element is brought to the fore again as the chief factor accounting for that weakness, and study of the differential behaviour of the variables underlying stagnation in the central countries is not incorporated into the analysis.

5. In the following paragraphs we are proposing to attempt a historical relativization of the importance of these indicators, both in order to work out a more satisfactory description of the present juncture, and in order to pursue interpretation along another tentative path.

Let us first define the characteristics of the 1930 crisis:

(i) a sudden crash and overproduction crisis in the United States wich were propagated to the rest of the world;
(ii) extremely high unemployment rates and a fall in prices;
(iii) immediate defence mechanisms adopted by the central countries: tariff measures, multiple exchange rates, discriminatory trade practices, etc.;
(iv) crisis in theoretical capacity to resolve the economic crisis;
(v) serious reduction of prices of raw materials from the peripheral countries.

The characteristics of the present juncture, in relation to 1930, could be outlined as follows:

(i) less unemployment;
(ii) international forums (IMF, summit meetings and others) where these problems are discussed;
(iii) high levels of inflation, with their corresponding psychological and economic cots, but not a price decline;
(iv) theoretical inadequacies, but not a crisis; it is known in theory what can

and must be done, but there is social and political opposition to its implementation.

Our main hypothesis is that the present crisis is one of hegemony in the world capitalist system and, consequently, one of regulation of the system in question. This crisis of hegemony has a bearing both on the central countries' interrelationships, and on their relations with the peripheral countries. Our argument will be concerned with the former, although admittedly a complete explanation entails dealing with the latter.

In the first place, a few historical references must be cited.

The hegemony of the United States was officially formalized at Bretton Woods. There the rules of the game which were to govern world capitalist expansion in general, and that of the United States in particular, were definitely settled. I speak of the expansion of the capitalist world in general, because even the countries which emerged from the conflict as debtors knew that the enormous credits they received from the United States had to be paid for with exports. There was no other way out, and this one presupposed rapid expansion at the world level and, therefore, the removal of obstacles to trade.

The Bretton Woods arrangements worked especially well for the United States, whose vast production potential needed markets in order to earn profits. This was at the root of the insistence, in the course of the negotiations, on the elimination of discriminatory trade practices, particularly those of the British Commonwealth; of the concern to establish fixed exchange rates in order to prevent unexpected and repeated devaluations from blotting out with a stroke of the monetary pen the real comparative advantages of the hegemonic centre; the imposition of the dollar standard —the dollar being then a currency in short supply— as a means whereby the United States would be able to regulate the world money supply. (No country could take out dollar loans for a sum larger than that of its own contributions, and all the countries in the aggregate could not borrow sums exceeding the United States' contribution, unless certain special credits were concerted directly with the United States administration, which would entail certain political and economic concessions.)

During the first few years in which the IMF agreements were in force the currencies of the most important European countries were overvalued. Subsequently, the Fund had to authorize various devaluations in the European countries; in this, of course, were represented not only the interests of the national governments involved, but also those of the rapidly expanding transnational corporations in need of markets, including that of the United States.

This remark is a useful pointer to the tremendous effort which must have been made in Europe and Japan to enable the trade surplus to cover external debt servicing. I am excluding here the inflow of dollars for political reasons (the cold war and the active hostilities in Korea and Vietnam), but at all events the dollar started to become a currency in plentiful supply for structurally economic reasons at the end of the 1960s, when for the first time the trade balance of the United States showed a deficit.

It is important to underline this problem of the growth of differential productivities in order to explain the present situation; and it seems to me useful, because in Prebisch's text the United States' trade deficit is seen as the result of internal inflationary pressures. The alternative interpretation we have outlined does not contradict the text under discussion, but suggests that the relative weight of the two explanations needs investigating somewhat more closely, a study which would necessitate, *inter alia,* working out indicators of productivity, wage increases, public expenditure and other contributory variables. At this point, I adduce the following argument, which is not, to be sure, conclusive proof: a comparative analysis of the current trade balance between the United States and Japan shows the former exporting raw materials and foodstuffs to the latter, and importing from it capital and durable consumer goods. Inflation —a generalized rise in prices— would not account for this reciprocal export and import structure.

Theory tells us what should be done. According to economic theory, countries with a trade-balance surplus and unemployment (as is the case with Germany and Japan) should revalue their currencies and apply an expansionist fiscal and monetary policy. Prebisch maintains that expansionist policies of this kind are inhibited by fear of inflation, but in saying so he forgets the effects of the exchange rate, adjustment of which in the direction indicated might offset pressure on price levels, including the pressure of the labour force.

What happens is that in a Kaleckian model trade-balance equilibrium always means smaller profits; and the European and Japanese bourgeoisies are as unlikely to put up with this as are the transnational corporations operating in the countries in question. Similarly, trade-balance equilibrium reduces financing for those countries' investments abroad, which compete with United States' investment both for markets and for raw materials.

In theory, a country in the position of the United States ought to devalue its currency and adjust its monetary and fiscal policy so as to prevent excessive pressure on the labour market. But how could the United States devalue its currency and cause a tremendous redistribution of the wealth (measured in Eurodollars and petrodollars) in the hands of the Central Banks and, what is more, of transnational corporations? It would be tantamount to confiscation. Besides, what strength can a government have which is not capable of taxing the transnational oil corporations' excess profits? Hence it is that the United States, shackled by its monetary orthodoxy, which is largely that of Bretton Woods, resorts to raising the rate of interest and to the application of monetary restrictions. No doubt a higher rate of interest will serve the purpose of tapping capital over the short term (speculation in gold has been to some extent brought under control); but this measure will have inflationary repercussions, and obviously does not attack the causes of the decline in the country's average productivity in relative terms.

# *Comments by José Ibarra*

1. I am in full agreement with Raúl Prebisch both as regards his criticism that the arguments of neoclassical theory were evolved "in the void, outside time and space", which constitutes a very serious limitation of their explanatory force, and with respect to the necessity of taking into account social structures and their historical evolution in economic theories.

2. Since he adopts the position, with which I am likewise in full accord, that real wages are fixed not in accordance with marginal productivities, but by the bargaining power of the labour force in the various 'layers of technology', he sould avoid the use of this concept. The basic theoretical —and practical— reason for rejecting the concept of marginal productivity in the mechanized part of the economy is that machines operate efficiently in fixed proportion to labour (perfectly determined by technological considerations), so that over the short term (with given equipment) it is impossible to increase production by increasing the labour input. The marginal productivity of labour is nil and therefore neoclassical reasoning and instruments are inapplicable. Hence the failure of policies consisting in lowering real wages ir order to step up employment! All that is achieved by this is to reduce the wage earners' demand, with the ensuing decline in production and employment.

Similarly, he misinterprets neoclassical theory with respect to the distribution of the enterprises' operational surplus between 'profits' and entrepreneurial earnings.

If, in accordance with the theory in question process, is to pay the interest on this capital out of the surplus consisting in the 'earnings' sumption is that those who own the capital lend it to the entrepreneur at a specific (long-term) rate of interest, either through bank loans or by the issue of bonds. One of the entrepreneur's first obligations, on completion of the production process, is to pay the interest on this capital out of the surplus consisting in the 'earnings' accruing to him, which can be interpreted as a form of remuneration for his work and entrepreneurial skill; but which are of a contingent character. It is these 'earnings' that would tend to disappear through competition; on the other hand, the emoluments of the owners of capital (in the shape of interest) would be assured.

In my opinion, Prebisch defines the concept of surplus in different ways in his articles, which leads to confusion. The broadest (and most comprehensive) definition is to be found in the first article: "The surplus comprises the profits of enterprises, the interest paid on capital, and amortization of fixed capital. Through appropriation of the surplus, the owners of the means of production achieve primary appropriation of the fruits of technical progress".[1]

I should like, however, to point out the difference between this definition and the Marxist concept of surplus value. An initial difference lies in the fact that 'surplus value' does not include amortization of fixed capital. Secondly, there is a difference between the two concepts as regards the measurement of magnitude: that of 'surplus value' is measured in units of work, in accordance with Marxist 'values', and the surplus by values 'converted into prices'.

At all events, the two explanations are similar in their origin, which lies in a social structure based on the ownership of the means of production and on the power relations between the wage-earners and the owners of the means of production. The way in which the surplus is appropriated is also similar in essence to that described in Marx's theory. It is mechanization that makes it possible to increase both labour productivity and the monetary value of output per worker. In so far as the owners of the means of production can take on workers at wages similar to those they were earning when they were engaged in artisanal production (or using machinery with a lower level of labour productivity), a surplus (or plus-value) is produced, which is appropriated by the owners of capital. The surplus (or plus-value) decreases in so far as the workers are strong enough to obtain increases in real wages, or in so far as competition steps up supply, because new owners of capital adopt more highly mechanized techniques, and that leads to price reductions.

[1] "A critique of peripheral capitalism", *CEPAL Review*, First Semester 1976, p. 37, paragraphs 1 and 2.

4. Let us now take a look at the problems raised by the generation and the 'persistence' of the surplus in the hands of the owners of capital and its failure to disappear as a result of the fall in prices that should be produced by competition, as Raúl Prebisch explains in his articles.

With regard to the generation of the 'surplus', I agree as to the importance of taking into account in the dynamic analysis the time covered by the production circuit from its primary phase up to the sale of the goods on the market; although I would add that the duration of the production circuit includes the time taken for the investment to mature. I think, however, that once the wage-earners fail to save (or at all events dissave), the investment required for growth must be entirely financed by the owners of capital through the current production process, and, therefore, its cost is transferred to current prices; this is why they do not fall (and even rise), and it is this that constitutes the principal mechanism for the generation of the surplus.

The reduction in wage-earners' demand due to the fact that employment increases less than production, because of the higher labour productivity of the most recent investment —that is already productive— is offset by the equivalent increase in the surplus, which could bring down the prices of the goods primarily consumed by wage-earners and push up those of the goods primarily consumed by the owners of capital.

In my view, prices of wage goods do not fall for several reasons: because of the existence and expansion of the system of sales on credit; because of the highly oligopolical nature of the markets; and because the generalization of the new techniques with higher labour productivity takes too long a time, owing to the rigidity introduced into the combinations of factors by the technologically fixed proportions characterizing the older equipment. The need to maintain margins of profit in accordance with the oldest installed capacity —which is predominant in volume— prevents prices from falling and keeps up the size of the surplus over long periods in new enterprises where labour productivity is higher.

# *Comments by PedroVuskovic*

The articles by Raúl Prebisch constitute a complete and well-knit system of interpretation, designed to remedy two weaknesses existing in earlier versions: they seek to go more deeply into the 'specificities' of dependent capitalism, where this is virgin ground; and they aim at explicitly introducing the *political* dimension of the development process, in its twofold role of conditioning factor and consequence.

A first critical remark I venture to make is that their content is on two formally integrated but in fact dissociated planes. One is the plane of diagnosis, of interpretation, in respect of which there is clear technical substantiation of what is discussed and concluded. Hence the denunciation of the system is derived as an objective conclusion; and for that very reason, with a forcefulness which is not invalidated by certain partial doubts or objections that might be raised. The other plane, touched upon in the analytical study and more fully explored in "Towards a theory of change", is that of propositions. Here there is a difference; these propositions neither derive from the analysis nor are supported by it. It is as if after concluding his diagnosis with a categorical denunciation, the author feels obliged to offer a reply; but this does not stem from the analysis; it is valuational, 'ideological', and, consequently, does not carry the same conviction. Of course he has every right to put forward his propositions, but in this case they are not backed up by the preceding analysis and cannot be discussed in the light of it.

The implication is that, with this reservation, what is pertinent and opportune is to discuss the analytical and interpretative content, independently of the normative propositions which are *added* (not deduced). In this connexion three observations seem relevant:

(a) *On the evaluation of external factors*

The impression is formed that he underestimates the relative weight of external factors, and also that his approach is somewhat unilateral as regards the direction of causality relations; for example:

— he recognizes the "siphoning-off of peripheral income", but at no time suggests its relative importance *vis-à-vis* the 'surplus';

— he acknowledges the weightiness of the part played by the transnational corporations, but asserts that they "could not assume so important a role in the periphery without the privileged-consumer society"; or that they "would not find such fertile soil ... if no such social aberration of peripheral capitalism occurred";

— the responsibility of the centres that he admits is a "responsibility for co-operation" (?);

— he recognizes that "new forms of dependence emerge", but adds that "dependence has its counterpart in financial co-operation";

— he utters a warning that 'dependence' must not be confused with 'periphery'; nor should 'underdevelopment' be attributed to 'dependence'; he describes as 'extravagant' the idea that "the prosperity of the centres is due to the siphoning-off of income from the periphery", and, on the contrary, suggests that greater importance attaches to the "immeasurable scientific, technological and cultural legacy inherited by the periphery".

Although each of these assertions would be sustainable *per se*, taken as a whole they form a line of argument which is dubious at least, and to make matters worse, in the later part of the article these 'external factors' are ultimately left out of the discussion of future options altogether.

(b) *On the dynamic potential which the system is assumed to recover through the use of force*

An explanation is duly given of the role of force when the 'distribution struggle' sweeps the system along to 'critical limits' (a key concept throughout the argument). But it is assumed that through the use of force 'dynamic potential' is automatically restored (irrespective of the 'social costs' involved). The article is indeed sprinkled with assertions such as: "Unquestionably, the re-establishment of the dynamics of the system entails a significant social cost, in addition to the huge political cost incurred by the use of force". What is more, according to the degree of severity of the pay squeeze, the suggestion is made that "it may even be possible to succeed in raising the rate of capital accumulation, and therefore the rate of development, above that prevailing before the system's critical limit was passed".

The political implication of such an assertion is at the very least uncomfortable; it would seem to augur significantly dynamic prospects in situations like those imposed in the Southern Zone. Fortunately, it is not only uncomfortable, but also disputable and, of course, not proven in the article! For example, it might be answered with another *hypothetical proposition*: regressive income distribution allows the critical limit to be overstepped, but in such conditions the dynamic prospects encounter a relatively low 'ceiling', — a proposition which at least seems to be in keeping with concrete experiences of recent date. Perhaps it might even be possible to justify *a more hazardous proposition:* approximation to the critical point also meets a requirement of the dynamism of the system; any move away from it, therefore, can be only temporary, and to no great distance. The crisis of the system is more definitive, since the use of force does not re-establish dynamism and only makes it possible to *keep* the system *going* on the very verges of its critical frontiers. And should this be the case, it would have political importance and political implications with respect not only to the economic horizon of régimes of force, but also to alternative options: that is, as regards the viability of the so-called 'liberal' reconstitutions of democracy.

(c) *On the position of the middle strata and their relation to other strata of workers*

Over and over again Raúl Prebisch identifies the increasing capacity of the disadvantaged labour force to share in the fruits of higher productivity with the rise of the 'middle strata', basing his argument on the distribution struggle between these strata and the 'recipients of the surplus'. More than one piece of empirical evidence would raise a query as to whether those are the exact terms of the problem.

For example, in Chile in 1970, the wealthiest 20% of the population was made up as follows: 6.6% by employers, 21.2% by own-account workers, and 62.4% and 9.8% by white-collar and blue-collar workers, respectively; in turn, that segment comprised 82.9% of the employers, 17.6% of the own-account workers and 45.9% and 3.9% of the white-collar and blue-collar workers, respectively. These are figures which would warrant our thinking in somewhat different terms: for example, putting forward the hypothesis that the rise of the 'middle strata' affects the surplus much less and the income of the lower strata much more.

In such conditions, the rise of the middle strata would be *functional* to the system and its dynamics and *not contradictory* with it (for market expansion reasons); there would be no *struggle*, but complicity between the strata in question and the upper strata. The major problem is posed by the other, the lower 'strata'; it is the power of these that leads to the crisis of the system (in contrast, the author maintains that "the lower strata have very little share... in the participation process"). And if they are 'protagonists of dissidence', as Prebisch calls them, it is precisely because they come to realize the limits of their function as 'political and trade-union protagonists'.

Reasoning of this kind raises at least one point of 'reasonable doubt'. The problem is that if it is well-founded, it cannot but influence the nature of the options identified in the article and underlying the 'theory of change'.

Lastly, our comments relate particularly to Prebisch's theses on the trends of capitalism in the centres.

In his approach to this subject there is a relevant point of departure: on the one hand, he points out that international capitalism is faced with enormous accumulation requirements (the challenge of natural resources and protection of the environment, new advances in technology); and, on the other hand, he notes the existence of a labour which in the centres "has acquired great trade-union and political power" and exerts severe pressure on the surplus. In short, giant requirements and dwarfed capacity to meet them.

Henceforward, however, the subsequent conduct of his argument is not in keeping with what he recognizes to be the dimension of these problems; it stays on a relatively conventional plane, and that is not enough.

Furthermore, doubts are raised by some specific partial aspects of his reasoning: thus, for example, the terms in which he expresses the concept of an organic decline in productivity, which can only be understood to mean "a decline in the rate of increase"; or the fact that he makes no reference whatever to the implications of ever keener inter-capitalist competition

But most important of all is his key approach, according to which the crisis in the centres, in essence, would have to be resolved *within* the centres themselves; despite which its effects would certainly make themselves felt in the periphery. Over against this proposition, there would at least be room for one hypothesis: the answers to *this* crisis will largely spring from *a substantive redefinition of relations with the periphery*.

Recent times have seen the emergence of a whole line of analysis and thinking in this direction, of which nothing whatever is said in Prebisch's article, and which points to highly relevant and profound phenomena that might very substantially change the picture of the world capitalist economy and would be destined to have enormous repercussions on the direction of internal change. In point of fact, processes like 'industrial redeployment', the extension of 'industrial free zones' or the expansion of 're-export industries', which suggest new patterns of international-scale accumulation based on more intensive or more direct utilization of the dependent areas 'cheap labour', cannot be ignored or underestimated; apart from the fact that they have already confounded the 'demands of the periphery' with basic interests of international capitalism, and given a decidedly equivocal significance to the propositions relating to the 'new international economic order'.