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# COMPLEXITIES OF CORE-PERIPHERY RELATION: AN ANALYSIS OF THE LATE RAÚL PREBISCH

BY

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CENTER FOR THE  
HISTORY OF POLITICAL ECONOMY  
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# COMPLEXITIES OF CORE-PERIPHERY RELATION: AN ANALYSIS OF THE LATE RAÚL PREBISCH

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## ABSTRACT

The work of Raúl Prebisch is typically summarized by two of his important contributions to development economics: the center-periphery paradigm together with his diagnosis of Latin America's development struggles. Recent investigations have, however, shed light on the nature of Prebisch's early work, especially his understanding of business cycles (Sember 2010; Perez and Vernengo 2012). Although the present paper focuses on his center and periphery, it examines Prebisch's later work, casting a different light on his most enduring contribution to the field. While early in his career, Prebisch held a standard structuralist position by the 1960s, Prebisch embraced a less rigid understanding of the relationship between center and periphery, adding multiple layers to his analysis of the latter.

**Keywords:** Development Economic Theory, Latin American Structuralism, History of Economic Thought, Raúl Prebisch.

**JEL codes:** B2, B4, O1

## I. INTRODUCTION

The father of structuralist linguistics, Ferdinand Saussure, reasoned that the meaning of a word—or an element—was defined by its relation to all other words. A word identified everything it was not. Saussure's approach led to the creation of a linguistic framework within which language was understood by the relations between constituent elements rather than by the analysis of each element in isolation. Saussure believed such relations, so-called structures, were orderly, regular, synchronic, and systemic. Though he argued that linguistics could also be examined diachronically, due to a duality created by the time factor the two analyses were independent of one another. Saussure ([1916] 1959 pp. 79-80), moreover, implied that time created the same duality in economics: “political economy and economic history constitute two clearly separated disciplines within a single science.”<sup>1</sup> Such a methodological parallel most likely facilitated the assimilation of classic structuralism into economics, especially in its synchronic expression.

In economics, structuralism is primarily associated with the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). The present paper focuses on the extension of the structuralist method by Raúl Prebisch—ECLAC's Executive Secretary from 1950 to 1963 and a progenitor of Latin American structuralism. Although his was only one of

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<sup>1</sup> As attested by several debates on method, including the *Methodenstreit*, economists have long struggled with the double character, abstract and historical, of their subject matter.

many versions of structuralism created at ECLAC, it presents the closest parallel to Saussure's classic structuralism (Jameson 1986, Boianovsky 2015).<sup>2</sup>

Like Saussure's linguistic framework, Prebisch's relied on a synchronic analysis of a link between interconnected and diametric elements—i.e., countries that presented distinct positions in the international market—to understand international relations. First, his analysis took an ahistorical look at international relations, rather than trying to explain their process of transformation. And second, underdevelopment does not exist without development, and the converse is also true. So, understanding individual countries was secondary to understanding the connection between the center and the periphery. The terms “center” and “periphery” were introduced to economics by Prebisch to grapple with the mechanisms that took place underneath the surface, outlining the power and influence of the “developed” world over “underdeveloped” countries. This dyad—though taking multiple forms—was later incorporated by other development theorists, including dependency theorists and world-system analysts. In so doing, development theorists rigidly and statically divided the world into center and periphery, domination and resistance, exploiters and the exploited, and so on. When observed historically, however, the relationship between center and periphery is much more flexible and mutable than these concepts will admit (Kramer 2011).

Prebisch's methods have recently been criticized for two main reasons: being ahistorical and being devoid of explanations concerning the relation between international and domestic

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<sup>2</sup> In fact, ECLAC's structuralists did not always conform to its classic form. This paper focuses on the work of Raúl Prebisch. For information on how the structural method was incorporated by Celso Furtado and dependency theorists, see Boianovsky (2015).

structures (Jameson 1986).<sup>3</sup> These problems lead to inconsistencies between theory and public policy, since, on the one hand, development theory aims to engender historical transformation, and, on the other, it presupposes historical specificity<sup>4</sup>—the understanding of which requires an analysis of domestic structures and their interconnection with the core-periphery structure.

The present paper considers Prebisch's evolving views on the center and periphery and argues that his classic structuralist position in the 1940s was, over time, transformed into a more dynamic and complex framework. In the 1960s, Prebisch held a mutable and malleable understanding of the center and periphery by considering interactions between this international structure and domestic ones. Despite Prebisch's inability to disseminate his later understanding of North-South relations, his effort to do so raises possible points of interest.

## II. STRUCTURALIST VIEWS ON BUSINESS CYCLES

While Raúl Prebisch is predominantly remembered for his analysis and diagnosis of Latin America's development struggles and his center-periphery paradigm, he wrote on a variety of

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<sup>3</sup> Synchronic analyses imply that relations are observed at a point in time, lacking a sense of causation. In Prebisch's case, the structure is not observed in a transformative fashion, which to a certain degree suggests a static and/or teleological approach to development.

<sup>4</sup> Development theory's *raison d'être* is the belief that underdeveloped economies function differently than their developed counterparts.

themes, including money, finance, and business cycles.<sup>5</sup> This section briefly shows his theory of business cycle as the origin of his classic structuralism and analysis of center and periphery.

First of all, Prebisch (1921) believed that impulses of business cycles were always initiated in the industrial countries. In fact, whether the impulse was due to changes in liquidity or trade unbalances, Prebisch was convinced that Argentine business cycles could not be explained solely by factors internal to the country. After undertaking an empirical study of several business cycles in Argentina he concluded, “I have not observed—neither in the cycles I have seen closely nor in those that I have studied in our history—the existence of domestic factors that are strong enough to explain by themselves our wavelike motion” (Prebisch 1944b, p. 320). It followed that to understand business cycles in Argentina, Prebisch had to consider Argentina’s position in the international markets, more specifically, its relation to Western European countries. In a typical structuralist analysis, Prebisch suggested that understanding the structure is more important than analyzing individual elements themselves.

Initially, Prebisch (1921) did not understand international economic relations in terms of his later center-periphery paradigm, but he, nevertheless, approached it through a binary opposition: Argentina was an agricultural economy and contrasted with Europe’s industrial

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<sup>5</sup> Prebisch’s contribution is often identified with the theory of deteriorating terms of trade, or the Prebisch-Singer thesis, which claims that there is a tendency for deteriorating terms of trade of agricultural products when compared with manufactured commodities in the international market.

economies.<sup>6</sup> Based on such structure, Prebisch developed an analysis of agricultural and industrial countries and observed a number of dimensions by which the two interrelated elements differed from one another.

Prebisch (1921, 1936), for instance, asserted that while business cycles in agricultural countries tended to present positive feedback, industrial economies were self-adjusting. Such specificity was partially related to the behavior of financial actors, who erroneously supposed “that the incipient economy of the country could support institutions whose nature and amplitude correspond to a superior level of economic development” (Prebisch 1921, p. 107). The level of development Prebisch referred to was related to the nature of production (i.e. agricultural vs. industrial), as “the introduction of metallic from abroad was not enough to keep it in because nothing can contain the irresistible stream that takes money to a country without industry to one that has it” (Prebisch 1921, p. 107). In agricultural economies, recovery phases tended to be amplified by the financial system’s unwarranted credit expansion. Since Prebisch believed the phases of the cycles were symmetric, the excessive inflow of money during the boom required a proportional outflow during the bust, but faced with a recession, the financial system in agricultural countries resisted reducing the amount of credit in the economy. On the other hand, when industrialized countries were experiencing the onset of a recession, pessimism in foreign markets thwarted any increase in liquidity.

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<sup>6</sup> For the purpose of this paper—since Prebisch uses both words agricultural (1921-1944) and peripheral (1944-1983) to refer to the subordinated condition of Latin America in the international economy—the two words are used interchangeably, yet in accordance to the original text.



Explained in more detail, Prebisch (1944a) believed that the gold standard imposed a painful adjustment process on peripheral countries because, it turned exports into exogenous factors that were not subjected to domestic policy; conversely, imports were endogenous and highly sensitive to economic growth. In the ascending phase of the cycle, imports grew faster than the GDP, and in a way that was unrelated to the behavior of exports due to the differential income elasticities of demand for agricultural and manufactured commodities. The demand for agricultural goods presented a low-income elasticity, so specialization in this sector meant that when the world economy experienced a boom there was no significant increase in the export from peripheral countries. The demand for manufactured goods, meanwhile, was highly sensitive to increase in income. During the ascending phase of the cycle, thus, peripheral countries experienced an increasing trade deficit, which made necessary a growing inflow of external capital. These external loans, in turn, increased the financial services to be paid. The crisis broke when the inflow of capital stopped, many times for reasons not related to the Argentine economic situation.

By contrast, the process in Great Britain worked in the opposite: during a recession there was a contraction of credit, which first curbed the importation of goods and stimulated financial capital to flee back to British shores. As a result, England experienced an inflow of gold during the bust, and the inverse process took place during an expansion. British balance of payments worked as a buffer to business cycles, whereas in the periphery balance of payments adjustments aggravated the economic situation.<sup>7</sup> Moreover, the external vulnerability of the periphery was

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<sup>7</sup> Although Prebisch uses the terms “center” and “periphery” for the first time in 1921, it is only in a 1944 lecture that he gives them the sense they have today (Prebisch 1944a, p. 64). In fact, in

further aggravated by its high imports-to-GDP ratio, while the same ratio in the centers was relatively low (Prebisch 1944a).

So, while the gold standard imposed harsh limits on peripheral countries, it allowed the financial oligarchy of London the flexibility and ability to manipulate the international system according to its interests. Monetary stability in England was thus accomplished at the expense of the periphery's monetary instability (Prebisch 1944a, p. 65). For that reason, during the post-WWII debates on the new international monetary system, Prebisch favored a system of flexible exchange rates for peripheral countries. Flexible exchange rates would reduce the vulnerability of Latin America to economic instability from *without* (Prebisch 1944a).

Fiscal policies could not mitigate economic instability in the periphery. On the contrary, it also functioned as propagating mechanisms. With regard to countries in the center, Prebisch believed Keynes's policy prescription was accurate: economic crises were caused by a lack of effective demand, meaning that reduced rates of unemployment and economic stability required government spending.<sup>8</sup> A full-employment policy in the center was, in fact, crucial to stabilize not only its own economy but also that of the periphery (Prebisch 1948, p. 8). As the United States approached full employment, its balance of payments would suffer negative pressure,

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the 1920s, the terms were popularly used in Argentina to describe the cities on the coast (the periphery) and the cities in the interior (the center) (Prebisch 1921, pp. 292-293).

<sup>8</sup> Prebisch was influenced by Keynes, but did not consider himself a Keynes's follower for several reasons. For instance, although Prebisch agreed with Keynes's analysis of the failures of the market system and the need of countercyclical policy, Prebisch criticized Keynes's views on the interest rate and multiplier (Perez and Vernengo 2012b).

implying positive effects on the balance of payments of the rest of the world, creating a buffer for economic instability in poor countries. The pursuit of this policy meant that the center was taking its due responsibility and promoting stability to the whole system, rather than purely acting in its own self-interest.

Prebisch, however, “felt that Keynes had gone only half the distance in explaining the dilemma of countries outside the core economies” (Dosman 2008, 218).<sup>9</sup> Although the periphery should also pursue a full-employment policy, it should do so without blindly replicating the policies designed for the center and indiscriminately increasing government expenditure. Instead, they should design policies that fit their economic realities (Prebisch 1949, p. 138). Peripheral countries could not promote economic stability through government expenditure without undertaking massive reforms first because they experienced growth through exportation rather than investment (Prebisch 1950, p. 157). Export-led growth tended to be accompanied by a high imports-to-GDP coefficient due to the high income-elasticity of demand of manufactured good. Consequently, if peripheral governments tried to counteract downturns by increasing government spending that would not promote investment or consumption; it would, instead, increase imports. Before implementing expansionary fiscal policy, structural reforms that diversified production, thus reducing the level of agricultural specialization in Latin America, were necessary to lower potential pressure on the balance of payments (Prebisch 1953).

One of the problems of specialization was that a declining trade account only aggravated the downturn in agricultural economies, bringing with it deflationary pressures on the primary commodities. The prices of manufactured products, on the contrary, remained constant and

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<sup>9</sup> Based on a letter from Prebisch to Urquidí in 1947.

actually rose in some cases (Prebisch 1934, p. 32-37).<sup>10</sup> Such considerations pointed toward deteriorating terms of trade as another instability-propagating factor.

In fact, specialization imposed several constraints: First, most of the manufactured consumer goods had to be imported; second, manufactured goods had a high income-elasticity of demand; third, there was a tendency to deteriorating terms of trade; and finally, the low productivity of agricultural production meant that most workers in peripheral countries were either underemployed or disguisedly unemployed. Consequently, the majority of the population in peripheral countries had low income, low effective demand, and low savings, which implied they were stuck in a vicious circle (Prebisch 1949, p. 100).

As agricultural countries and industrial economies reacted differently to recessions, the outcome ultimately registered by their respective financial systems was a balance of payment disequilibrium favoring industrial countries (Prebisch 1943a, pp. 3-4). The resulting financial outflow from agricultural countries triggered strong waves of pessimism in domestic markets, which further aggravated the bust. Prebisch (1921, p. 95) sums it up, “[i]n the monetary history of Argentina, despite its confused appearance, one can note a series of periods of unlimited confidence and prosperity, expansions of transactions, real estate speculation and financial fantasy. These periods are followed by collapses, more or less intense, precipitated in panics that cause the forced liquidation of operations, and a reduction of confidence, and the prostration and stagnation of businesses.”

Simultaneously, the same financial capital entered industrial countries, thereby offsetting some of the contractionary tendencies initiated by the recession. Based on this formulation, Prebisch argued that although Argentine business cycles were generated in industrial countries,

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they presented cumulative causation and were, thus, felt more acutely in agricultural countries like his own (Prebisch 1936; Prebisch 1943a, p. 3).

In sum, to understand the movement of the Argentine economy, Prebisch considered its relation to industrial countries at a point in time—an internationally based structure—rather than analyzing Argentina on its own account—that is, observing the historical processes and social characteristics of just one of the elements.<sup>11</sup>

### **III. PREBISCH'S STRUCTURALISM AND INTERNATIONAL TRADE**

Prebisch's diagnosis was that excessive specialization of primary goods, lack of productive diversity, and low levels of inter-sector complementarity marked the periphery's production organization. Nonetheless, these conditions could not be explained by domestic factors. Prebisch (2001, 19) argued that "to attribute to internal factors what very frequently was the result of external factors was a real calamity, a real theoretical calamity." An unfavorable position in international trade was the primary obstacle to prosperity for peripheral countries, which could only be overcome through government intervention (Prebisch 1950, pp. 153-154).

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<sup>11</sup> It is not to say that Prebisch completely ignore Argentina's domestic structures. In the 1920s, he wrote about its striking level of inequality as well as about its geographically determined competitive advantage. Both these factors, nonetheless, were taken as reflections of his international structural framework. These points are in line with Kenneth Jameson's (1986) claim that Prebisch tried to incorporate domestic structures into his analysis, but he would ultimately resort to the international structure as a foundation for his explanation.

Laissez-faire policies, in fact, reinforced the discrepancies between peripheral and core countries, as well as the productive heterogeneity among regions within peripheral countries (Prebisch 1950, p. 155; Prebisch 1951, pp. 248-249; Singer 1950). First, free trade allowed centers to retain the gains from technical progress, whereas the periphery transferred part of their yields from the adoption of technical progress to the center (Prebisch 1949, p. 104). Second, outward-oriented development only linked a few geographical areas of the poor countries to the international economic system, extrapolating the existing productive heterogeneity within the periphery (Prebisch 1950, p. 155).

Governments should, therefore, consciously pursue an industrialization policy (Prebisch 1943b, p. 790). Industrialization, however, did not mean a reduction of imports but rather a modification of its composition. Instead of importing consumer goods, Argentina would import capital goods in order to complete the process of import-substitution industrialization initiated during the Great Depression (Prebisch 1943b, p. 790). Such a policy would not only maintain Argentina's objective to industrialize, it would also help its balance of payments problems because during the bust its demand for consumer goods could be attended by domestic production. That is, Argentina should change the composition of imports "to develop from within (*hacia adentro*), by strengthening its internal structures and achieving economic autonomy" (Prebisch 1943a, p. 7).

In the long run, import-substitution-industrialization policies would not only reduce the pressure on Latin America's balance of payments, but also increase its productivity through the formation of capital (Prebisch 1949, p. 125; Prebisch 1951, p. 286). Thus, government must levy high taxation on imports of consumer goods—which guaranteed that increased income would be

spent domestically—and promote both investment in nondurable consumer goods sectors and worker training programs (Prebisch 1949, p. 100; Prebisch 1950, p. 76).

Such a policy would, moreover, spare peripheral governments from redistributive policies for two reasons: First, because of the positive effect of industrialization-led growth on workers' productivity, which would necessarily increase the income of the population effects. Second, because of the need to increase the population's aggregate savings, which was more likely to occur within an environment of greater income inequality (Prebisch 1949, pp. 126-127). Although the low-income members of the population would have to initially sacrifice, economic growth would ultimately reduce the income gap. Thus, policies designed to promote economic growth preceded redistributive policies. Meanwhile, the elites also needed to collaborate and change their economic behavior, avoiding imports of luxury goods and investing their savings domestically to engender the capital formation in their countries (Prebisch 1949). Prebisch believed that, with the right incentives, both the elite and the rest of the population would be willing to combine their energies in support of the industrialization project, so that peripheral countries would improve their conditions—which shows that Prebisch believed that a national project could overcome internal conflicts of interest, underestimating their effects.

Development effort was not merely a national project of peripheral countries. It should also count with the collaboration of core countries. Financing industrialization efforts required a temporary reliance on foreign loans. The inflow of foreign currency would counterbalance expenses involved with the importation of capital goods, affecting neither the balance of payments nor the exchange rate negatively (Prebisch 1949, p. 146; Prebisch 1953, p. 5; Prebisch 1954, pp. 4-5). According to Prebisch, industrialization efforts initially demanded a significant amount of foreign loans. But as long as the loans were strictly used to support import-

substitution industrialization, the need for foreign currency would be temporary because, as peripheral countries became able to supply consumer goods to domestic markets, the increased income would be spent internally—that is, their external vulnerability would decrease due to a reduction of their imports-to-GDP ratio (Prebisch 1953; Prebisch 1954, pp. 11-12).

In sum, Prebisch characterized the center-periphery structure by the following asymmetries: (i) type of production undertaken; (ii) the high degree of monopoly in the center; (iii) the center's access to technical change; (iv) the periphery's high imports-to-GDP ratio; (v) the tendency of economic instability started in the center to be transmitted to the periphery; (vi) the shortage of savings and capital formation in the periphery; and (vii) the low standard of living in the periphery (Jameson 1986, p. 225).

A systemic theoretical framework was necessary to understand these asymmetries and support policy prescriptions that were element-specific rather than universal, that is, they should take into consideration the differences between center and periphery. It is clear that, during this period of his career, Prebisch held a classic structuralist view, that is, a synchronic analysis of binary oppositions offered more insight to understanding the economic conditions of the periphery than the study of its history and internal socio-economic factors. In other words, there was no cause and effect analysis; the focus rather remained on the statically reciprocal connections that held elements together. Moreover, as shown in this section, Prebisch only dealt with the characteristics of the center-periphery international structure, implying that the understanding of domestic structures was subsidiary. As presented in the next section, starting in the late 1950s, structuralists, including Prebisch, attempted to add dynamism and domestic structures to their model.



#### **IV. CENTER AND PERIPHERY: A COMPLEX RELATION**

During the 1950s, while Raúl Prebisch prescribed policies to transform Latin American structures based on classic structuralism—an inherently non-causal theoretical approach, Celso Furtado (1954, 1959) and other scholars at ECLAC perceived the lack of history as a void in Latin American structuralism. Prebisch’s synchronic analysis could not offer an understanding of the historical change involved in the process of development. As a result, in the 1960s and 1970s, “the attempt to integrate structural and historical methods became the hallmark of Latin American economic structuralism” (Boianovsky 2015, p. 4). The pursuit of dealing with historical methods at ECLAC germinated different lines of thought both within and without the structuralist tradition. The objective of this section is to show that Prebisch was not immune to this intellectual context and slowly modified his methodological perspective—a process that culminated in late 1970s (Prebisch 1976, 1981a).

The ongoing discussion at ECLAC suggested that the elements composing the center-periphery structure were involved in a multilayered set of cultural, social, political, and economic relations. In fact, “the unconditional transplantation of certain institutions ... creates very serious contradictions” (Prebisch 1976, p. 17). Prebisch understood that the evolution of these layers may rival, assist, and, at times, contradict one another, such that “development” should/could not either be assumed an inherently national project or approached in a static fashion. Prebisch (1976, p. 21) asserts “[a]s a first approximation to reality, we would consider peripheral development as consisting in penetration by the technology of the centres, accompanied by changes in the structure of society. The structural transformation is varied and complex.” Considerations of power relations are necessary because they determine distribution of income, which in turn conditions the penetration of technology, the pace of capital

accumulation and change in productivity, and the patterns of consumption. All this acts in turn upon the social structure. He adds “[t]hese are the links of mutual dependence which characterize the technical, economic, social, political and cultural elements involved in development as a global phenomenon.” From this perspective, the historical analysis of economic structures could not be detached from political and social forces (Rodríguez 2006, p. 32).

Though still maintaining a structuralist perspective, Prebisch accepted the challenge of integrating synchronic and historical analyses and of understanding how the center-periphery structure interrelated with societal and political layers. Prebisch, thus, reshaped his work to include the interconnections of the economy with two coexisting processes: First, he started to observe how domestic social tension and conflict of interest between different groups posed obstacles to development. According to Prebisch (1971, p. 3-4), “we need to understand the struggle not only between center and periphery, but also between the center of the periphery and the periphery as well as between the periphery and the periphery. ... There is a center-periphery relation within the periphery.” Second, he included an historical understanding of the center-periphery structure and observed that political interests complicated the relationship between the peripheral and central elements. These changes did not imply an abandonment of the structuralist method, but rather a departure from its classic manifestation due to the inclusion of diachronisms and the complexity a multilayered set of societal factors added to the center-periphery relationship.

Due partly to both social and political factors, Prebisch came to reject the emulation of the centers as a pattern for development. He realized that development in the periphery could never economically develop at the image of the centers. He admitted that even though the situation of Latin American countries in international markets had changed during the 1950s, it

remained marked by commercial, financial, technological and intellectual subordination. According to Prebisch (1981b, p. 208), “in our eagerness to develop at the image and likeness of the center, we have been unable to create our own and authentic way of engender development forces deliberately and with clear objectives. Intellectual and artistic manifestations of the center propagate and diffuse ... due to economic interest ... and ideological intent.” Thus, Latin Americans should aim to overcome this subordinate role, creating and pursuing developmental goals appropriate to their realities without any hope of achieving economic conditions similar to the prosperity of the centers (Prebisch 1970, p. 163). Domestic social, and cultural dynamics often contradicted the forces effected by the center-periphery relationship, which incited continuous structural crises in the periphery (Prebisch 1981b).

One of these contradictions was due to the fact that the industrialization process had not reached all of Latin American societal layers, doing little to assuage dissent and solve the basic problems of poverty and social injustice. Rejecting his previous belief of industrialization as a national project, Prebisch developed a more disaggregated framework that involved upper, middle and lower strata of the population as well as the state. Prebisch asserted that “the upper strata’s hold over much of the means of production and the institutional machinery, which permits their primary appropriation of the surplus, is in the long run incompatible with institutions which, with the advance of democracy, increase the redistributive power of the middle strata; and this is even more true as democratization extends to the lower strata (Prebisch 1976, pp. 17-18).

Prebisch sees contradictions between the state of development of political and economic institutions in peripheral capitalism. More specifically, the pace of development of economic institutions was much slower than political ones, which resulted in economic instability and

inflation. For Prebisch, the main underlying cause of output and price instability was power relations, which in turn, were manifested in inadequate rate of capital formation. There are three main typically peripheral phenomena that help “explain the inadequate rate of capital formation. Power relations appear in them all: in the excessive consumption indulged in by the upper strata, which would be inexplicable without the inequitable distribution deriving from those relations; in the spurious absorption of labour, influenced above all by the power of the middle strata; and in the disproportionate incomes the centres extract through the play of power relations at the international level.” (Prebisch 1976, p. 14)

So distribution of income was not determined by marginal productivity neither in the domestic nor in the international level. In relation to national economies, “there is no principle which tends to regulate income distribution as the neoclassical economists had assumed. The fruits of the increase in productivity, which are appropriated largely by the higher income strata, are not spontaneously passed on to the remainder of society through a fall in prices or a rise in salaries and wages. Such rises are more apt to be partial and limited, and benefit mainly those with the social power to secure them” (Prebisch 1976, p. 59). Meanwhile, regarding the international sphere, neoclassical theory assumed “that the low wages in the periphery would of their own accord attract enterprises and capital from the industrial centres. Events have not confirmed this theory either” (Prebisch, 1976, p. 57).

These assertions reflect Prebisch’s (1984) self-proclaimed 1960s shift from a marginal productivity perspective toward the surplus approach, which argues that distribution is determined arbitrarily by factors other than economic phenomena. Prebisch (1976, p. 37) explains that “in the economy as a whole, it [the surplus] represents the difference between the total price received by the enterprises for the final goods, by virtue of the aforesaid excess

income, and the corresponding cost of production represented by the income already paid out. The surplus comprises the profits of enterprises, the interest paid on capital, and amortization of fixed capital.”

To solve the typical contradictions of peripheral capitalism, the surplus must be invested in a way to increasing the rate of capital accumulation to counteract the insufficient rate of absorption of the labor force. The greater capital accumulation pushes workers to layers of production that involve more skills, giving workers economic and political grounds to bargain for participation in the distribution of the surplus. In Prebisch’s (1976, p. 25) words, the reduction of the income gap depends on the “progress in manpower training and ... the rate at which the labour force in the different income strata moves upwards, thanks to capital accumulation.” Prebisch (1976, p. 57) contrasts “a low rate of accumulation not only weakens upward mobility, but also results in redundant labour which is not genuinely absorbed by the system. ... The political power of the middle strata enables them to find their way into the State services in greater numbers—sometimes much greater—than are really required.” This is spurious, not genuine, absorption and infringes upon the surplus, reducing its potential investment in capital accumulation.

Another factor that slows the pace of capital accumulation is that the peripheral elites divert the surplus from productive investment to engage in conspicuous consumption—imitating the consumption patterns of the centers—the result is a premature diversification of demand with adverse social effects, exacerbated social tensions, and leakage of peripheral income to the centers (Prebisch 1976). The latter type of behavior is partially the source for the lack of capital formation in Latin America, which is reinforced by the fact that multinational corporations

internationalized forms of consumption more than productive and technical capacities (Prebisch 1981a, p. 144).

Inequality had skyrocketed and had to be tackled immediately, since it impeded social mobility and was unfavorable to economic development (Prebisch 1969). An extremely wide gap between rich and poor meant that a “considerable human potential is left untapped, since very few dynamic individuals succeed in forcing their way up from the lower and middle strata of society” (Prebisch 1969, p. 31). Moreover, Prebisch continued, “the extremely low income level of half the population ... prevents the dynamic individuals from succeeding and taking advantage of the whole range of opportunities for education and technical training, even when these are offered” (Prebisch 1969, p. 31).

The solution of the problem relied on creating policies that fit the special circumstance of Latin America. Monetary and fiscal policies were both ineffective in the long term, either resulting in a recession or in a hyperinflationary spiral. Prebisch (1981b, p. 221) insisted “[r]egardless, we need to avoid another imitative illusion. There is much to learn from others’ experiences and benefit from them to arrive at a synthesis between socialism and liberalism. This synthesis is the response of the periphery to its transformational specificity.” What Prebisch meant by that was that the solution relied in the socialization of the surplus.

Prebisch’s diagnosed that the failures of the current system stemmed from the private appropriation of the surplus and the individual decisions of what to do with it. The government could “correct these failures macroeconomic decisions inspired on collective rationality are necessary. The purpose is to increase the pace of capital accumulation and progressively improve the distribution of income” (Prebisch 1981b, p. 162). This redistribution could not happen at the expense of private firms, though, but rather “through a direct transference of the total surplus to

the working force, instead of being destined to the higher accumulation and services of the State (Prebisch 1981b, p.163).

Moreover, redistribution of income was crucial because it could have further structural effects. If the surplus were directed toward investment in reproductive capital, it would generate employment and increase productivity, especially if accompanied by deep structural changes, such as agrarian and educational reforms. Both agrarian and educational reforms would enhance the ability of workers to both increase their access to the surplus and take advantage of existing opportunities to move up the social ladder.

Unfortunately, Prebisch does not go into details of how this would be accomplished. Later in his book the farthest he goes is to say that “the transformation of the system will require important changes in the institutional mechanisms,” the accomplishment of which demands the State to split the surplus among capital accumulation consumption and the services of the State (Prebisch 1981b, p. 333).

The second point of complexity that Prebisch added to his theory was what he called the constellation of foreign interest and their domestic alliances. Prebisch observed that foreign enterprises did not work to spread modernity in Latin America as expected. Those economists, who saw transnational as seeds of modernity, forgot that “apart from the negative aspects of transnational corporations, relations between the centres and the Latin American periphery continue to be hampered by the great contradictions and incongruities which seriously limit the social scope of capitalist development” (Prebisch 1976, p. 67).

First of all, transnational corporations adopt the “backward” way of doing things and allied with the landed oligarchy. As a result, the power and privileges the national oligarchy used to control and constrain other members of their society were reinforced by foreign firms, who

now enjoyed similar political and economic privileges to the peripheral upper strata (Prebisch 1969, pp. 40-41; Prebisch 1976, p. 60). Such alliance was, secondly, tied through the transnational corporations internationalization of pattern of consumption due to profitability and political interests. Core agents “are seduced by the sometimes impressive development of the consumer society in the periphery, because they see therein a projection of their own image, as well as finding a copious source of profit” (Prebisch 1976, p. 67) Prebisch’s assessment of this situation was that “the progressive development of the consumer society would in fact appear to become incompatible with the advance of democracy, since it tends to create an increasing disparity between the economic and political processes which it attempts to correct by setting back the latter rather than changing the former” (1976, p. 10). The ultimate conclusion was again that Latin America’s ability to pursue their own economic and social transformation, without attempting to emulate the core. The importance of cooperation among Latin American countries was underlined. Starting with the creation of a Latin American Common Market, Latin America could evolve toward a system of production and exchange based on reciprocity (Prebisch 1959, 2001). Moreover, he argued that to achieve those and other goals, a harmonious combination of state action and individual initiative was necessary; meaning that the presence of the state was required, but it should not overshadow individual decisions (Prebisch 1969, 47).

Prebisch, thus, pointed out the importance of enriching his framework with the understandings of the establishment and internal structures of hegemonic powers (Prebisch 1976; Prebisch 1984, p. 184). Prebisch (1984, 184) noted that “[o]ne manifestations of the hegemony is the resistance of the centers to changes in the *status quo*,” which resulted in military, political, and economic intervention in Latin America whenever the centers’ interests were threatened,



either by peripheral forces or forces originating from other “central” countries (Prebisch 1976, p. 73).

It is clear that Prebisch started understand the structures of the periphery through more complex lens. He departed from his previous view where industrialization would automatically benefit most members of peripheral countries. This adds complexity to his center-periphery dyad, since now there is a center, a semi-periphery and a periphery in the periphery. While the domestic social relations in the periphery implied that countries could not be understood as coherent wholes, the actions coming from the center were also not unidirectional.

The contradictions between social and political relations within the periphery added to the contradictions between peripheral and core countries, accentuating or attenuating them according to the circumstances and corresponding effects on the surplus (Prebisch 1976, p. 41). The solution was the socialization of the surplus, the division of which should be by the State since it is impossible to determined scientifically to whom each part of the surplus corresponds.

A more skeptical Prebisch began to discredit international cooperation from the center as well as a view of nations as coherent wholes; the future of a country could not be trusted to a handful of politicians. Prebisch (1969, p. 46) argued, “plans have often tended to be drawn up by a small group of people who have been unable to make use of the piecemeal experience of a host of government departments—the experience of the vast number of people who will have to execute the plan without having had the opportunity of cooperating in the determination of its aims.” Prebisch (1969, p. 46) concluded that the plan for development “must not be created from above; it must come from below, traveling up through all the responsible levels of the administration.” Prebisch rejected the emulation of both the U.S. liberal-capitalist model and the

Soviet-style socialism. Instead, Latin America should pursue a synthesis of liberal *and* socialist ideas (Prebisch 1981a, p. 150).<sup>12</sup>

In sum, near the end of the 1950s he started noticing that a simple dichotomy between a powerful, modern, and dominant center and a poor, inefficient, and subordinate periphery could not capture the complexity of socio-economic relations. Although Prebisch did not abandon the structural method at the end of his career, he stepped away from a classic structuralist position by adding diachronisms to his framework. Gray areas were inserted into the duality between center and periphery: while some layers of the structure were clearly dichotomous, others could not be understood through binary oppositions. Despite his attempts, however, Prebisch failed to accomplish the desired integration between structural and historical methods or between domestic and international structures. His effort at integration, as well as that of other ECLAC scholars, nonetheless, raises questions about the ability of Saussure's separation between synchronic and diachronic analyses to grasp with development economics.

## **V. CONCLUDING REMARKS**

From the 1920s until the late 1950s, Prebisch held a classic structuralist position, one guided by a synchronic binary opposition, drawing static and rigid boundaries between the central and the marginal. Beginning in the late 1950s, Prebisch then included an historical analysis to the center-periphery structure, as well as understanding countries' specificities through an analysis of their domestic societal layers and their interaction with the internationally based center-periphery structure. As shown in the last section, Prebisch spent more energy on the latter endeavor. His

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<sup>12</sup> Prebisch's thinking went through a process of radicalization during the 1970s. The focus of the paper, however, is on the methodological outcomes of such a process.

goal was to understand how domestic, social, cultural, and political factors interacted with the international center-periphery structure. And he hoped that adding domestic factors to his framework would make it more dynamic and nuanced. According to Jameson (1986, p. 228), however, despite Prebisch's efforts, the inclusion of class conflict and other domestic factors was not persuasive, mainly because they were ultimately taken as a reflection of the center-periphery relationship.

Prebisch himself expressed regret that the center-periphery concept, fifty years after its creation, had not changed very much: "I would liked to see ... a revolutionary presentation of new ideas" (Prebisch 2001, p. 18). His effort, however, was not to abandon the center-periphery structural method but to reject Sausurre's idea that economic fields are bound to be either synchronic or diachronic, and then to create a development theory allowing for a deeper understanding of structural dynamics and nuances. Prebisch believed that this understanding would free the future of Latin America and other peripheral countries from determinations of an international structure.

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