

KEYWORDS

Prebisch, Raúl
Economic development
Development policy
Economic policy
Economic dependence
Globalization
Social aspects

Raúl Prebisch and the dilemma of development in the globalised world

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Globalization poses both challenges and opportunities. Prebisch confronted this development dilemma in the global world and left three messages which form the great legacy of his work. Firstly, central countries form visions of the world order that serve their own interests; and peripheral countries need to rebel against this theoretical framework to resolve the dilemma. Secondly, it is possible to transform reality and achieve a symmetrical non-subordinate relationship with the world's power centres. Thirdly, the transformation requires a fundamental change in productive structures to incorporate knowledge into economic and social activity, since this is the fundamental instrument of development. These messages remain fully current to this day.

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I

Introduction¹

In his analysis of development problems in Latin America, Raúl Prebisch always related the domestic conditions of the region's countries to their international context, and short-term instability to structural vulnerability in the longer term. His key concern was how to strengthen our capacity to respond to the challenges and opportunities of the world economy, which nowadays we call globalization. That approach to reality gave rise to his contributions on the centre-periphery approach, the terms of trade, industrialization, regional integration, income distribution and appropriate public policies.

The world system is currently facing a number of unresolved problems. The first of these consist of asymmetries in levels of well-being which stem from an unequal distribution of the fruits of technical progress between and within countries. The "historical" problems of globalization have now been transcended by the great financial crisis and its repercussions on the real economy. Three key issues arise in this scenario: firstly, the inviability of an unregulated global financial system based on speculation; secondly, the impossibility of continuing to use the external deficit of the United States to bridge the saving-investment

gap, thirdly, the emergence of large Asian nations as key players in international relations.

The crisis has triggered transformations in the world system, causing changes to a number of its behaviour patterns. Nonetheless, the essential features of globalization remain, along with its links to the development of national economies. The ongoing changes cannot be expected to inaugurate a lengthy phase of relative stability in international relations, without addressing the consequences of extreme inequalities in well-being and resolving the most urgent environmental problems.

This essay seeks to identify the nature and scope of the ongoing global changes and their repercussions on the countries of the region. It considers how much the world order and Latin American development problems have changed between Prebisch's times and today, and, consequently, the extent to which his ideas and, in a broader sense, contributions of Latin America structuralist thinking based on his work and the contributions made by Celso Furtado, Aníbal Pinto and Osvaldo Sunkel, among others, remain relevant.

For that purpose, the second section of this paper outlines the main messages of Raúl Prebisch on the development dilemma, while the third relates the scope of this dilemma to its historical context: globalization. The paper continues with a fourth section that aims to synthesize the key aspects of the last quarter-century of economic history, as a basis for arguing in favour of the continued relevance of Prebisch's ideas today. Lastly, the concluding section discusses the importance of national density in the development process, which I consider crucial for achieving economic and social development in a globalization setting.

□ This paper is based on the lecture given by the author at the Economic Commission for Latin America and the Caribbean (Santiago, Chile, 22 April 2010), on the occasion of the Ninth Raúl Prebisch Memorial Lecture.

¹ The author of this essay has drawn extensively on his previous works: Ferrer (1996, 1997, 1998, 2004 and 2008, the latter referring to the fourth edition of *La Economía Argentina* (2008), on which M. Rougier collaborated.

II

The messages of Prebisch's work

The global world poses challenges and opportunities—threats but also new prospects. This was essentially Prebisch's belief throughout his life. From his youth until his final days, he approached this fundamental issue of the dilemma of development in the global world, formulating a set of ideas that enriched our country's heritage. But, most importantly, he left three messages which, are definitely the major legacy of his work.

The first is that the central countries form visions of the world order that serve their own interests. Consequently, we need to rebel against this theoretical scheme to resolve the problem of development and respond effectively to the challenges of growth in a globalised world. Prebisch referred to that rationalization of the international system as “centrist thought”, which—from the theory of comparative advantages of the classical doctrine of international trade until the theory of rational expectations—has always served the interests of the centre. The same is true of economic policy, from free trade through to the Washington Consensus. These are ideological formulations of the developed centre, which conceive a systemic organization in which peripheral countries are merely segments of the world market rather than national systems capable of forming strategies, within their borders and integrated into a globalised world, to deploy their economic and social development potential and incorporate scientific and technological

progress. This is Prebisch's first message: Rebellion against centrist thought.

The second is that transformation is possible; that, based on a realistic view of problems, it is possible to change reality, deploy potential and achieve a symmetric and non-subordinate relationship with the rest of the world—first and foremost with the centres of world power.

Prebisch's third message is that the transformation requires a far-reaching change in the productive structure to incorporate knowledge as a fundamental tool of development, in economic and social activity. This is only possible in a diversified and complex structure, and cannot occur in a country that specializes in exploiting natural resources without simultaneously deploying a complex web of industries and value-added chains operating at the frontier of knowledge. Once that is done it is possible to create employment, well-being, social inclusion, and a symmetric non-subordinate relationship with the international system.

These are Prebisch's three great messages. The question now, 25 years after his passing, is what relevance they still have in relation to the proposals of the Executive Secretariat of ECLAC. In an attempt to give an answer to this, I will briefly draw your attention to the core issue in Prebisch's thinking, namely the dilemma of development in a global system.

III

The dilemma and its history

Globalization is the first component of the dilemma: it constitutes a system of financial and trade networks, and integration of value chains, which have grown deeper through time under the effects of scientific and technological progress. Globalization coexists with the fact that countries' domestic markets remain the fundamental space for transactions and economic and social activity. Not much more than 20% of global production crosses national borders; and investments by the subsidiaries of transnational corporations

account for no more than 15% of global capital formation. Accordingly, domestic markets and saving constitute the main components of the demand for capital accumulation and its financing.

Globalization is also a power system, in which the large States collaborate with transnational corporations and financial markets to exert a dominant influence and establish the systemic rules of the game. Lastly, as Prebisch argued in his first message, globalization is the space in which hegemonic thought, functional

to the interests of the centre, is formed. Hence the idea that the market is capable of rationally managing resources globally for the benefit of all, and that the forces of globalization are so overwhelming that any attempt to construct national development projects on the periphery is doomed to failure.

The second component of the dilemma is development, which consists of managing knowledge and incorporating it into the economic and social fabric. This is a cumulative process that unfolds through time. Not only does it include capital and technology, but it also involves simultaneously, organization of the State, education, public and private synergy, and the formation of national science and technology systems. It is a process of continuous accumulation of productive know-how and capacity through time. Development always takes place in the national space. To quote Professor Sunkel, the only possible development is development from within (Sunkel, 1991). Development cannot be imported. There is no case in world economic history in which a country has been developed from outside. Development is always a process that occurs in a national space, or not at all. When this happens, it is possible to exploit one's potential and attain the development frontiers of each era.

The fact that globalization penetrates into countries, and development always occurs in a national space, raises the dilemma of development in a global order. This national space is penetrated, from outside, by a division of labour decided upon by those who produce and dominate trade networks. It can penetrate the control of natural resources in less advanced countries and does so by dominating value chains through large corporations, and their influence on the process of knowledge-generation and application of technology. The relation between globalization and knowledge in particular is a fertile area of Latin American thinking on technology policy. Here I would call to mind Professor Jorge A. Sábato, former technology manager of Argentina's National Atomic Energy Commission, who, in various forums has repeatedly argued that the problem consists of how to make technological change endogenous in our countries.

The national space is also penetrated by more subtle mechanisms such as the exchange rate, which generates the problem of "Dutch disease". Countries that specialize in primary production tend to operate with overvalued exchange rates, especially if they are also targeted by financial speculation. This problem is the main obstacle to industrialization and productive

transformation and has been studied by Latin American economists such as Luiz Carlos Bresser-Pereira (Bresser-Pereira, 2008 and 2010).

In conclusion, the fact that a country is penetrated by external phenomena forms the dilemma of development in the global order. If a country does not respond effectively to globalization, it becomes disconnected and cannot implement the cumulative processes of knowledge management that are inherent to the transformation. In contrast, if it responds appropriately, globalization opens up opportunities for trade, investment, employment and access to new knowledge.

Here we need to reflect briefly on the history of the dilemma, to set Prebisch's contribution in context. In the pre-technological-revolution world, before the European Renaissance and the takeoff of western Christian civilizations, relations between countries were irrelevant from the economic development standpoint. International trade existed or a space could be occupied and dominated by another country, but production conditions remained broadly the same everywhere. As technology levels were similar, international relations were irrelevant for economic activity.

The dilemma begins when technology impacts economic organization and generates continuous productivity growth. From then on, the type of relation that a given area maintains with the rest of the world is fundamental for its development. Consequently, the dilemma is at least five centuries old. It started in the last decade of the fifteenth century, when Columbus "discovered" the New World, and the Portuguese found the sea route to the east, bringing to a conclusion the enterprise embarked upon by Prince Henry the Navigator at the start of that century. At that time, the dilemma arose for two reasons. Firstly, there was the first planetary system; and secondly, knowledge management—in other words each country's development—is influenced by the nature of its international relations.

In the ensuing five centuries, several stages can be identified in the formation of the world system and the dilemma of development in the global order. A first world order was mercantilist capitalism, initially led by the Iberian countries and later by France, Holland and England. This was the start of western and Christian hegemony in the organization of the system. In fact, until recently, the domain of technology was concentrated in the North Atlantic.

At the end of the eighteenth century, the Industrial Revolution inaugurated a second world

order. New technologies and energy sources, new means of transport, the emergence of railways, undersea cables, telegraph, progress in metallurgy, agriculture, industries that we now call traditional, such as textiles, which then were dynamic industries, formed the new world order and gave an exceptional and unprecedented boost to globalization.

During the conquest and colonization period, Latin America joined the global order in a subordinate status. The centre-periphery relation, studied by Prebisch, became deeper in the second world order as our countries gained independence and were incorporated into the system as suppliers of primary products, importers of manufactured goods, and borrowers. This relationship continued during the following three decades (from 1914 to 1945), during which there were two world wars, the great crisis of the 1930s, the breakdown of the political system with the October Revolution in Russia, and the emergence of Fascism and Nazism. It is a period in which all indicators of globalization—trade, investment and financial flows—trended down. Countries turned in on themselves, and the crisis of the 1930s also resulted in the discrediting of neoclassical orthodoxy and the emergence of the Keynesian paradigm.

This period of “de-globalization” was followed by a new third world order. The new technologies gave rise to a phenomenal transformation and deepening of globalization networks. It can be divided into two subperiods: the first, the golden age of post-war recovery under the hegemony of the Keynesian paradigm and the welfare state; secondly, the neoliberal phase, heavily conditioned by the rapid growth of financial globalization and the formation of a giant speculative casino. This scenario re-established the ideological hegemony of the centre, the magic and omnipotence of the market and the supposed impotence of public policies subject to the empire of rational expectations—a phenomenon that culminated in the recent crisis.

How can Prebisch’s thinking be located in this historical path of globalization and the transformation and permanent renewal of the dilemma of development in the global world? Prebisch started his training as an economist in the 1920s, in a scenario of apparent return to pre-war normalcy, which, culminated in the great crisis, the collapse of the international economic order, the discrediting of neoclassical orthodoxy and the emergence of the Keynesian paradigm. By then, Argentina had achieved the region’s highest economic and social indicators, within the centre-

periphery relation prevailing in the second world order. Consequently, the crisis hit the Argentine economy hard. In that domestic and world scenario) being a young man, Prebisch held important posts in the Argentine political regime that emerged from the *coup d’état* of September 1930. In 1935, as general manager of the Central Bank of the Republic of Argentina, he had the unique experience of managing monetary policy, and this was to prove decisive for the formation of his thinking.

Prebisch was a Professor at the School of Economic Sciences of the University of Buenos Aires, and he resigned from his chair for the same political reasons that caused him to quit the Central Bank in the mid-1940s. But, in the first half of 1948 he took up his chair once again, and I had the good fortune to be studying the subject at that time. In addition to his lecturing responsibilities, Prebisch also led a research seminar. I recall that in the first meeting of the seminar in April of that year, some 20 people met: Prebisch, two or three of his professorial assistants and students including myself. The professor started by explaining the problems he had encountered in managing monetary policy and he said: “My disenchantment with orthodox theory grew and grew.” He then asked: “What do you think was the reason for this disenchantment?” “I was bold enough to venture an answer, with which the Professor agreed: the reason was that theory did not help to resolve the problems. In that seminar, and on the course, Prebisch foreshadowed the ideas he would later deploy here in ECLAC, enhanced by the contribution of Celso Furtado, Aníbal Pinto and other masters of Latin American economic thought.

Set in their historical context, it can be seen that Prebisch’s ideas and so-called Latin American structuralism developed during the phase of de-globalization of the international system, and achieved their greatest influence in the golden age of the third world order—when the orthodoxy of the centre and its hegemonic pretensions were being replaced by the Keynesian paradigm, public policies and the welfare state.

It was against that backdrop that Prebisch’s thinking and his response to the dilemma of development in the global world bear fruit in Latin America and have a major influence on the economic policy of the region’s countries. Starting in the 1970s, however, while Prebisch was still alive, things changed, and the hegemonic thought of the centre was restored, intensively penetrated by the financial dimension. To

a greater or lesser extent, our countries succumbed to the new situation, often in scenarios of extreme political tension. The transformation process, led by import-substituting industrialization, had not allowed us to construct sufficiently solid national

situations. Consequently, we fell into the debt trap and, ultimately, the lost decade of the 1980s. These were the final years of Prebisch's life, in which his influence on theory and the economic policy of Latin American countries waned.

IV

The last 25 years

Profound changes have occurred since 1985, which need to be kept in mind when considering the currency of Prebisch's thinking. The most far-reaching event has been the consolidation of development in China and the emergence of India. Since the end of the Second World War, Japan, the Republic of Korea and Chinese Taipei have all furthered their industrial and technological development. Nonetheless, those countries jointly represent just 5% of the world's population. Now with the emergence of the two great Asian nations accounting for 40% of the world population, an alternative development pole is emerging and bringing to an end the indisputable western hegemony of the last five centuries. What specifically characterizes the emergence of these Asian nations is the structural transformation based on the incorporation of knowledge-intensive activities in their productive and social fabrics. The dynamic centre of the system has started to shift from the North Atlantic to the Asia Pacific basin.

At the same time, the world economy has been shaken by the collapse of the money markets; and it has become clear that maintaining the saving and international payments deficit of the United States as a way to bridge the saving-investment gap in the global economy is unviable. The insufficiency of domestic demand in certain countries (mainly China and Germany) to absorb their high levels of saving, has been covered largely by the North American deficit.

A further relevant fact is that the crisis in the world of money has generated a theoretical vacuum in centrist thinking. As in the 1930s, orthodoxy has been discredited because of its inability to generate an international framework and national policies that were viable. Argentina has to some extent played a pioneering role in certain problems. We noted earlier that Prebisch's thinking was founded on Argentine experience in the interwar period. More recently, Argentina has been the Latin American country

that applied the neoliberal creed in greatest depth. It progressed further than any other country in the region in terms of privatization; it borrowed up to the limit of insolvency; overvalued its currency causing harm to the productive fabric; turned the central bank into an exchange house under the currency-board and fixed-exchange-rate regime; and reduced the goal of economic policy to "transmitting friendly signals to markets." The epilogue was the collapse in 2001-2002. This Argentine experience foreshadowed the crisis that erupted in the global system at the end of this decade, based on the same ideas and policies that inspired the neoliberal strategy in my country.

These changes in the global system raise questions about the resolution of the saving-investment gap, the United States deficit, the regulation of money markets and how to accommodate the emerging Asian countries into a new international scenario. What we have not seen are responses from the international system to address the challenges that continue to threaten peace, security and the environment. The debate in the Group of 20 and other international forums does not provide valid responses to these questions, let alone to the widening gaps in well-being in the global system and within most countries.

In this scenario of uncertainties, some things clearly do not change. The nature of globalization and development do not change, nor do relations between the two and the dilemma of development in the global world.

The presence of China in today's globalised world does not mean that is behaving differently towards the least advanced economies than mature industrial nations—that is, by exporting complex manufactures and capital and importing food and raw materials. It is predictable that the international division of labour between the old centre of the North Atlantic and the new Asia-Pacific centre, on the one hand, and what remains of the periphery following the takeoff

of emerging nations, on the other, will maintain the same trends as in the past.

At the same time, economic development is facing challenges caused by major changes in the world system and the continuous expansion of knowledge

and technology frontiers. But development remains essentially what it always was, the incorporation of science and technology into the economic and social fabric, and the capacity to manage knowledge in the national space.

V National density

This brings me to my final reflections on the dilemma of development in the global world and the conditions that determine the capacity of countries to respond to the challenges and opportunities of globalization. The comparative analysis of the experience of countries that have had success in various historical periods, responding effectively to those challenges and opportunities, reveals the presence of certain necessary conditions which, I collectively refer to as “national density”. It can be argued that each country has the globalization it deserves, in relation to the strength of its national density. Countries with strong national density are capable of responding to the challenges and can take advantage of the opportunities provided by the global system.

The components of national density include, first and foremost, social cohesion. Societies that are deeply fragmented by inequality, and sometimes by religious and ethnic problems, lack the capacity to exploit their resource potential. The second component is the quality of leadership. In socially cohesive societies, leaders normally have strategies for accumulating power within the national space, and are not merely the commissioned agents of transnational interests. For example, in contemporary history, the experience of the emerging countries of Asia shows that local entrepreneurs and national Governments lead the process of capital and technology and accumulation. They also forge relationships with transnational corporations to develop value chains, without losing the capacity to conduct processes of accumulation and change. These two conditions are mutually linked. Highly fragmented societies tend to be led by minorities that are closer to transnational interests than the interests of their own people.

A third component of national density is long-term institutional stability, irrespective of the nature of the political regime. A sufficient degree of institutional stability is needed to be able to articulate responses

to the dilemma. The fourth component consists of ideas. None of the successful countries conducted their national policies with the hegemonic vision of centre. All of them, including the emerging United States in the nineteenth century, always operated with ideas rooted in their national interest. This was true of Japan following the Meiji restoration and it happened after World War II in the heterodox ideas and policies of the Republic of Korea, Chinese Taipei, China and India. As Prebisch argued, the existence of *sui generis* thinking is a necessary and essential condition for a country to enter the path of development.

After two centuries of independence, Latin America is struggling with the weak national density of our countries. Our societies are based on social fragmentation, the domination of native population and the subsequent extraordinary phenomenon of slavery that characterized much of Latin America. In countries like Argentina, where the original peoples and Afro-Americans were rendered as a minority in the total population after the tidal wave of immigration, social fragmentation is reflected in the concentration of land ownership and other natural resources. The fact that Latin America is the region with the highest concentration of wealth and the most unequal distribution of income is largely a legacy of history. Our challenge in resolving the dilemma of development in the global world is greater than elsewhere, because here we have to respond to the problems of today and, simultaneously, repair the consequences of history.

Social fragmentation has had its corollary in long-term political instability and the existence of leaderships with power strategies linked to the hegemonic centre, serving as agents of transnational interests rather than leaders of endogenous, national processes of accumulation. The same reasons also explain why ideas subordinated to centrist thinking have

prevailed, to a greater or lesser extent depending on the countries and historical periods in each case.

After two centuries of independence, national density still needs to be constructed. The latest ECLAC report on inequality, social integration and inclusion highlights an essential condition for the development process in Latin America. Prebisch had stressed the same in his studies on peripheral capitalism and even earlier.

To resolve the dilemma of development in the global world, it is necessary to enrich our countries' national density in terms of social inclusion, leadership quality, democratic stability, and the consolidation of critical thought that flourishes, not because there is a hegemonic vacuum in the centre, but because we are capable of constructing original Latin American economic and social development thinking. All of this, to deploy effective development policies that include stability and sound macroeconomic fundamentals. Raúl Prebisch always emphasized this, sometimes to the disbelief of some of his disciples. It is impossible to base national policies on a framework of disorder; fiscal solvency is essential, as also are low levels of indebtedness and sound international payments. If there is insufficient capacity in the sovereign exercise of economic policy, no transformation is possible; and national density is necessary to be able to implement policies founded in the national interest.

The neoliberalism vernacular, epigone of the hegemonic thinking of the centre, sees us as a segment of the world market and condemns us, as Helio Jaguaribe (1979) argues, to a peripheral status. The globalizing fundamentalism that contaminated Latin America has caused, in some expressions of progressivism, a degree of resignation in the sense that globalization is so overwhelming that the only thing we can do is seek a few niches to accommodate ourselves. That was not Prebisch's message. There is no niche that enables us to generate development and social inclusion. The only way forward is to definitively break with the centre-periphery relation, generating capacity to make use of our resources and imagination and deploy a new style of engagement in the world system.

What, then, is the answer the question that I formulated initially? What validity do the three main messages of Prebisch have today? The answer is, even more than when he formulated them over 50 years ago with the collaboration of his young working colleagues in ECLAC. The first message, the

crucial importance of critical thinking, is more valid today than it was at the time. Secondly, the fact that transformation is possible is verified by experience in other parts of the world. Prebisch transmits a message of hope. We have the means, capacity, resources, and the talent needed to construct development. There are no external factors that paralyze us and prevent it. The message of transformation and hope is as alive today as it was then. Lastly, the third message, that development is impossible without a profound structural change that incorporates activities on the frontier of knowledge seems ratified by historical experience and comparative development studies, particularly of emerging Asian countries. That transformation includes the issue addresses in the latest ECLAC report (2010) on the takeoff of small and medium-sized enterprises; their links with large value chains; the ties between science and technology systems and production; education and synergy between the public and private domains.

Lastly, Latin American density: the dimensions of national density are also valid at the regional level. The stronger our national densities, the deeper will be the links between our countries, infrastructure investments, the formation of value chains in dynamic sectors of regional scope, science and technology programmes, development financing; and more solid will be the institutions of integration capable of implementing community policies and integrating national processes within a broader continental space.

To construct Latin American density we must generate our own ideas on integration, develop appropriate visions of our realities, and abandon the fantasy of reproducing the experience of the European Union in the Latin American space. Our reality is different, the integration of our countries is different from that of other regional spaces. We have made significant progress in this area, probably more in the field of politics and coordination of Latin American diplomacy than in the economic development sphere. Latin American density is also based on social development, the quality of leadership, democratic consultation and critical thinking.

To conclude, 25 years after the Raúl Prebisch's death, his fundamental ideas, developed initially in Argentina and then propagated from ECLAC to the rest of the world, with collaboration from his professional colleagues, are more relevant today than ever.

(Original: Spanish)

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