Engendering development through international economic integration:
how might Prebisch
size up the trends and issues thus far into the 21st century?

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I. Introduction

The title of this paper was conceived when the author was invited to join one of two panels on Prebisch’s works and influence at the 2014 FLACSO-ISA International Conference in Buenos Aires. The consideration of engendering development through stronger international economic integration is one that is essentially as old as Economics is as a discipline, and not surprisingly, over the course of the history of that discipline that consideration has been sliced and diced by proponents and skeptics/opponents alike from many different angles.

Prebisch himself entered the debate, in the sense of doing so in a manner that was more accessible to the English-speaking world, in the late 1940s. Indeed, it was the provocative opening sentence in what Hirschman (1968) dubs Prebisch’s ‘manifesto’ – “In Latin America, reality is undermining the out-dated schema of the international division of labour” (Prebisch 1950a, p. 1) – that started to earn him ire from many mainstream/neoclassical trade and development economists.

As is typical in such debate, some opponents would zero in on certain elements in the arguments of the party under attack, to the neglect of other elements, and thus intentionally or unintentionally distort and misrepresent that party’s original reasoning. In the case of Prebisch, instead of distilling from a larger body of his works\(^1\) a more complete picture of the structure of his arguments, mainstream attention has mostly focused on the statement that appears several pages into his ‘manifesto’, namely that “the price relation turned steadily against primary production from the 1870’s until the Second World War” (Prebisch ibid., p. 8). As is well known, this statement and the post-WWII terms-of-trade movements that it has allegedly predicted is subsequently dubbed the Prebisch–Singer Thesis (PST).\(^2\)

To be sure Prebisch was just one of many participants in the debate that was subject to such treatment. Indeed, the long history of the debate on whether stronger international economic integration could be conducive to more rapid development has very much been muddled by such misrepresentations and distortions. Consider the group that is from the same generation as Prebisch and which is sometimes called the ‘classical development economists’, namely Rosenstein-Rodan, Nurkse, Singer, Myrdal, Hirschman, etc. Many of their rich and varied ideas – big push, balanced growth, circular and cumulative
causation, linkage effects, to name a few – defined the development policy debate in the 1950s and 1960s. Yet, the economics mainstream, in acts of misrepresentations and distortions of the very nature alluded to above, would boil all their ideas down to nothing but just support for ‘import substitution’ (IS). Then beginning from the 1970s, it launched a ‘neoclassical resurgence’ (Myint 1987). Oftentimes operating under the banner of export promotion (EP), this resurgence aimed at undermining IS and reasserting the advantages of relatively more outward-oriented trade regimes. It subsequently became a key component of neoliberalism or the Washington Consensus and that would take the debate to a new phase, which is frequently labeled as the globalization debate, that has reached into the present millennium.

Now that it is close to three decades since he has passed away, just how might Prebisch size up this latest phase of the ongoing debate, especially with reference to the trends and issues thus far into the 21st century? It is quite a formidable challenge, to say the least, to attempt to answer this hypothetical question. Perhaps it is only reasonable to start with the very basic, yet obvious, question of what his utmost concerns were regarding the ‘underdeveloped countries’ and what his recommendations for them were, and then to consider their relevance in the period since his death.

Clearly, if one subscribes to the mainstream portrayal of him, then one would simply expect him to adhere to the PST and that he would continue to be a champion for IS. This paper, however, will argue that his concerns with the underdeveloped countries were much broader, and that his recommendations for them more nuanced, than what the mainstream has represented. Broader concerns naturally raise more (and presumably more substantive) analytical and policy questions. While he certainly did not have as many ‘answers’, at least not in as much detail, as some might wish him to have, his broader set of concerns puts the contents of his works in ready positions to link up some important strands of current research and policy discussions. Indeed, his analysis appears to readily accommodate the changes and development in the three decades or so since his death, and allow for interpretations that, while improving one’s understanding of the development process in some sense, also directs one to meaningful research questions that should be asked. In other words, it enables one to grasp these events and to position one to ask further questions to improve that understanding.
The rest of this paper is organized as follows. Section II briefly but critically evaluates the mainstream interpretation of Prebisch’s ideas and argues that it is devoid of a conceptualization of any process of development. It then proposes a re-interpretation that outlines what, according to him, development in the underdeveloped countries would have to involve. Although he did not explicitly and systematically lay it out so, he based his conceptualization of the development process on a departure from four major assumptions that are otherwise regarded as standard in mainstream trade theories. Section III relates his departure from these assumptions to his support of IS, which is interwoven with EP, and where both would be accompanied by efforts to enhance indigenous ‘technological densities’. Section IV describes his campaign for a tiered system of differential treatments in favor of underdeveloped countries in the multilateral trading system that supposedly would facilitate their pursuit of policies that are implied in section III. The reader who follows the globalization debate will readily recognize that these have remained some of the most hotly contested issues when it comes to multilateral negotiations on trade, foreign direct investment (FDI), and technology transfer.

One element, and a rather hackneyed one, in Prebisch’s conceptualization of development is capital accumulation. For the underdeveloped countries that, especially during his time, had not acquired the ‘technological densities’ to establish their own capital-goods sector, this translates into a need to import. That is why he attached much importance to their “capacity to import” and why he put heavy emphasis on avoiding or limiting the “persistent tendency toward disequilibrium” in the primary exporting countries’ balance of payments as they pursue development. While the terms of trade for these countries is part of the equation, it is far from its entirety and in that sense the mainstream focus on the PST is obfuscating Prebisch’s broader concerns. These clarifications are laid out in section V.

By way of selectively focusing on certain developments and changes in the global economy that have occurred since his death, section VI considers how Prebisch might have sized them up based on the elements in his works that have been highlighted in sections III through V. That also serves as the concluding section.

II. The Development Challenges Facing the Underdeveloped Countries
In *Problems of Economic Growth* Prebisch rather loosely characterizes underdeveloped countries as those where “a large proportion of the gainfully employed population is working under conditions of a shortage of capital, low productivity levels in primary production and other activities in which labour costs are low” (Prebisch 1950b, p. 16). One of his interests in these countries obviously has to do with their primary production and export activities, although the analytical framework in which such activities are placed is not something that the economics mainstream has bothered to decipher. Thus, viewed from the analytical framework of conventional mainstream trade theories, all seems to be well with primary production and exports when one concludes that these countries are simply specializing in accordance with their pattern of comparative advantage as reasoned from those theories.

Prebisch challenged this conclusion and declared it outdated, and he can be regarded as basing his attack on a departure from four assumptions that underlie those mainstream theories, namely: (1) where those theories typically make no distinction between different products with regard to: (1.a) their income elasticity of demand, and (1.b) the different prospects for technological development that arise from them, he did; (2) where those theories assume full employment pre- and post-trade, he did not; (3) where those theories assume perfect domestic mobility of factor(s) of production between sectors, he did not; and (4) where in the Heckscher–Ohlin model technology is assumed to be identical across countries, he recognized the presence of a persistent, and even widening, technological gap between the centers and peripheral countries, though to him, this gap is by no means as immutable as in the textbook Ricardian model because technology can be acquired by the underdeveloped countries.4

Hardly any mainstream trade and development theorist has ever represented Prebisch’s challenge to mainstream trade theories in this manner. Instead, what they have only read or heard about is the PST. As Palma (1992, p. 442) shrewdly notes in his entry on Prebisch in *A Biographical Dictionary of Dissenting Economists*,

“It is not clear whether Prebisch saw this [PST] as the most important part of his work, but this hypothesis was a seductive challenge to that part of the North American academic establishment
which is ever anxious to extract from the structuralist approach unidimensional hypotheses referring to clearly established variables for its own consumption.”

Indeed, once mainstream economists have succeeded in channeling attention to nothing but the PST, their reactions naturally fall into the following two broad categories. Empirically, many have questioned whether the commodity terms of trade (CTT) have indeed deteriorated against the primary exporting countries over time. Analytically, there have been awkward attempts to assimilate his analysis by portraying it as nothing more than the mainstream optimal-tariff argument for protection. Thus, for instance, Bhagwati (1984, p. 202, n. 11) concludes that “Prebisch … and others … were elasticity pessimists and therefore were essentially arguing for IS strategy on optimal-tariff grounds.”

Limited by space, this paper will stay out of the so-called ‘statistical debate’ revolving around the PST. As for the basis for ‘assimilating’ his analysis, it simply cannot find much textual support. As Flanders (1964, p. 316) observes, “The significance of price-inelastic demand for primary products has been given much more attention in the ‘commentaries’ than in Prebisch’s own work”. Instead, as section V below illustrates, his emphasis was rather on the disparities in the income elasticity of demand between primary and manufactured products (hence, his departure from assumption 1 above as it relates to 1.a). In the relatively few moments when he referred to the low price-elasticity of demand, he was careful to distinguish between the options that were open to “a relatively small and isolated primary producing country” versus the hard realities facing those countries “as a group” (1950b, pp. 36–7; 1951a, pp. 34–5).

More fundamentally, the mainstream attempt at ‘assimilation’ reveals how it tends to trivialize the process of development. Thus, consider a situation where, operating within the mainstream framework, a tariff is deemed the optimal policy of intervention when one considers a country that is large enough to exercise a monopoly power in trade. Through the optimal tariff the diagrammatic illustration shows the country reaching a higher community indifference curve. However, it is far from clear what that framework can offer in furthering one’s understanding of development as a process. All the complexities in that process in a supposedly large country have been reduced to a situation that calls for one policy action, namely the imposition of an optimal tariff. What is the result? This large country is
able to attain a higher level of welfare. Keeping in mind that distributional problems are typically assumed away in the neoclassical world, everyone in that country can live happily thereafter. But how in practice does that intervention translate into an intricate historical series of economic and social processes that result in development? In the real world, underdeveloped countries, even ones with market power in some primary products, all face far more formidable challenges as they seek to engender and sustain development. Reaching a higher indifference curve in the neoclassical world and achieving development in the real world are two entirely different things.  

That directs attention back to how Prebisch felt it necessary to depart from the aforementioned four assumptions. Given his recognition of the substantive developmental implications that depend on what a country produces and exports (departure relating to 1.b), but given that many developing countries of his time were relatively dependent on primary exports, he emphasized broadly engendering technical progress and productivity improvements to pursue development and raise the average per capita income in those countries. To that characterization of underdeveloped countries that was quoted at the beginning of the present section, he thus appends,  

“Until modern technique can be extended to these persons, thus modifying the nature of their occupations and progressively decreasing the disparities of productivity and income, the prevailing pattern of development will be maintained. Large amounts of capital will be required in order to effect this displacement of labour … Once this stage of development is reached and modern technique is assimilated in the various branches of economic activity, development may acquire the intensive characteristics of the great industrial countries” (1950b, p. 16, italics added).

It is noteworthy, indeed, that in his 1984 summary of his stages of thinking about development he recalls that, “In formulating my point of view I mentioned from the beginning the role of technological progress. In particular, my interest was attracted by the question of the international dissemination of technology and the distribution of its fruits” (1984, p. 176, italics added). However, readers of his works must, when he refers to technical progress and productivity improvements, carefully distinguish between whether he means the primary or manufacturing sector, or both. When he employs them in a broad sense,
development entails diversification from primary production. This is far from an automatic process because, contrary to mainstream trade theories, factors of production are not perfectly mobile between sectors (departure from assumption 3). In particular, starting out with specialization in primary production, these countries would have to go through a tremendous amount of technological learning – assimilation of modern techniques – before they could enjoy sustained technical progress and productivity improvements in the industrial sectors (departure from assumption 4). But industrialization should not be pursued to the neglect of the primary sector. In fact, to Prebisch, investment should also be undertaken in the latter sector to reap technical progress and productivity improvements. But to the extent that such are indeed reaped, they would surely add to the existing number of unemployed (departure from assumption 2). In that case, if the development process lacks “dynamism” and the industrial sector (and various accompanying service activities) cannot grow fast enough to absorb a good number of such unemployed, then even if the average per capita income rises, there would be some serious uneven distributional outcomes.

Prebisch thus strongly advocated industrialization in the underdeveloped countries. He did not, however, seek to accomplish this while ignoring the primary sector. In fact, investments should be undertaken in both the industrial and primary sectors, but in manners that would hopefully enhance ‘technological densities’ so as to raise productivity and reduce unemployment.

III. Pursue IS-cum-EP, but Enhance ‘Technological Density’

Alas, Prebisch’s approach to industrialization (as are the ideas of the ‘classical development economists’ as indicated in section I above) has typically been represented by the mainstream as nothing but IS. In terms of debating strategy, this allows the mainstream to deploy the full arsenal from its theory of commercial policy to undermine his recommendation. However, a more careful reading of his works suggests that most of the mainstream attacks are misplaced and have obfuscated many key issues.

III.A An evolving conceptualization of IS, with increasing cautions

IS industrialization was already being implemented in Latin America when Prebisch started to provide theoretical justification for it in the late 1940s and 1950s (Prebisch 1984, p. 177). Given that it was
only since the Great Depression years that he started liberating himself from the neoclassical free-trade dogma, it is understandable that his conceptualization of the IS strategy would take time to evolve.

Thus, one still finds him reasoning in “classical terms” at one point in his ‘manifesto’ – comparing trade-offs in procuring industrial products through domestic production versus through trade – to determine the theoretical “limits of industrialization” (1950a, p. 45; see also 1950b, pp. 37–9). Reasoning in classical terms entails an assumption, even if implicitly made, of full-employment, but he did not hold that for long. About a decade later, with the “unemployed” or “ill-employed” in mind, he would contend that “a shifting of manpower from … relatively unproductive activities [agriculture for internal consumption, cottage industries, and the vast range of personal services] into industry and other more highly productive activities, at a rate commensurate with the growth of the active population, represents a net increase in the average per capita product for the economy as a whole” (1961a, p. 14). To be sure, given the technological gap between the centers and peripheral countries, such shifting of manpower would have to be induced by some policy measures. For instance, in International Co-operation he argues that ‘protection’ is necessary given the existing productivity differences between the center and periphery, although here he does not consider himself to be making an infant-industry argument.

Many in the economics mainstream are not aware that Prebisch was quite critical of the manner in which IS was carried out and the problems that it had engendered, especially in Latin America. For those – within the mainstream or without – who have paid attention, it would seem that he became so beginning from the late 1950s. Thus, according to his discussions since then, many of these problems have their roots in the haphazard origin of the strategy (1961a, pp. 4–5, 14; 1961b, p. 625; 1962, p. 32; 1963, p. 71; 1964, p. 22). That in turn translated into situations where protection was carried to extremely high levels (1959a, p. 265; 1961a, pp. 2–3; 1963, p. 71, 1971a, p. 214; 1978, p. 184). Competition was choked off, breeding inefficiencies and destroying incentives for productivity improvements (1959a, p. 259; 1961a, p. 16; 1962, pp. 33–4; 1963, pp. 46–7, 71, 92; 1964, p. 22; 1968, pp. 7, 25; 1971a, p. 193). It hurt the agricultural sector (1961a, pp. 3, 15; 1963, pp. 41–2; 1971a, pp. 40, 209). It also discouraged exports, both primary and manufactured, thereby enhancing the periphery’s ‘external vulnerability’ (1961a, pp.
3–5, 14–5; 1962, pp. 31–3; 1963, pp. 42, 72; 1964, pp. 21–2, 74–5, 108; 1971a, p. 210). However, a careful re-examination of his works indicates that he was alert to many of these problems much earlier. For instance, he warns in his ‘manifesto’ that, “It is conceivable the precariousness of natural resources and the inefficiency of workers or management might be such that the loss through increased costs [from internal production] would absorb an excessively large part of the increase in real income gained through greater employment. The seriousness of this difficulty cannot be denied” (1950a, p. 53). Then in Problems of Economic Growth he draws attention to “cases in which exaggerated emphasis has been placed on certain domestic activities, whilst disregarding the possible margin of profitable development in exports” (1950b, p. 21, italics added; see also ibid., pp. 18, 84; 1951a, p. 84; 1954, pp. 10, 72, 73).  

The increasing seriousness of these problems throughout the 1950s had probably enabled Prebisch to better understand their nature, to sharpen his critique, and to come up with recommendations on how industrialization should proceed in the ensuing phase. Indeed, in his 1959 American Economic Review (AER) article one finds him offering a more nuanced characterization of IS based on stages or phases of progress. Thus,  

“The development process requires a continual change in the composition of imports. These changes usually start with the decline in the proportion of imports of light consumer goods in favor of imports of basic material, capital goods, and durables. At more advanced stages of industrialization, when import substitution of these light consumer goods has been nearly completed, new changes relating to the other categories of goods are necessary, so that by reducing or eliminating imports of some of them it is possible to increase imports responding to the needs of the development process” (p. 264)  

Heading into the 1960s and early 1970s he repeatedly issued warnings that the initial stage of easy and simple substitution had reached its limits in those countries where industrialization had proceeded the most (1963, p. 69; 1964, p. 21; 1968, p. 8; 1971a, p. 46). However, the move into the next stage was by no means spontaneous. This is the one where imports of intermediate products and capital goods should begin to be substituted. That necessitates heavier investments and the use of technologies that are more complex, but “neither exports nor foreign capital will
suffice to finance all the imports necessary for the accumulation of the vast stock of capital required” (1959b, p. 143). Prebisch fully understood, in the context of Latin America in the late 1950s, that the further IS should proceed, “the greater will be the attendant difficulties, if the process continues to develop within the twenty watertight compartments represented by the individual country markets” (ibid.). Besides, for those countries that had more or less completed the first phase of IS,

“accentuated by adverse trade conditions, they have compressed their import requirements to a series of goods absolutely essential for the maintenance and growth of their economy and have lost the margin for the further reduction in imports which they had when they imported consumer goods. Thus an unfavorable fluctuation in exports tends to have critical effects on economic development far more so than when, as in former times, vulnerability was more on the demand side” (1959a, p. 268).

Consequently, they had paradoxically become more “externally vulnerable” (see also 1961a, p. 5; 1963, pp. 69–70; 1964, p. 22; 1978, p. 226).14

Prebisch thus realized that a policy was needed “to encourage these changes in composition in order to accelerate the rate of economic growth, so that imports are adapted to the need for greater technical progress in primary production and for more intense industrial development” (1959a, p. 265). And that prompted him to put more emphasis on EP than before.15

III.B Supporting EP, though not abandoning IS

There are strong early indications that Prebisch was quite aware of the importance of expanding exports to accelerating peripheral development. He thus stresses as early as his ‘manifesto’ that,

“The more active Latin America’s foreign trade, the greater the possibility of increasing productivity by means of intensive capital formation. The solution does not lie in growth at the expense of foreign trade, but in knowing how to extract, from continually growing foreign trade, the elements that will promote economic development” (1950a, p. 2).

One should thus not forget, he reminds the reader, “that the greater the exports from Latin America the greater may be the rate of its economic development” (ibid., p. 46; see also 1950b, pp. 8, 60, 81).16 Then in
his *Problems of Economic Growth* he clarifies that IS “does not involve a concept of self-sufficiency, nor of pursuing a systematic reduction of imports”. Instead, “it implies importing as much as exports and foreign investments may allow. … [T]he possibility of increasing exports adequately must by no means be overlooked” (1950b, p. 8, italics added).

An early instance when Prebisch considered the benefits of promoting manufactured exports can be found in an interesting passage in the *Economic Survey of LA*. There while discussing what Japan’s development experience might offer in terms of lessons to the periphery, he observes that,

> “Japan was able to assimilate modern technique rapidly but did not raise wages to the levels of the great industrial countries. … Japan’s incomes thus remained lower than those of other industrial countries; nevertheless, through industrialization Japan was able to increase considerably per capita productivity with an evident net increase in income, *which would probably not have been possible without the expansion of exports*” (1951a, p. 77, italics added).

Although he does not attach the explicit label, he is probably referring to its manufactured exports, however relatively ‘low-tech’ they might be at that time.

Though Prebisch was harboring that thought even in the early 1950s, it was not until the late 1950s that he started to more explicitly give it support.17 Thus, referring to the external disequilibrium problem (on which more in section V below), he considers in his 1959 *AER* article a situation where both the center and periphery in a two region model are growing at the same rate, but where the latter has a higher income elasticity of demand for the former’s products than *vice versa*. He concludes that in the periphery, “either the rate of increase of demand for imports would have to fall … by means of *import substitution, or industrial exports* would have to be added to the primary ones, or a combination of the two” (1959a, p. 254, italics added). Reiterating this point a couple of years later in his article in the *Economic Bulletin for Latin America*, he proclaims that “import substitution (and the development of industrial exports to the centres) is a *sine qua non* for rectifying these differences [of elasticity]” (1961a, p. 4). “It is common knowledge,” he adds, “that the economic development of a peripheral country is very
closely linked to the course that its exports follow. … [For] the rate of growth of its exports sets a limit to spontaneous economic development” (ibid., p. 2; see also 1963, p. 7).

Prebisch continued with this promotion effort in his capacity as the Secretary-General for UNCTAD. Observing the size of the trade gaps typical for peripheral countries at that time, he dismissed as mere “palliatives” measures that sought to expand primary exports.

“Hence, the absolute necessity of building up trade in industrial exports. Exports of manufactures ought to have been the natural complement of the industrialization of the peripheral economies” (1964, p. 20).

“The development of industrial exports, in addition to counteracting the potential trade gap, will make it possible gradually to increase the advantages of industrialization by correcting its defects” (ibid., p. 22).

And for those peripheral countries that relied on food imports, industrial exports could help pay for them (ibid., p. 55; see also 1968, p. 20).

After leaving UNCTAD and refocusing his attention on Latin America, he harks back to the term “dynamism” in Change and Development and remarks that,

“The process [of IS] bears within itself the seeds of its own loss of dynamism, since industrial development takes place within a closed circuit of costs and prices which, because it has no contact with the world market, discourages exports of manufactures; and these are really essential, for industry needs to stretch outward in order to develop inward in depth” (1971a, pp. 193–4).

“[A] new type of development in Latin America,” he declares, “cannot be based solely on import substitution, but must entail a major effort to promote exports to the rest of the world and, in particular, intraregional exports” (ibid., p. 48, see also pp. 18, 173; 1976, pp. 64–5; 1985, pp. 14, 15). 18

On this last point of promoting intraregional trade within Latin America, Prebisch started entertaining the idea since the early 1950s, if not before (for instance, 1951a, p. 84). But in the late 1950s, with his deeper appreciation of the problems with IS and the need for the promotion of industrial exports, this began to crystallize into something more concrete. Thus, referring to the “costliness of the substitution
process”, he argued that “[t]he only basic solution … is to break up the out-dated mould [where inter-Latin American trade was very slight] … by means of the gradual and progressive establishment of the common market and the consequent diversification of imports and exports” (1959b, p. 144). More generally for peripheral countries, “[i]f the trend towards external disequilibrium is to be progressively eliminated, this excessive protection will have to be gradually dismantled, starting with the liberalization of trade” among themselves (1968, p. 25). In advocating a Latin American Common Market, or South–South trade in general, Prebisch understood that such efforts “can help considerably to achieve more efficient production by expanding markets, encouraging specialization and facilitating competition,” and “[t]he resulting reduction in industrial costs will have an important bearing … in the [world] export market” (1961b, p. 627; see also 1959a, p. 268).

It must be stressed that at no point did Prebisch imply that EP should replace IS. Rather, the two should be implemented in some combined ways. He thus puts it very tersely in New Trade Policy that “[t]he stress … laid on industrial exports does not mean that import substitution policy should be abandoned. On the contrary, it should be maintained” (1964, p. 25). Later in the same work he elaborates that,

“There is no conflict between import substitution and export promotion. Industries that begin by catering to the domestic market may, as they gain experience and efficiency, branch out into export markets” (p. 76).

“The fact is that the development of the domestic market and the promotion of exports are not two alternative or mutually exclusive propositions. The two processes must take place simultaneously and in a co-ordinated manner” (p. 115).19

The important feature to remember, he adds, is that IS should be implemented “within groupings of countries,” that should “be resolutely founded on regional and subregional integration of basic industries” when it comes to capital and intermediate goods (1964, p. 123; 1971a, pp. 106, 236).

Intraregional trade – including trade in certain capital and intermediate goods within a region – aside, what did Prebisch envisage the emerging trade pattern between the center and periphery to be like? It might at
first appear that he was talking here in terms of static comparative advantage. Thus, at one point in the early 1960s he wrote,

“The greater our traditional exports and the exports of industrial goods in which we have comparative advantages, the larger will be our own imports of other industrial goods whose production in Latin American countries would still be relatively costly in relation to the levels prevailing in the more advanced industrial centers” (1962, p. 37).

Trade would then be conducted “on a basis of reciprocal benefits” (1963, p. 73; see also 1964, p. 25). But there is more, as the following subsection will illustrate.

III.C Increasing ‘technological densities’ in underdeveloped countries

The term ‘technological density’ is not one that Prebisch employed too often in his works, at least not explicitly. Partly as a consequence, its content can benefit from further clarification and refinement. Nevertheless, when one takes heed of how he conceptualized it on the occasions that he used it, then one realizes that the concept actually permeates many important areas of his works and has quite an important role to play.20

Recall that Prebisch was deeply concerned with the uneven development that, to him, was based on the uneven technological progress between the center and the periphery. In his 1959 AER article he alludes again to “the uneven form in which technical progress has spread into the world economy.” He laments that that has brought “very great disparities in technological densities. That is to say, the amount of technological knowledge as well as the real aptitude for using it in production” (1959a, p. 261).

But Prebisch showed awareness of the significance of this consideration much earlier. In his ‘manifesto’ he thus suggests that, “The raising of the standard of living of the masses ultimately depends on the existence of a considerable amount of capital per man employed in industry, transport and primary production, and on the ability to use it well” (1950a, p. 5, italics added). Then in the Economic Survey of LA he elaborates that,

“The assimilation of modern productive technique with its increasing complexity was not spontaneous but deliberate, and required considerable effort and persistence. This is all of great
importance to the development of Latin America, since the differences in the standard of living between the developed and the developing countries does not only depend on the differences between their respective natural resources but to a great extent on the effective capacity to assimilate technique, build up the necessary savings and make the best use of both. The development of this capacity will therefore be a predominating factor in the economic evolution of the countries which are now in the growing stage (1951a, p. 73, italics added; see also 1971a, pp. 206–7).

Recall the description in section II of his emphasis on improving overall productivity in the periphery. With the importance of technological density in mind he cautioned that while it was “essential” to increase the capital used per man, it was certainly “not the only condition for increasing productivity.” Rather, “[t]he ability to organize, manage and administer on the one hand, and the technical skill of labour on the other, are also of great importance” (1951a, p. 71). Put differently, “productivity involves two closely connected factors: first, the investment of savings in capital goods, and second, the investment of savings in the training of men who can make the best use of these goods at the various stages of production” (ibid., p. 72; see also 1954, p. 42; 1960, p. 107; 1976, p. 23; 1979, p. 171).21

This last distinction between two factors also hints at the importance of ensuring that technological density has a certain indigenous base in the periphery. “Economic development,” he thus characterized at one point, “is basically a process of training and perfecting national aptitudes in respect to technique and production” (1962, p. 36, italics added). While he believed that there were “forms of advanced technology” that were within the reach of the underdeveloped countries, there were others that were beyond that reach. Aside from the relative lack of capital, “the main limiting factor is each country’s technological density in the sense of available techniques and skills.” He went on to add that,

“This technology generally requires a high input of capital per person employed. Capital goods can be imported into the developing countries, but not technological density which has to evolve gradually. Only isolated special skills or techniques can be imported. A clear distinction must, therefore, be drawn between capital goods and technological density. There are industries which
employ advanced and complex capital goods but which do not require great technological density to develop; if there are a few special skills, or if they can be imported, this is enough to ensure their smooth operation” (1964, p. 59, italics added).

But apart from the “general education and technical training of the masses,” what else might facilitate this acquisition of “national aptitudes”?

Not surprisingly, based on the discussion in subsection III.A above Prebisch believed that IS would play a contributory role. Thus, “it has helped to build up a measure of managerial skill and to develop industries which would hardly have been likely to spring up on their own” (1971a, p. 46). However, “[p]rotection carried to excess affords no encouragement to train efficient workers and make good use of their services. Production equipment is often misguidedly used.” Theoretically speaking, these problems can be solved “provided [that] private enterprise does not confine its efforts to the initial functions of promotion. It must also be indefatigable in its endeavours to increase yields and reduce costs. And this is where nothing can replace the spur of competition” (1963, p. 47, italics added).22

The promotion of industrial exports is one way to spur competition. However, such export promotion was not conceived by Prebisch to be merely in accordance with static comparative advantage, as the quotation at the end of the previous subsection might have otherwise suggested. In that connection, he made it very clear in his capacity as Secretary-General of UNCTAD that export expansion by the periphery “is not just a matter of filling the void left by declining industries” in the advanced countries. Nor should the promotion be just a matter of steering existing industries outwards (1964, p. 60). Rather, industrial exports, “besides their primary aim, must be an effective instrument for promoting technological progress.” That is, they must be a means of changing the forms of production “where developing countries merely export simple manufactures” (ibid., p. 59). It would be wise, for instance, to “concentrate on the new industries or the new lines of production in existing industries which, with some support in the local market, or preferably in the wider market constituted by a grouping of developing countries, could be launched in the search for external markets” (ibid., p. 60; see also 1968, p. 57).23
The periphery should also explore subcontracting opportunities involving “the possibilities of manufacturing certain types of intermediate goods and components in the developing countries for use in the industries of developed countries” (1964, p. 76). One advantage of subcontracting arrangements, Prebisch thought, was that no elaborate efforts of marketing or merchandising would be required of the peripheral producers as the export sales concerned would be closely integrated with the production processes in the developed countries. Moreover, he believed that it would tend to build a complementary relationship between industries of developed and underdeveloped countries rather than to intensify competition. Nevertheless, he was also alert to the possibilities of “excessive dependence on external factors or an unduly specialized industrial structure such as might result from industrial development of this type” (ibid.).

Another way of spurring competition is to pit transnational corporations (TNCs) against indigenous enterprises through the attraction of FDI. While Latin America and the periphery in general could additionally count on such foreign capital to augment investments, Prebisch was quite conscious of many of the pitfalls of too much of such reliance. He thus repeatedly emphasized the important role to be played by indigenous enterprises and strongly cautioned that “[h]ealthy competition must be based on equality of conditions; otherwise it leads to the destruction or subordination of the weaker part” (1961b, p. 631; see also 1962, p. 37; 1963, p. 55). Perhaps not yet with TNCs in mind, he thus states in *International Co-operation* that, “It is indispensable to guarantee the Latin American entrepreneur easy access to sources of international capital and techniques, thus offering him opportunities comparable with those enjoyed by the foreign entrepreneur” (1954, p. 8). A few years later he explicitly considered foreign private enterprises’ presence in the periphery and argued that,

“private enterprise from abroad, valuable as its contribution might be, could not play so effective a part as is often exaggeratedly supposed. … [U]nless at the same time energetic measures were adopted to promote the training of local technicians and the formation of entrepreneurs, a disturbing situation might arise. Generally speaking, the developing industries of Latin America have not reached a technical level at which they could withstand a very strong current of foreign private
enterprise. … [I]f the country’s own private enterprise is not to face failure ..., it must be given financial assistance to enable it to hold its ground vis-à-vis private enterprise from abroad” (1958, pp. 48–9).

Thus, while “not advocating the exclusion of private foreign enterprise from Latin America” and maintaining that “it should fulfil a most useful function,” he insisted that “a concentrated and unflagging effort should be made to improve, strengthen and expand Latin American enterprise … by means of far-reaching technical and financial co-operation programmes on an international basis” (ibid., p. 50; see also 1959a, p. 269; 1961b, pp. 624, 633).

Prebisch was thus interested in supporting indigenous enterprises, entrepreneurs, managers and technicians as strong participants in the industrialization process. Included in what he referred to as technical co-operation programs are various forms of technical assistance (1954, Part I, Ch. III), the “training of local staff at all technical levels” and the “training and strengthening of domestic enterprise” (1962, pp. 53, 54), “co-operative activities of a strictly technical nature” or licensing arrangements (ibid., p. 56), and joint-enterprise efforts (1950b, p. 13; 1968, p. 57). He deemed that “[a] selective policy is a necessity” in attracting TNCs, in that no such effort would be necessary in sectors “where production techniques are already familiar” to peripheral entrepreneurs, but then it would be desirable for those sectors where such techniques “are not accessible for the time being or where foreign experience might be of great value” (1971a, p. 239).

More generally, out of balance-of-payments considerations Prebisch had mentioned various investment measures. These would direct the behavior of TNCs with a view to restricting their profit remittances (1954, p. 38), reducing imports (1950a, p. 42), or promoting exports (1964, pp. 77–8; 1978, p. 231). And out of anti-competitive concerns, he proposed that “[i]ntergovernmental agreements could be envisaged aimed at ensuring that the business methods of large [transnational] corporations should be subject to adequate standards of control” (1954, p. 39).

If these programs and measures work out as desired by the periphery, then not only would it better succeed in adapting technology from the centers, it would be in a position to participate in the “creation of
technology” as well so that it could “make up its technical deficiency in the vast process of transfer of world technology” (1971a, pp. 207, 239). And “as the technological density of each developing country increases and as its ability to compete abroad improves, new lines of manufactured exports will come to the fore encouraged by the dynamism of demand for a series of products” (1964, p. 60). “It must not be forgotten,” he reminded the reader, “that the objective is to lessen the technological disparity between the developing countries and the industrial centres, even though this cannot be done rapidly given the latter’s pace of advance” (ibid., italics added). In declaring so, he revealed his strong belief that technological prowess in producing manufactured products is not naturally given, but can be acquired (departure from assumption 4 in section II above).

IV. Campaigning for Policy Space for Pursuit of Development Programs

But before getting preoccupied with whether specific programs might or might not work out as desired, there is a more fundamental consideration, and that is whether the policy contents of those programs might offend the underdeveloped countries’ trading partners, both within the periphery but more so in the centers. Are the contents consistent with what various international agreements on trade, investment and technology transfer would allow? Borrowing a term that is regularly encountered in various discussions today, does the ‘policy space’ that is defined by various agreements reached during different rounds of multilateral trade negotiations (MTNs) under the auspices of GATT/WTO allow for those policies to be employed by the underdeveloped, though not (or at least not to the same extent) by the developed, countries? Put differently, will the latter group of countries accede to conferring Special and Differential Treatments (SDTs) to the underdeveloped countries under these agreements?

In trade, while Prebisch put some responsibilities on the peripheral countries to get their policy actions in order, he felt that without differential treatment in international co-operations, then given the situations in the periphery the challenge to spur development would be much more formidable. To that end he lobbied for such co-operations early on from the Latin American perspective and he ardently continued with that effort from a global perspective in his capacity as Secretary-General of UNCTAD (Prebisch 1954; 1964; 1968; 1971a, Part III).
It should come as no surprise that someone who labeled the post-war schema of international division of labor as “out-dated” would take issue with some of the notions behind the GATT. Given his preoccupation with the problem of external disequilibrium (discussed more fully in section V below), Prebisch understandably targeted his criticism, for instance in New Trade Policy, at the “abstract notion of economic homogeneity” and the “classic concept that the free play of international economic forces by itself leads to the optimum expansion of trade and the most efficient utilization of the world’s productive resources” (1964, pp. 6, 28). To him, the assumption of homogeneity “conceals the great structural differences between industrial centres and peripheral countries,” which then makes it appear that the “free play concept is admissible”. With that concealment the “principle of conventional reciprocity” gained legitimacy, and according to it both the center and periphery should make equivalent trade concessions regarding their respective imports from each other. He was deeply convinced that such concessions “would intensify the trend towards trade imbalance inherent in the disparity of international demand, instead of helping to correct it” (ibid., pp. 6, 29, 30). A few years later in Global Strategy, he concludes that “the fundamental mistake was made [in the Havana Charter] of thinking that the peripheral countries could participate as equals in the policy of world-wide trade liberalization without passing through a long transitional phase during which the congenital weakness of their economies would be remedied.” Those countries simply “cannot offer immediate reciprocal benefits in exchange for the concessions they expect from the industrial centres” (1968, pp. 50, 72).

While he thus subscribed to the principle of “non-reciprocity” (with reference to what he deemed “conventional reciprocity”) as a differential treatment for the periphery, Prebisch believed that the structural differences between the center and periphery would guarantee “implicit” or “real” reciprocity should the former unilaterally offer trade concessions to the latter. For when the peripheral countries were facing persistent disequilibrium in their balance of payments, and given their need to make substantial necessary imports for development, the more they could export to the center, the more that they would also import from it. Thus, in International Co-operation he concludes that “reciprocity is found to be implicit in the functional nature of the centre, since, if imports [by peripheral countries] are increased simultaneously with
[their] exports, compensation is spontaneous and it is unnecessary to manipulate the tariffs of other countries in order that this may take place without any difficulties” (1954, p. 69; see also 1959a, p. 264; 1962, pp. 37–8; 1964, p. 31; 1985, p. 15).

“There is no suggestion,” Prebisch clarified in another context, “that … nothing at all should be done about customs tariffs in developing countries” (1963, p. 75). While based on the argument in the last paragraph their protective barriers would not have to be removed in order to apply the concept of reciprocity, “from the standpoint of development itself revision is necessary, so as gradually to correct the serious shortcomings of [IS] industrialization.” That is, the rationales would be “in the light of economic expediency” as well as “to ensure that industry is constantly encouraged by external competition to narrow the gap in productivity vis-à-vis the major centres.” Nevertheless, he cautioned that,

“A reform of this kind obviously cannot be carried out where an increasing bottleneck exists. Relief must come rather from the external sector, in the shape of speeding-up in the tempo of the export trade. In other words, a *rational customs tariff must be part of an international plan to expand trade on new bases. Tariff reform cannot be a prelude to such a policy, but must stem from it*” (ibid., italics added).

Put differently, “[a] more liberal import policy cannot be applied unless exports also develop more freely” (ibid., p. 72; see also 1964, p. 32; 1968, p. 50; 1985, p. 15).

It is in the expansion of industrial exports by the periphery that Prebisch felt very strongly that the centers should also do their part to facilitate such trade. He laments in his *New Trade Policy* that although the tariff reductions agreed among the industrial countries in the 1960s were extended under the most-favored-nation clause to the peripheral countries, they “had no significant effect on them, since the goods to which they applied were usually those of interest to the former countries and not to the latter.” In the meantime there was a lack of determination to reduce “differential tariffs” which “seriously hamper the processing of raw materials in the developing countries, because … they rise in proportion to the degree of processing” (1964, p. 23; see also 1963, p. 73).
More generally, there was another differential treatment that Prebisch thought should be offered by the center to the periphery, namely the general “preferential treatment for exports of developing countries.” In *New Trade Policy* he explains that,

“The case is … a logical extension of the infant industry argument. …

“In order to be efficient, those industries must have access to wider markets; otherwise they may not be able to break out of the vicious circle of low output and high costs. Such markets must be sought in the developed countries as well as in other developing countries” (1964, pp. 65–6).

He expects this treatment to be only a “temporary measure” because when the industries of underdeveloped countries could enjoy wider market access, that “would enable them to lower their costs and thus compete on world markets without the need for continuing preferences” (ibid., p. 65; see also 1968, p. 24). Given its “interim” nature, he reasons that it would be important “for the peripheral countries to demonstrate in practice their determination to avail themselves of the trade opportunities thus offered to them” (1968, p. 60).

Prebisch did not favor a system of preferences that was based on products, insisting that “a better and simpler approach would be for preferential treatment to be granted in principle to all imports from the developing countries” (1964, p. 69). He also proposed to distinguish between the peripheral countries, suggesting in *Global Strategy* that,

“[s]ince the more developed peripheral countries are pressing for the markets of the industrial centres to be opened up to their manufactures and semi-manufactures, and rightly so. It follows that they, in their turn, should follow suit, open their own doors to the manufactures and semi-manufactures of the less developed peripheral countries and introduce a preferential system in their favour, to the extent that the latter do not benefit from the concessions granted by the industrial centres” (1968, p. 29).

While this would amount to giving “different degrees or kinds of preference to countries according to their per capita income or stage of development,” he was realistic to understand that “the scope for a gradation of preferences may not be very great.” Besides, “the greater the administrative complications, the smaller the chances that anyone at all will benefit, since the scheme may prove unworkable” (1964, pp. 72, 73).
Issues like the use of investment measures and the protection of intellectual property rights were only introduced into the agenda of the Uruguay Round of MTN that commenced in 1986, the year that Prebisch passed away. Given the discussion in section III above (especially III.C) and given Prebisch’s rejection of the ‘conventional’ principle of reciprocity, it is not unreasonable to suggest that he would have disapproved many aspects of the Agreements on Trade-Related Investment Measurements (TRIMs) and Trade-Related Aspects of Intellectual Property Rights (TRIPs) that were reached during that round.

V. Persistent External Disequilibrium Limiting Capacity to Import

Based on the discussions in section III above, Prebisch was understandably worried whether the underdeveloped countries could afford to pay for the importation of capital equipment, the royalties for using foreign patented technologies, or the fees for hiring foreign technicians/consultants to assist and advise on the building up of indigenous technological densities. Would they have the capacity to import or pay for these? This is where he became utterly concerned with the problem of persistent external disequilibrium in many underdeveloped countries, and this concern was mostly discussed in connection with the trade deficit, although he was fully aware of the difference between that and a current account deficit. And it is in this broader context that the PST emerged as a part, but only a part, of the consideration.

Writing in the early 1950s and with Latin America in mind, Prebisch lamented that a situation of “no disequilibrium” simply “has not been the general experience in the Latin-American countries during the last twenty-five years” (1951a, p. 11).30 In fact, it is this “disequilibrium” that destroys the basic premise underlying, and thus renders “out-dated”, the schema of the international division of labor that he daringly declares in the opening sentence of his ‘manifesto’ (1950a, p. 1).

What exactly was the problem? He contends in the Economic Survey of LA that “[t]he fundamental economic problem of Latin America lies in increasing its real per capita income by virtue of an increase in productivity”. For

“when income increases at a greater rate than population, economic development is accompanied by phenomena of disequilibrium, which occur because exports are not then adequate to meet the
demands of the development. In other words, the capacity to import does not grow in proportion to the necessity to import” (1951a, p. 11, italics added).31

When the need to import to meet the demands of development – for example, “greater imports of capital goods in order to increase productivity” – is not met, there would be “consequent effects upon the domestic economy” (ibid., pp. 10, 9).32

Under slightly different labels over time, this “disequilibrium between imports and exports” (ibid., p. 10) was also raised as a deep concern in many of Prebisch’s other works because it constrains growth and development. Hence, in Problems of Economic Growth he states that “[t]he elimination of external disequilibrium is essential to the achieving of a regular and orderly form of economic development”, noting that in actual fact development “has been retarded or halted in order to correct the disequilibrium” (1950b, pp. 28, 20). In International Co-operation he alludes to the dilemma that a peripheral country would likely face as it attempts to narrow its development gap with the center. For,

“if … [it] is not to develop at a slower rate than the centres, if it wishes to develop economically and to reduce – or at least maintain – the difference in income between them, there will be a persistent tendency towards disequilibrium because its industrial imports will tend to increase more than its primary exports. …

“In any case, the reduction of imports to the level of the payments’ capacity is inevitable. The fundamental distinction lies in whether restrictions are applied spontaneously to the detriment of the rate of growth or whether they are part of a deliberate policy favouring that rate” (1954, p. 63).33

Right before he assumed his role, and during his term as the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), he continued to draw attention to the challenges posed by the “latent tendency towards disequilibrium”, the “external bottleneck in economic development” (1963, pp. 7, 68), the “persistent tendency towards external imbalance associated with the development process” (1964, p. 3), and the “trade gap” (1968, p. 3).
How would the possible decline in the CTT enter into this disequilibrium picture? It is clearly enunciated in *Economic Survey of LA* that it is part of the picture, but Prebisch can arguably be regarded as putting more emphasis on the “capacity to import”, which “depends fundamentally upon the volume of a country’s exports and the price relationship between its exports and imports” (1951a, p. 15, italics added, see also pp. 17–18). This emphasis is also evident in several other instances (for example, 1951b, p. 120; 1963, p. 8; 1964, p. 4; 1968, p. 15). Obviously, that capacity to import could decrease even “on the hypothesis of terms-of-trade stability,” only that “[i]f there happened to be a deterioration, the disequilibrium would be much greater” (1968, p. 15). That is, during any period the capacity to import could decrease more than the volume of exports if the trend of the CTT is unfavourable. Indeed, he observed that “[t]he adverse effect of the world economic crisis [Great Depression] upon exports is impressive” and “[u]nfortunately, the terms of trade, so far from offsetting this movement, tended to sharpen its effects” (1951a, pp. 15, 18; see also 1964, p. 19 and 1971a, p. 77).

Notice that this interpretation of Prebisch in no way downplays the significance of the statistical debate concerning the PST. Quite the contrary. It argues that he regarded the persistent disequilibrium problem could be a serious one even if the CTT were to remain stable. When the CTT declines it becomes, *a fortiori*, more serious. In that connection, a deterioration of the CTT is seen as “aggravating the external bottleneck and exerting a marked depressive influence on domestic capacity for capital formation, to the detriment of development itself” (1963, p. 8).

Prebisch certainly regarded many primary commodities to exhibit a low price elasticity of demand, such that “the concerted effort of the primary producing countries to increase the volume of exports substantially, without regard to the rise in income in the industrial centres, would be attended by so great a price decline that the value of exports would not increase and might even be lower than previously” (1950b, p. 36). This “concerted effort” might in some sense have materialized in the latter part of the nineteenth century when, as the Industrial Revolution got into full swing, “[l]arge numbers began to emigrate from the older regions of primary production in Europe … to the newer areas which had become either complements or substitutes in the production of primary goods.” He then adds that,
“Productivity in the new lands was higher per capita than in the older regions, and progress in transport enabled goods from the former to reach the European markets easily and cheaply. It is possible that this increase in production, probably greater than that of demand at the centre, greatly influenced the deterioration of the terms of trade which occurred after the seventies of the last [nineteenth] century and continued until the First World War” (1951a, p. 51).\(^{37}\)

Unfortunately, this possible link between the spread of primary production to the ‘newer areas’ on the one hand, and the declining CTT that they had experienced on the other, has apparently not been taken into consideration in the statistical debate on the PST.

But more important than the low price elasticity of demand is the disparity in the income elasticity of demand between industrial (manufactured) and primary products (1950b, p. 30; 1954, p. 63; 1959a, p. 252; 1962, p. 27; 1963, p. 7; 1971a, p. 194; 1984, pp. 177–8),\(^ {38}\) which while contributing to the tendency of the CTT for such products to decline, also accounted for the persistent disequilibrium in the exporting countries’ balance of payments. In that connection he harked back to the theme that “any acceleration in the rate of growth requires additional investment” and observed that “the import content of this investment is normally much higher than that of income as a whole. Consequently, … imports would have to rise at a rate somewhat higher than that of total income” (1964, p. 4).

On some occasions Prebisch spelled out how technological progress had also skewed demand away from certain primary commodities. Thus, such progress enabled “better utilization of raw materials, sub-products and by-products” (1950b, p. 29), including the substitution of these by synthetic materials (1962, p. 27). On some other occasions he alluded to increasing, or the maintenance of, trade protection of primary commodities in the centers during various periods (1950a, p. 22; 1959a, p. 266; 1968, p. 3). That had frequently and unfortunately accentuated the disparities in income elasticities of demand (1959a, pp. 252, 264; 1964, p. 30).\(^ {39}\)

However, all of these factors that account for the deterioration of the CTT and persistence of external disequilibrium were, to Prebisch, revealing a more fundamental problem, and that was the lack of “dynamism” in the peripheral economies to respond to changing conditions in world markets. Thus, in
Dynamic Development Policy he concludes that “[t]he disparity [in income elasticities of demand] need not necessarily bring about any decline in primary prices so long as production adjusts itself continually and easily to the tempo of demand” (1963, p. 78). But in reality, “deterioration is caused by the lack of dynamism in development, which hinders or precludes absorption of the surplus manpower resulting from the sluggish growth of demand and higher productivity in primary activities” (ibid., p. 79). Thirteen years later, in a CEPAL Review article, he reiterates that “[t]his disparity between exports and imports is structural in nature, and is basically due to the lag in industrialization.” And,

“If the industrial development of the periphery had been parallel to that of the centres, it would have been possible to meet, through its own diversification and industrial trade with the centres, the requirements in respect of manufactured goods which the high income-elasticity of demand for them would have entailed” (1976, p. 65).

Hence, industrialization was looked upon as providing the “solution for the problem of insufficient dynamism” (1971a, p. 234). This it would accomplish partly by playing “the dynamic role of absorbing directly the redundant labour force” (1950b, p. 43), and “obtaining a share of the benefits of technical progress and of progressively raising the standard of living of the masses” (1950a, p. 2). It is “an inescapable part of the process of change accompanying a gradual improvement in per capita income” (1959a, p. 251). Industrialization “is the only way to correct the effects on peripheral growth of disparities in foreign trade elasticity” (ibid., p. 253).

That completes the reasoning in his analysis and takes it back to the subjects of section III above.

VI. Sizing up Trends and Issues Thus Far into the 21st Century: Some Prebischian Thoughts

As is well known, the ‘success’ of the East Asian Tigers that became apparent since the 1970s was one of the principal triggers of the IS versus EP debate. Then for the next couple of decades that debate intensified, with the EP camp gaining the upper hand and that lent momentum to the advance of neoliberalism. One thus witnesses the spread of trade liberalization to many other underdeveloped countries, from Asia to Africa and Latin America.
But while the Asian Tigers, and later on their neighboring countries in southeast Asia, showed performance that deserve (largely) positive attention, it is less clear that an unambiguous policy lesson can be inferred. Indeed, in the last two decades or so a number of studies (e.g., Chang (2002, 2006); Lall and Latsch (1999); Ocampo and Taylor (1998); Rodrik (2001); Shafaeddin (2005); Wade (2003)) have been produced that question if countries that can be regarded to have switched to EP in the 1990s and 2000s have indeed performed better than when they implemented IS in the 1950s and 1960s, or if trade liberalization per se is really unequivocally beneficial to underdeveloped countries as the neoliberals have preached.

Thus, the IS versus EP debate is far from over and the challenge to the EP camp is very much part of the attack on the Washington Consensus. Like Prebisch, the authors of the above studies do not regard IS as a panacea for underdevelopment. Rather, while not denying its limitations they recognize the important role that it can play when suitably combined with the encouragement of industrial exports.

But this second-guessing of EP has another substantive dimension that ties in with Prebisch’s emphasis on enhancing underdeveloped countries’ technological densities. More and more these countries have come to realize the pitfalls of over-relying on the importation of parts, components and various intermediate inputs as their pursuit of EP has often turned them into export platforms that largely perform the assembly of imported parts and components into finished products to be exported. As Prebisch would have concluded, that kind of reliance is a clear sign of a lack of technological densities, which means that that form of EP makes at best limited contributions to indigenous development. His considerations in this regard interestingly appear to parallel Lall’s emphasis on cultivating ‘technological capabilities’ (Lall 1992, 1993, 2005) as well as, in a more indirect way, the emerging literature on the ‘product space’ (Hidalgo et al. 2007; Abdon and Felipe 2011; and Hausmann and Hidalgo 2014).

In sub-section III.C above it was pointed out that Prebisch suggested some of these countries explore “subcontracting opportunities” to produce intermediate goods and components. That has indeed occurred and has since the 1990s spurred a literature on global commodity or value chains (Gereffi 2014; Revenhill 2014). But given that many developing countries have only been able to position themselves at
the relatively low-tech nodes of those chains, he would argue that they still have long ways to go in terms of cultivating their technological densities.

The rise of China, an ‘emerging’ center, would have presented Prebisch with much materials to maintain the current relevance of many aspects of his works. It offers yet another opportunity for the economics mainstream to pit IS (which was arguably implemented in extreme forms under the central-planning years) against EP (which went into quite a full bloom after China joined the WTO in 2001). However, given that there still exist so much regulation, control, and trade restrictions, it would be a huge stretch to argue that it has abandoned IS. Perhaps what is more noteworthy is that the current slowdown in its growth is a stark reminder of the danger of an overdependence on EP; the problem with its dependence on exports to the old centers to drive its growth has been fully exposed when the Great Recession hit their economies beginning from late 2007. China has to become more inward-oriented as far as finding markets for its industrial products is concerned. In weaving IS with EP, its leaders are fully aware of the immense significance of building indigenous technological densities. The boom and (slight) bust in this ‘emerging center’ has in the meantime wreaked havoc for primary producing countries that heavily rely on exporting such products to feed its growth, not just the underdeveloped countries in Africa and Latin America, but also countries like Australia and Canada. Some of the major reasons for diversification in economic structure have remained the same since Prebisch’s time, although today the advice might be offered under the slogan, “What you export matters” (Hausmann et al. 2007). Otherwise, the size of the Chinese economy can theoretically allow much domestic trade, which then does not appear to lend itself to his championing for South-South or regional trade among underdeveloped countries. However, if one pays attention to how the trade barriers that individual provinces in that country has seriously hurt internal trade, it would serve as a reminder of the formidable obstacles to advance South-South cooperation in general.

The Great Recession, and 10 years before its onset, the financial crises that started in many parts of Asia but spread to Russia and some countries in Latin America can ultimately be traced to a series of financial deregulation and liberalization that were very much parts of the Washington Consensus. During
most of the three and a half decades that Prebisch was involved in the development debate (again, in manners that were accessible to the English-speaking world), his focus was mostly on international economic integration through trade and FDI. Financial liberalization as an additional dimension of integration was not much of a contested issue and only gradually became one in the later years of his life, when it went on to become an additional key component of neoliberalism. Even then, he did not appear to have published anything that centrally focuses on that issue. But keeping the discussion in section V in mind, given that such liberalization could drastically destabilize developing countries’ balance of payments, and given that the capital that such liberalization has typically attracted to those countries is of a speculative nature that has little, if anything, to do with capital equipment accumulation and the enhancement of technological densities, it is safe to suggest that he would be very leery of blindly following the push toward such liberalization.

While exactly what he would advocate to fend off that push is not clear, section IV above indicates that he had quite strong opinions on the subject of reciprocity when it came to MTNs during his time. Alas, perhaps feeling increasingly threatened by the catching up by the Asian Tigers and Cubs, by the Uruguay Round the developed countries were much less in a mood to continue offering SDTs of the traditional kind (i.e. relating to merchandise trade) to the underdeveloped countries. In fact, they added ‘new’ items to the agenda that extended the negotiations to limiting the use of investment measures, protection of intellectual property rights and trade in services. The pressure was put on many underdeveloped countries to ‘graduate’ from the traditional SDTs, though allowing for some grace periods. Given the relatively slow pace of development in most countries in Africa, South Asia and Latin America that continued after his death, it is almost certain that Prebisch would have fought to maintain the traditional SDTs in some ways and would have added to the critique of the continuation of tariff escalation. But at the same time considering that other peripheral countries have developed much faster, again mainly referring to those in East and Southeast Asia, he would probably have continued to explore arrangements where “different degrees or kinds of preference [are given] to countries according to their per capita income or stage of development”. In this connection he would find resemblance, in spirit
though not in details, with the Doha Round Market Access Proposal discussed in Stiglitz and Charlton (2005, pp. 94–103). Otherwise, outside of merchandise trade, he would have issued many warnings on the negotiations in the new areas in the Uruguay Round, although it is not clear that that would have done much to alter the final content of the Agreements on TRIMs and TRIPs that were reached. Into the present millennium, the Doha Round of MTNs, which commenced in 2001, is not going anywhere and a major unresolved North–South issue is the so-called ‘agriculture–industry swap’, by which the developed countries would basically lower their agricultural tariffs and subsidies in return for the underdeveloped countries lowering their industrial protection under the so-called non-agricultural market access (NAMA) negotiations. As Chang (2011, p. 51) tersely puts it, “the principle behind the agenda … [is] that the developed countries should specialize in industry and developing countries should specialize in agriculture”. It is too obvious what Prebisch would have remarked.

Instead of simply relying on the mainstream portrayal of Prebisch’s ideas, this paper has sought to clarify some of the key elements in his analysis by re-examining a larger body of his works. As is always the case, such clarification exercises could also reveal gaps and holes in the reasoning of the party concerned. For instance, it was indicated in subsection III.C that his notion of ‘technological density’ could benefit from development and refinement. Similarly, simply recommending weaving IS with EP still leaves a lot of details to be spelled out, both abstractly and particularly in the context of specific countries at a point in time. Fortunately, as the discussion earlier in this concluding section has indicated, his ideas quite readily find connections with some important strands of research on current development issues. Perhaps the “out-dated” schema that he criticized would ultimately, but hopefully without too much delay, be replaced a body of new research that serves the cause of development more constructively.

**Bibliography**


Notes

1. His more important works which are cited below will be given abbreviated titles. *Economic Development of Latin America and Its Principal Problems* and *Economic Survey of Latin America 1949* will be called *Economic Development of LA* and *Economic Survey of LA* respectively. The other abbreviations are: *International Co-operation in a Latin American Development Policy* as *International Co-operation*; *Theoretical and Practical Problems of Economic Growth* as *Problems of Economic Growth*; *Towards a Dynamic Development Policy for Latin America* as *Dynamic Development Policy*; *Towards a New Trade Policy for Development* as *New Trade Policy*; *Towards a Global Strategy for Development* as *Global Strategy*; and *Change and Development – Latin
America’s Great Task as Change and Development.

2. Toye and Toye (2003) meticulously provide an account of the events surrounding the ECLA conference in Havana in May 1949, at which Prebisch made a presentation that was subsequently published in English as Prebisch (1950a). That account reveals “Prebisch did not discover independently that the terms of trade of primary products were secularly declining, but relied wholly on the previous work of Singer” (p. 439).

3. This is the label that Prebisch sometimes employed, although he also frequently referred to them as “developing countries”. See a loose characterization of them at the top of section II below.

4. Mainstream trade theorists would argue that they have a theory of commercial policy that provides treatment of various cases for infant industry protection and those considerations have to do with technological learning. However, efforts to fit those cases under the mainstream framework invariably lead to trivialization of the development process. See Ho (2013).

5. See also Bhagwati (1988a, p. 28, including n. 3 and n. 4; 1988b, p. 46).

6. Singer and some of his collaborators had made similar observations. See Ho (2012, p. 888).

7. See also Prebisch (1951a, p. 9; 1968, p. 9). For an interpretation that suggests that he actually started emphasizing technical progress and productivity improvements in his ‘manifesto’, see Ho (2010, pp. 222–3).

8. These conceptual categories were already employed in his ‘manifesto’. See, for instance, Prebisch (1950, p. 5).

9. His reasoning proceeds from the assumption that “[t]hese [productivity] differences are explained basically by the great disparity in the capital per occupied person and in the technical skills which they possess” (1954, p. 61). To narrow, let alone close, this productivity gap would require the periphery to correct that particular disparity and this simply “could not occur in reality in the foreseeable future.” He thus believes that his argument “demonstrate[s] the inevitability of protection [and] enlarges the scope of classical reasoning,” for his “new approach … establishes the need for protection so long as productivity continues to be lower than that of more advanced countries and to the extent that the difference in productivity is not offset by differences in wage levels” (p. 62). “From a strict development point of view,” he thus concludes, “protection is not an exceptional or short-term need; it is a systematic long-term necessity” (p. 66).

10. This caution caught the attention of Corbo (1988, p. 176), who thus reminds the reader that “despite Prebisch’s prescription of government intervention to pursue import substitution, he expressed early concern about the anti-export bias of existing import-substitution policies.”
11. On the impact of IS on uneven income distribution, Prebisch noted that, “Excessive protectionism frequently sheltering industries adds a further privilege to those already existing in the distribution of income” (1964, p. 114; see also 1971a, p. 195).

12. These illustrations were probably in the mind of Dell (1986, pp. 9–10), who notes that “[e]ven in his [Prebisch’s] earliest writings, when he was pointing to the inevitability of import substitution policies, he repeatedly stressed the dangers of costly mistakes in the application of such policies. He did not need the big studies of such economists as Bhagwati, Krueger and Little to convince him – he had been fully aware of the pitfalls long before these studies appeared.” See also Dell (ibid., pp. 12–13).

13. In Dynamic Development Policy Prebisch declares, “This internally-gear ed development has already fulfilled its most important role … But while the result was definitely positive, it could have been better” (1963, p. 69).

14. What is more, “The further substitution proceeds in respect of some imports, the more other imports grow because of the heavier demand for capital goods and, subsequently, because of the effects of higher income” (1964, p. 9).

15. Despite all these cautions Balassa (1980, p. 7) writes that “[i]n Latin America, the choice of this strategy [of second-stage IS in the postwar period] reflected the ideas of Raul Prebisch, in whose view adverse foreign-market conditions for primary exports and the lack of competitiveness in manufactured exports would not permit developing countries to attain high rates of economic growth by relying on export production. Rather, Prebisch suggested that these countries should expand manufacturing industries oriented toward domestic markets. This purpose was to be served by industrial protection.” This prompts Prebisch (1988, p. 36) to retort, “Obviously, he [Balassa] has had only a fragmentary acquaintance with our studies, culled from quotations at second or third hand, generally mutilated or incomplete.”

16. As Flanders (1964, p. 306) indicates, “a careful reading of Prebisch shows him to be much less of an ‘autarkist’ than either his detractors or his supporters seem to think.”

17. Writing in the early 1960s Prebisch recalled that, “Until recently, circumstances did not favour expansion of foreign trade. In the years during which the effects of the great depression and the post-war period – not to speak of the Second World War itself – were still making themselves felt, there was no reason to think that the major industrial countries would open their doors to exports of peripheral manufactures” (1963, p. 71; see also 1978, pp. 222–3).

18. Prebisch’s early effort in advocating EP has escaped the attention of most mainstream economists. An apparent exception is Bhagwati (1983, pp. 46–7). See also Finger (1991, p. 205). But contrary to Bhagwati’s description,
Prebisch’s support of EP was not confined to regional trade liberalization. He also did not regard EP to be superior to IS in the sense that Bhagwati and others do.

19. Bhagwati (1988b, p. 46) chimes in on the spat between Prebisch and Balassa (n. ?? above) by pointing out that one could not claim that one “was for EP too” by a “solitary quote”. (The said quotation is presented in Prebisch (1988, p. 36) and it was originally from Prebisch (1961a, p. 5).) Hopefully, the illustrations provided in the present subsection will show that it is much more than a solitary quote. Bhagwati (ibid., p. 47) is careful to suggest that “the documented excesses of the IS strategy in Latin America cannot be blamed on Prebisch” and that “it is doubtful whether Prebisch’s prescriptions for the type of IS strategy that he desired were in consonance with the actual outcomes that we have long criticized” (italics original). But Bhagwati (ibid., p. 46) also insists that “on EP versus IS, you simply cannot have it both ways.” Note, however, that he himself (for instance, 1987a, pp. 258–9) has adopted definitions of IS and EP that is based on average price incentives for producers who are deciding on producing for the home versus the foreign markets. Those definitions have room for sectoral variations, where some sectors are in the category of IS activities while others are of the EP type.

20. Flanders (1964, p. 314) refers to the “disparities in technological densities” mentioned in an illustration in Prebisch (1959a, p. 262). The nature of that illustration requires Prebisch to simply refer to the consequences of those disparities rather than to the causes. Flanders (ibid.) appears to be oblivious to that distinction and she does not draw attention to the importance of the concept of ‘technological densities’ as is being done here.

21. This is one area in Prebisch’s conceptualization of technological density that could benefit from refinement. Critics could conceivably dismiss this as simply a cry for investment in building human capital.

22. Prebisch was mindful that the content of international trade was not static even during his time. Thanks to the persistent technological evolution in the centers, new products and new designs of existing products were constantly emerging. He also understood that, partly because of that, new import requirements were bound to be arising in the periphery, on top of those that already existed. He struck a sensible balance by stating that, “In some cases it will be both possible and desirable to replace these imports by domestic production, whereas it will be inadvisable to do so in others, both on the grounds of cost and in order to keep abreast of technical progress by continuing to import products that are representative of it” (1963, p. 77).

23. “Exports of manufactures …, together with import substitution, will enable their [periphery countries’] industrialization to be made increasingly efficient and, at the same time, promote their technological
development. … [T]his advance would make it possible to increase the exports of goods which are at present not technologically accessible to the periphery” (Prebisch 1985, p. 20).

24. Prebisch noted that “[t]he main industrial centres of the world have attained considerable technological density in the course of time; they are not limited to just this or that speciality but have at their disposal a whole complex of specialities and techniques which tends to extend over a growing proportion of the economically active population and which is reflected in a vast range of skills, from the manual worker right up to the senior technician and the alert and capable executive” (op. cit., p. 59). A comparable technological density was what he wished the periphery could attain.

25. “The free play concept is admissible in relations between countries that are structurally similar,” Prebisch thought, “but not between those whose structures are altogether different as are those of the industrially advanced and the developing countries” (op. cit., p. 29).

26. On the other hand, “[t]he request for [conventional] reciprocity in negotiations between countries which have not structural disparity in their demand is logical. Indeed, it is essential for the stability of the world economy that any expansion of exports which a given country achieves on the basis of concessions from the others should be accompanied by concessions granted to the latter, so that its imports from them can increase” (op. cit., pp. 30–31).

27. Writing in the early 1960s Prebisch remarked at one point that, “To accumulate foreign exchange, rather than to import, when its exports increase is not typical of Latin America. A more characteristic trait is a tendency to import beyond its capacity to do so” (1963, p. 75).

28. In New Trade Policy Prebisch considers preferences to be offered for only a ten-year period, “unless it could be shown, to the satisfaction of an appropriate international authority, that special circumstances warranted their continuation” (1964, p. 69). In Global Strategy he appears to give more thought to “reason[s] for not sticking to rigid limits” (1968, p. 22).

29. Prebisch’s proposal earned this critical reaction from Johnson (1967, p. 31, n. 26): “The logic is indeed the infant-industry logic of protection – temporary protection of an industry that requires a ‘learning period’ to become competitive – reinforced by recognition of the need for a market on a scale larger than the domestic economy can provide; but the traditional argument called for transitional support of the industry at the expense of the consumers of the developing country, whereas the argument for preferences calls for support at the expense of the consumers of the developed countries (indirectly, by foregoing tariff receipts) thereby
introducing an implicit transfer of resources from the developed to the developing countries. In short, the argument for preferences asks the developed country to contribute a part of the cost of the ‘investment’ made in the learning process.” See also Johnson (ibid., pp. 32, 73–4).

30. On how the situation was different pre-Great Depression, see Prebisch (1954, p. 67; 1959a, p. 266; 1963, p. 69).

31. In the ‘manifesto’ his contention was that in the course of development, a “high level of employment entails increased imports of consumer goods, … and very often exports are insufficient to provide for them” (1950a, p. 3).

32. Imports would not solely contain capital goods to meet the demands of development, but included items demanded by groups in the privileged consumer society, as “[n]ew tastes are created [by advertising] which must be satisfied by imports”. There are necessities as well, including “new necessities” that continuously surface as new products are constantly developed (1950a, pp. 17–18).

33. See Thirlwall (1983) for similarly drawing attention to this emphasis in Prebisch’s works.

34. Ch. II of this work is titled: “Weakening of Latin America’s capacity to import during the past twenty-five years”.

35. Prebisch acknowledged in the latter part of his life that, “Set forth in somewhat simplified fashion, the thesis aroused criticisms which sometimes made useful contributions to its refinement” (1978, p. 226). However, it should be noted that early on he had anticipated some of these criticisms, and had expressed sensible reservations and qualifications toward certain conclusions. He thus cautioned against “unwarranted generalizations” of the situations in the peripheral countries (1951a, pp. 5, 53, 83; 1959a, p. 260). He alluded to the problem of varying results depending upon the starting year of observation of the CTT movements (1964, p. 81). At one point in the Economic Survey of LA he notes that “the price indices of industrial exports, used in calculating those relations, do not allow for the improvement in quality of the goods, and yet this has certainly been much greater than in the case of raw materials” (1951a, p. 19; see also 1950a, p. 8). At another point in the same work he refers to what is essentially the single factorial terms of trade (FTT) to illustrate that a declining CTT for peripheral exports “does not [necessarily] mean that primary producers are worse off than they were before,” for “[e]verything depends on the degree of increased productivity reached and the extent to which it is transferred to industrial manufacturers” (1951a, p. 47). He laments that “due to the lack of data concerning the increment of productivity in primary production it is not possible to ascertain the extent of such benefits and what part of them has remained in the primary producer countries.” All in all he shows keen awareness that the empirical exercise “is
not merely a question of analyzing export and import prices” (p. 18).

36. Flanders (1964) attempts to ferret out from Prebisch (1950a, 1959a) a “single, ‘minimum’ model which would be sufficient to justify the policies he proposes.” She concludes that for one to obtain a deterioration in the CTT for the primary producing country in a two-country framework, there is “no need to appeal to differences in market structure, the mechanism of wage determination or any other asymmetrical imperfections in the working of the market mechanism”; “it stems from the assumption of different income elasticities of demand” and “[t]he problem … is essentially a balance-of-payments problem” (ibid., p. 322).

37. Without mentioning this discussion by Prebisch, Haberler observed that, “When the United Kingdom’s terms of trade improved in the last quarter of the nineteenth century as a consequence of the opening up of new sources of supply of agricultural products from the United States, Canada, and Argentina – that did not mean that this was an unfavourable change for the producers in those then under-developed areas, although they would have been still better off if the British market could have absorbed the additional supplies at unchanged prices” (1963, p. 286).

38. In an instance in which he drew a distinction between agricultural and mineral products, Prebisch noted that imports of many of the latter “tend to rise as industrial development progresses.” The contrast between the former products and “minerals which western Europe does not produce for itself,” he added, “is very striking and indicates the possibilities for increases in imports where protectionism is less significant” (1964, p. 49). An instance, one shortly before his death, where he made a crude distinction between demand growth for different manufactures can be found in Prebisch (1986, p. 4), where he observes that the periphery’s exports “generally correspond to types of manufactures where the growth of demand was relatively slow.” This is more than two decades after he actively started to emphasize the importance of promoting manufactured exports.

39. There is discussion in the Economic Development of LA of how the different extents to which labor markets were unionized in the center versus the periphery would explain the movement of the CTT to the favor of the former (1950a, pp. 13–14; see also 1963, pp. 82–3). Note, however, that the conclusion from that discussion pertains more to the movement of the CTT rather than to the persistence of balance of payments disequilibrium.

40. Behind his reference to the disparities in income-elasticities of demand between industrial and primary products, Prebisch had in mind ongoing ‘diversification’ processes. Thus, through new inventions and designs, industrial goods are constantly being diversified. However, the room for diversification of demand for primary products is
comparatively far more limited. See Prebisch (op. cit., pp. 65, 81–2). An earlier consideration of this process can be found in Prebisch (1950b, p. 30).