



UNITED NATIONS

E C L A C

ECONOMIC COMMISSION
FOR LATIN AMERICA AND
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CEPAL

REVIEW

NUMBER 68
AUGUST 1999
SANTIAGO, CHILE

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UNITED NATIONS

LC/G.2039-P — August 1999

United Nations Publication

ISSN 0251 - 2920 / ISBN 92-1-121263-4

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CEPAL Review is published in Spanish and English versions three times a year.
Annual subscription costs for 1999 are US\$ 30 for the Spanish version and US\$ 35 for the English version.
The price of single issues is US\$ 15 in both cases.

The cost of a two-year subscription (1999-2000) is US\$ 50 for the Spanish-language version and US\$ 60 for English.

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ECLAC and the *new growth theories*

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This article reviews various different growth models, with emphasis on the interactions between economies with differing degrees of technological development. It takes as its starting point the proposals put forward by ECLAC in the 1950s (section II); as subsequent proposals by ECLAC in the 1980s and 1990s have incorporated various contributions made by more recent models it may be asserted that the evolution of ECLAC's ideas likewise illustrates the evolution of economic growth theory in general. It then goes on to analyse endogenous growth models with monopolistic competition conditions of the neoclassical school (section III), presents Schumpeterian models of what has been called the "evolutionary school" (section IV), and describes the thinking of the "new ECLAC" of the 1980s and 1990s and its conceptual and propositional renewal (section V). It then compares the different models and approaches analysed in the light of some aspects considered to be of key importance, such as the role assigned to endogenous technical progress in explaining long-term economic growth, the way the different conceptions of technology condition the nature of public intervention to promote development, and the validity of the concepts of bipolarity and/or international divergence with respect to the long-term growth rates of the per capita product (section VI). The final considerations (section VII) contain some reflections on aspects relating to development policies, both from the standpoint of the various approaches reviewed earlier and from that of the special structural features typical of the Latin American economies.

I

Introduction

Since the mid-1980s –partly because of the appearance of new growth models– there has been a revival of interest in the processes of convergence or divergence of the growth rates of the product or of per capita income between the different economies. This study proposes to review those models¹ from a perspective which stresses the interactions of economies with different degrees of technological development.

As our starting point, we have taken the ideas and proposals made by ECLAC in the 1950s, which are referred to in section II. This starting point was selected for three reasons. The first is that ECLAC played a pioneering role in the study of the North-South or Centre-Periphery economic dynamics, to use its own terminology. The second reason is connected with the emphasis placed in the initial ECLAC position on technical progress and its key role in international convergence or divergence. Indeed, this was to become one of the leading items in more recent models. Finally, there is the fact that the “New ECLAC” –that of the 1980s and 1990s, which is dealt with in section V– has incorporated various contributions from those models. Thus, it may be asserted in general terms that the evolution of ECLAC’s ideas illustrates the evolution of economic growth theory as a whole.

Section III analyses the changes in neo-classical growth theory. In this theory, Solow’s model, which had a decisive influence up to the mid-1980s and is to a large extent typical of it, attributed long-term growth to an exogenous variable: technical progress (Solow, 1956). More recent theories, called

“endogenous growth theories”, in contrast, seek to take this variable into account by relating it with the decisions of the economic agents on investment in technology. By doing this, they arrive at results which, like the earliest ECLAC approach, allow for possible systemic divergences between the growth rates of different countries which cannot be addressed through the conventional models.

Section IV presents the Schumpeterian models of the “evolutionary” school. These models –especially those that use simulation techniques– seek to incorporate more fully the diversities of technological level and behaviour which exist among firms and countries. The evolutionary school is also marked by the importance it assigns to the institutional framework in which technical progress takes place and the important role of demand in economic growth. It is argued in the present article that the models of this school point out some of the most promising directions for research, partly because of the greater breadth and realism of their basic assumptions and partly because of the flexibility with which these assumptions can be adapted for the analysis of complex situations.

Section V deals with the ideas of the “New ECLAC”, as already noted in the paragraph above concerning section II, and their receptiveness to the new economic growth theories.

Section VI analyses and compares the different models and approaches presented, in the light of some aspects considered to be of key importance, such as the role attributed to endogenous technical progress in explaining long-term economic growth; the way in which the different conceptions of technology condition the nature of public intervention in the promotion of development and, finally, the validity of the concepts of bipolarity and/or international divergence in the long-term growth rates of the per capita product.

Finally, section VII reflects on some aspects relating to development policies, both from the angle of the different perspectives involved and from the standpoint of the specific structural features of Latin American economies.

□ The authors wish to express their gratitude to Octavio Rodríguez for his support in the preparation of this study, and to Oscar Burgueño for his collaboration in various discussions on this subject. Both these academics are researchers in the Institute of Economics of the Faculty of Economic and Management Sciences of the University of the Oriental Republic of Uruguay. It goes without saying, however, that the views expressed here are entirely the responsibility of the authors.

¹ The term “model” is used here in a similar sense to that given to it by Schumpeter and therefore includes analytical formulations in any language: not just that of mathematics (see, in this respect, Vercelli, 1991, p. 15).

II

The bipolarity between centre and periphery

In his 1948 “manifesto”, Raúl Prebisch ascribed the differences between the level of development of a group of countries which he termed “central” and the countries which he termed “peripheral” to the slow and uneven spread of technical progress through the international economy.²

The essence of his seminal ideas may be summed up, very briefly, as follows:³ There are two groups of countries, differentiated by the characteristics of their respective economic structures, which form the two poles of a single system. One of them –the centre– has a diversified and homogeneous productive and economic structure:⁴ diversified, because it is made up of a relatively broad spectrum of economic activities, and homogeneous, because labour productivity levels are relatively similar in all those activities. The periphery, in contrast, occupies a place in the world economy based on specialization in primary commodity production for export and therefore tends to display a narrower range of activities (for example, it starts off by lacking a significant industrial sector). In some of these activities, labour productivity is high because of the penetration of technical progress. A large proportion of the labour force, however, continues to work at jobs of very low productivity, thus giving rise to a situation of structural heterogeneity.

In contrast with that of the centres, then, the production structure of the periphery is initially heterogeneous and specialized, and this difference persists in the spontaneous industrialization process sparked off in the periphery by the crisis of the 1930s and the Second World War. The basic reason for this is that technical progress –which is more intense in industry than in primary production– is likewise uneven between the two poles.

The disparity in the rates of generation and incorporation of technical progress, associated with the initial specialization, means that the spontaneous industrialization of the periphery begins with the production of technologically simple manufactures and gradually progresses towards the production of industrial goods of growing technological complexity. This pattern of industrialization, which progresses from simple to more complex goods through import substitution, means that while the production structure of the periphery gradually changes, it nevertheless remains essentially specialized (for example, in terms of the degree of intersectoral complementarity and vertical integration of manufacturing activities). This repetition of specialization lies at the root of the trend towards external imbalance, which is due ultimately to the fact that import substitution industrialization itself generates snowballing increases in the demand for imports, while primary commodity exports grow only slowly.⁵

Spontaneous industrialization brings with it an increase in employment, both in manufacturing and in the other modern activities which grow up along with it. However, this increase in the demand for labour does not match the increase in its supply, because the latter is due to the number of workers attracted to the cities and, even more so, the labour

² At that time, Prebisch’s document entitled “The economic development of Latin America and its principal problems” came to be called the “ECLAC Manifesto”. In it, the “slow and uneven spread of technical progress” was linked for the first time with the unequal or bipolar nature of development in the centre-periphery system. This document was also published later in the *Economic Bulletin for Latin America* (Prebisch, 1962).

³ The body of ideas of ECLAC has been dealt with in detail in various documents (Furtado, 1985; Rodríguez, 1981; Bielschowsky, 1988). In this article, we will limit ourselves to presenting a very brief summary.

⁴ The expression “productive structure” refers to the composition of the output of material goods. The economic structure includes, in addition, the production of various kinds of services, including public goods and services.

⁵ The structural reasons for the external imbalance referred to in this paragraph are usually presented in terms of the well-known argument of the disparity between the income-elasticities of demand for the imports and the exports of the periphery.

displaced from low-productivity activities as a result of the modernization of agricultural activities.

The result is that the heterogeneity is repeated too, but this process does not take place without changes, in what has been called “inward-looking development”. In this phase, the heterogeneity and the tendency towards structural underemployment which reflects it are increasingly evident in urban areas, through what has come to be known as marginality or informality.

It could be said, then, that according to the original ECLAC conception specialization is the underlying reason for external imbalance, while heterogeneity lies at the root of structural underemployment. This conception also holds that these two structural conditions give rise, together, to a third tendency: deterioration in the terms of trade.

Increases in labour productivity are more marked in the central countries, where the relative scarcity of labour and workers’ capacity for organizing themselves in trade unions cause increases in productivity to be reflected in higher wages. For the opposite reasons, the opposite takes place in the periphery, and the resulting differences in wages are reflected –through mechanisms which need not be discussed here– in a decline in the relative prices of the periphery’s exports compared with those of its imports which come from the central countries.

Prebisch holds that this deterioration in the terms of trade is the visible expression of a deeper phenomenon: the concentration of the fruits of

technical progress in the great industrial centres. This means that in those countries the per capita income tends to grow more than labour productivity, because they take advantage of part of the increases in productivity registered in the periphery. In contrast, per capita income in the periphery tends to grow less than productivity because the peripheral countries transfer part of their increased productivity to the centres, through the deterioration in the relative prices of their exports.

We have just referred, above, to the differences in income. These represent the first and most directly visible aspect of the bipolarity inherent in the development of the centre-periphery system. The second salient aspect is the differences between their productive and economic systems, which tend to persist or, if you prefer, to be reproduced in new forms.

However, such bipolarity –“divergence”, as it is called nowadays– is not seen as an inevitable phenomenon. In order to avoid it, the development process of the periphery needs to be directed along certain lines, the most important of which is industrialization. In other words, it is maintained that by applying suitable long-term policies it will be possible to bring about gradual “convergence” between the two poles of the system, with beneficial effects for the world economy as a whole. It may be gathered from this that the question of convergence or divergence lies at the very heart of the original ECLAC ideas and proposals. We will return to this matter later.

III

Neoclassical growth theories

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