Raúl Prebisch *and the development agenda* at the dawn of the *twenty-first century*

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The hundredth anniversary of the birth of Raúl Prebisch is an invaluable opportunity for us to take another look at the ideas of this great Latin American, one of the thinkers from the developing world who has had the strongest influence in world economic debates. His ideas have been the subject of heavy criticism, but much of this has been based on distorted versions of his thinking or of its practical application, rather than his true intellectual work. Taking his proposals out of their historical context has also been a frequent practice, even by some of his own followers. It should be remembered, in particular, that many of his proposals were made in the light of the collapse of the international trade and financial system in the 1930s, whose reconstruction had barely begun when he published his most influential works (Prebisch, 1949, 1951 and 1952).

This essay tries to show that some of the basic ideas in Prebisch's thinking remain valid, and it reformulates them as a function of ECLAC's most recent proposals and the contributions of other schools of economic thought.

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1. Three main elements in Prebisch's thinking

"The spread of technical progress from the countries where it had its source to the rest of the world has been … relatively slow and irregular" (Prebisch, 1951, p. 3). This assertion, which forms the opening words of what is perhaps his best-known work, has two fundamental methodological implications. The first is the recognition of the key role of technical progress in economic growth and, hence, the importance for the developing countries of the channels through which that progress is transmitted from the "countries of origin": the derived demand for raw materials; technology transfer proper, including technology embodied in production equipment; the transfer to the developing countries of branches of production which are already "mature" in the industrialized countries, and the participation of developing countries in sectors of rapid technological progress. The second is the impossibility of analysing the dynamics of developing countries independently of their position within the world economy. Their development processes are qualitatively different from those of the most advanced nations. This means that there are no uniform "stages of development" and that "late development" –or "peripheral capitalism", to use Prebisch's own term– has a dynamic which is quite different from that of nations which developed earlier and became the "centre" of the world economy.[1]

[1] The best analysis of these points of view is undoubtedly that of Furtado (1961).

This is the view which underlies the idea of an inherently hierarchical "centre-periphery" world economic system (or "North-South", if we prefer the terminology which gained currency in the debates of the 1970s). The essence of this view is its emphasis on the basic asymmetries characterizing the world economy, and their persistence over time, in contrast with the perception of the world economy as a place of relations between equals, or a "level playing field", to use a concept which has been in vogue in recent years. In terms of the recent controversies on economic growth, this alternative view of the world economy means that these asymmetries give rise to "divergence" in levels of development, or at the very least represent a serious obstacle to the "convergence" assumed in orthodox economic growth theory.[2]

These asymmetries are reflected primarily in the structure of production. According to a version which is very close to Prebisch's thinking, "unlike the production structure of the periphery, which is *specialized and heterogeneous*, that of the centres is *diversified and homogeneous*" (Rodríguez, 2001, p. 105). As technical change originates in the centre countries and they also have higher consumption capacity, at any given moment they tend to have a concentration of the branches of production which are most dynamic at the world level. In Prebisch's view, this gives rise to a tendency towards specialization by the industrialized countries in products of high income elasticity, while the countries on the periphery tend to concentrate on the production of goods of low income elasticity (raw materials and, increasingly, the manufacture of mature goods), which in turn reflects a trend towards divergence of growth rates and /or the rise of balance of payments problems in the latter countries, i.e., an external gap or bottleneck. These problems are particularly severe at times of crisis, reflecting the high cyclical vulnerability of the developing countries to shocks coming from the centre of the world economy.

In Prebisch's view, overcoming the basic asymmetries of the international system requires not only a change in the international economic structure, but also an effort to transform the structures of the peripheral countries themselves -"development from within", to use Prebisch's original terminology, as recovered by Sunkel (ed., 1991). In terms of the more recent debates, this "development from within" is essential because the accumulation of national human capital and technological capacity ("knowledge capital") and institutional development are essentially endogenous processes. This explains the decisive importance of "programming development", which was a term used in the first stages of ECLAC's work and, in general, designing explicit State strategies to change the internal structures of the country, in order to break down the obstacles to development and make possible new forms of integration into the world economy.

Industrialization was initially seen as the main way of changing the production structure –"spreading technical progress"– and import substitution as its main instrument. This view was in keeping with the characteristics of the period when these ideas were formulated: the absence of a dynamic international market for manufactures;[3] the "empirical" way in which the import substitution strategy had arisen, as a response to the collapse of the international economy in the 1930s; and the protectionist past which many Latin American countries had shared with the United States and various countries on the European continent, even during the stage of primary-export development.[4] The possibilities of inefficiency in import substitution, especially in highly fragmented markets, as well as the need to ensure that industrialization was not carried out at the expense of agriculture or export development, were evident to Prebisch even in his earliest publications in ECLAC (Prebisch, 1949, sections I and VI). Therefore, from the late 1950s on, Prebisch and ECLAC began to advocate a "mixed model"[5] which combined import substitution with the promotion of new exports, especially of industrial origin.[6] Over time, ECLAC's view became increasingly pro-export, although it never

[2] In this formulation we are leaving aside the controversy over the terms of trade, which has been given an excessive amount of attention in the analysis of Prebisch's work. We therefore concentrate on the divergence in levels of development or –in terms of the controversy in question– the role played by the deterioration in the factorial terms of trade. See, in this respect, Ocampo (1991).

[3] "No emphasis was placed on exports of manufactures to the centres in this stage, in view of the unfavourable conditions prevailing in those countries and the absence of a suitable industrial infrastructure for this" (Prebisch, 1987, p. 17).

[4] For more details of Latin American protectionism during the export stage, see Cárdenas, Ocampo and Thorp (eds., 2000a, chap. 1). For a comparison of Latin American tariffs with those of a number of Western European countries and the United States, see Maddison (1989, pp. 45-47).

[5] This is the term used in a recent study on economic history (Cárdenas, Ocampo and Thorp, eds., 2000b, chap. 1).

[6] This coincides with what Prebisch called the third stage in his thinking (Prebisch, 1987, pp. 9-21). One of its clearest expressions is to be found in Prebisch, 1963.

favoured the abrupt elimination of protection arrangements.[7]

For Prebisch, the industrialization of the peripheral countries also involved a further problem: modern industry was less able to absorb the surplus labour made available by the rural sector. This fact was further aggravated by technological dependence, which meant that "best practices" corresponded to patterns of labour use dictated by the levels of development of the industrialized countries. One way or another, patterns of development came to be marked by greater "structural heterogeneity" of the productive sectors, to use the term coined later by Pinto (1970): while some workers were absorbed by the high-productivity sectors, a generally much large proportion were relegated to low-productivity sectors. This high level of domestic heterogeneity was one of the basic forces exerting adverse pressures on income distribution, and moreover, in the case of Latin America, this took place in countries which had already inherited a high degree of inequality and marked social segmentation from their previous stages of development.

Under the mixed development strategy, integration processes were seen, from the early 1950s on, as key elements for rationalizing the costs of import substitution: both those associated with the absence of competition and those due to the inefficiency deriving from the sub-optimal scale of the industrial plants. A decade later, when the possibilities of exporting manufactures to the industrialized countries began to be perceived, they were likewise seen as a means of building up export experience, as a prelude to winning other markets. Regional integration –the various subregional processes, LAFTA/LAIA, and the Latin American common market, which was the most ambitious project– thus became a decisive element in the "mixed model" advocated by Prebisch and ECLAC from the late 1950s (ECLAC, 1959). Thus, it was seen as a way of expanding the spaces within which "development from within" could take place, in order to make it more efficient.

The asymmetrical features characteristic of the "centre-periphery" system, the need to adopt active "development from within" strategies (including those designed to deal with the special problems caused by "structural heterogeneity") and the critically important role of regional integration are thus three central elements in Prebisch's thinking. In the rest of this paper I shall seek to show their ongoing importance in the development agenda of this dawning twenty-first century.

2. International asymmetries

The tendency towards the further expansion of inequalities has been a persistent feature of the world economy for the last two centuries. Empirical studies show that convergence of per capita income levels has been a relatively rare occurrence and has been limited in fact to the most highly industrialized countries in the period after the Second World War and, in particular, during the 1950-1973 "Golden Age". It was not a feature of the industrialized countries before that war (Maddison, 1991), nor has it been a feature of the developing countries since then (Ros, 2000, chap. 1). There have been episodes of rapid growth in the developing world in certain periods, however. In fact, Latin America was the fastest-growing region in the world between the two world wars, and some Asian countries have led the world in growth in some periods after the Second World War: the oil-producing countries of the Middle East, the "Asian Tigers", and China and India in different sub-periods (Maddison, 1995). Except in the case of Japan, however, these processes have not brought about convergence with the patterns of development of the industrialized world, and in most cases they have now been interrupted. It may be added that even within Latin America there is no clear tendency towards convergence: the inequalities which grew up a century or so ago have tended to persist over time (Cárdenas, Ocampo and Thorp, eds., 2000a, chap. 1, and 2000b, chap. 1).

The persistence and even accentuation of these international inequalities has occurred despite the impressive industrialization process registered by the developing countries in the last half-century (and even earlier in Latin America). This process has been reflected in greater diversification of the structure of

[7] See, in this respect, three recent versions of the history of ECLAC thinking: Bielschowsky (1998), ECLAC (1998) and Rosenthal (2001). The reasons for this view (now mainly of historical interest) were based on three considerations: i) the transmission costs that the elimination of protection arrangements would cause; ii) the idea that the structure of export incentives could be rationalized to offset the costs of protection, and iii) the belief that there was some degree of complementarity between protection and export development; in particular, where economies of scale existed, the local market served as a "base" for winning foreign markets (an argument that Krugman, 1990, chap. 12, subsequently called "import substitution as export promotion"). Prebisch and ECLAC always acknowledged, however, that high levels of protection could give rise to inefficiency and insoluble anti-export biases.

production of the developing world, except in the most backward areas. Serious imbalances have persisted, however, in the structure of production at the world level: there is a high degree of concentration of technical progress in the centre countries, which has determined their sources of competitiveness; they have continued to dominate the world in the production of machinery and equipment, and they also continue to predominate in the make-up of the great transnational corporations.

The most important consequence of the imbalances in the world economy is that the economic opportunities of the developing countries continue to be largely determined by their place within this international hierarchy. There has undoubtedly been some "spread of technical progress" from the centre, through the channels already mentioned. In the words of Prebisch, however, this spread has continued to be "relatively slow and irregular", and its benefits have been distributed unequally among the developing countries, thus maintaining or even accentuating their "structural heterogeneity". Within the context of the "moving target" represented by the world technological frontier (Pérez, 2001), only a few countries –and few sectors and enterprises within them– manage to move faster and thus reduce their technology lag; many others only manage to more or less keep up with the advance of the frontier, and quite a few fall back.[8]

Furthermore, the vulnerability of the developing countries to external shocks continues to be very high and has even tended to worsen with the growing integration of the world economy. The nature of this vulnerability has been changing over the last half-century, however. Although the transmission of external shocks through trade –both directly, through lower sales, and indirectly, through the cyclical deterioration in the terms of trade– has continued to be important, financial shocks have now taken on the leading role, repeating patterns which had already been observed in the past in many Latin American countries, especially during the financial boom and bust of the 1920s and 1930s.

This vulnerability is the result of basic imbalances in the financial structures and in macroeconomic dynamics, especially the depth of financial development and the degree of macroeconomic autonomy of the countries (Ocampo, 2001c). There are four basic financial asymmetries: i) the disparity between the size of the financial markets of the developing countries and the speculative pressures they face;[9] ii) the nature of the currencies in which the external debt is denominated; iii) the structures of maturities provided by the financial markets, and iv) the scope of the secondary markets. These last three characteristics mean that in developing countries, those agents who have access to international markets (the government and large firms) are subject to currency mismatches, while those who do not have such access (small firms) are subject to maturity mismatches, but it is generally impossible to secure a financial structure which simultaneously obviates both these risks. All in all, this means that the financial markets of developing countries are much more "incomplete" than the international markets, so that part of the financial intermediation must necessarily take place through the international market. It also means that international financial integration is integration between unequal partners.[10]

The macroeconomic asymmetries, for their part, are associated with the fact that the international currencies are those of the industrialized countries and with the nature of capital flows: whereas the capital flows among developed countries are of a counter-cyclical nature (Eatwell and Taylor, 2000), those between developed and developing countries are clearly pro-cyclical. This behaviour is connected with the residual nature of capital flows to developing countries or, to use the terms coined by Palma (2001), the fact that the latter countries are "debtors of last resort".

The overall result of these factors is that whereas the industrialized countries have more leeway for adopting counter-cyclical macroeconomic policies –and this leeway is even greater in the case of the United States than in the other industrialized economies, since the U.S. dollar is the main international currency–, which thus gives rise to a stabilizing response from the financial markets, in contrast the economies of the developing countries largely lack such leeway, since the financial markets tend to accentuate the cycles and the market actors expect the authorities to behave in a pro-cyclical manner. Looking back over the past, this has meant that whereas the industrialized countries were largely able to free themselves from the rules of the gold standard, those rules continue to determine the macroeconomic behaviour of the developing countries and have even become increasingly influential in this

[8] For recent information on this topic, with regard to Latin America, see Katz (2000) and ECLAC (2001a).

[9] See, for example, Council on Foreign Relations, 1999, chap. III.

[10] ECLAC, 2000, chap. 8, and Studart, 1996.

respect. Thus, the macroeconomic imbalances between the centre and the periphery which were characteristic of the gold standard era (Triffin, 1968; Aceña and Reis, eds., 2000) have been further aggravated. Although multilateral arrangements –especially the intervention of the International Monetary Fund– provide short-term relief, they are aimed at ensuring the adoption of austerity measures during crises: a "depression (macro)economics", to use the expression of Krugman (1999). To be more specific, the characteristic feature of the economies of the developing countries is the alternation of boom and depression macroeconomics (ECLAC, 2000, chap. 8, and 2001b).

There is also a further asymmetry in the international economy which is associated with the contrast between the growing mobility of capital and the restrictions on the international mobility of labour, especially less-skilled labour. As Rodrik (1997) has indicated, asymmetries in the international mobility of the different factors of production give rise to pressures in income distribution which favour the most mobile factors and adversely affect the less mobile ones. These imbalances have a "centre-periphery" component in that the developing countries have a relative abundance of the least mobile factors of production: unskilled labour and natural resources. Indeed, the absence of international mobility of labour was seen by Prebisch (1951) as a basic flaw in the international economy which played an essential role in the tendency towards the deterioration of the terms of trade of the developing countries.

Finally, it should be added that the international economy is also marked by basic imperfections which are of a "systemic" rather than a "centre-periphery" nature. The first of these is the contrast between the rapid development of markets and the lag in building global governance, which has led to a sub-optimal supply of "global public goods" (Kaul, Grunberg and Stern, eds., 1999). The second is the enormous difference between the rapid globalization of some markets and the flagrant absence of a true international social agenda or, more precisely, the lack of effective international instruments to ensure the fulfillment of the development goals which are periodically reiterated, most recently in the United Nations Millennium Declaration. The third is the incompleteness of the international agenda, which also has, to some extent, "centre-periphery" dimensions, in view of the absence of issues of great interest to the developing countries, such as international mobility of labour or the more rapid opening-up by the developed countries of markets which are of great interest to the developing nations (Ocampo, 2001a).

The analysis thus indicates that the global agenda should include "systemic" issues, connected with the supply of "global public goods", as well as those connected with the correction of the existing international asymmetries. These "centre-periphery" issues fundamentally involve correction of the asymmetries in the fields of production and technology, the financial and macroeconomic asymmetries which are responsible for the high degree of cyclical vulnerability of the developing countries, and those associated with the different degrees of international mobility of the factors of production.

After the establishment of UNCTAD, under the direct influence of Prebisch,[11] there was explicit recognition of the need to correct the imbalances which marked, and continue to mark, the international economic system. The pledges with regard to official development assistance and "special and differentiated treatment" for the developing countries in trade were among the partial, albeit relatively frustrating, results of this effort to construct a "new international economic order". In recent decades, however, this approach has been seriously eroded (ECLAC, 2001c, chap. VIII) and has been replaced with an alternative model whereby the basic goal in reordering the international economy should be to ensure a "level playing field" to guarantee the efficient functioning of the free market forces. In this new scheme, the main benefits for the developing countries lie in the eventual dismantling of the industrialized countries' protection of "sensitive" sectors, the guarantees offered for export development by an international trade framework with clear and stable rules, and the design of preventive macroeconomic policies which will serve as automatic protection against international financial volatility. In this approach, the aim of correcting international imbalances is only maintained in terms of the acknowledgement of international responsibility vis-à-vis the least developed countries, thus repeating at the international level the idea that social policy should be a strategy designed to target State action on the poorest sectors.

Although all these actions are desirable, will they be sufficient in themselves to give rise to greater convergence of development levels? In view of the foregoing considerations, the answer may be no. This

[11] See, for example, his first report to UNCTAD (Prebisch, 1964).

agenda does not address the asymmetries which tend to generate divergences in development patterns. Moreover, ensuring a “level playing field” implies imposing restrictions on the developing countries, especially the middle-income ones, which the industrialized countries themselves never faced in earlier periods of their history: standards of intellectual property protection typical of countries that generate technology, and limitations on the adoption of policies designed to promote new sectors of production, whether for the domestic market or for export (Chang, 2001). Finally, the problems generated by a manifestly incomplete set of international financial institutions, together with the policy of less intervention in financial markets in order to avoid “moral hazard” and the measures designed to reduce the risks run by large financial agents (the higher risk weighting proposed in the new Basle Committee bank regulation criteria), may end up by helping to “solve” the problem of capital account volatility in the most undesirable way: by bringing about an excessive rise in the cost of external indebtedness for the developing countries and thus possibly leading to a permanent reduction in capital flows to them.

In these circumstances, the design of a balanced international agenda inevitably calls for the correction of the imperfections in the international economic system through action in three areas: i) the application of mechanisms to speed up the “spread of technical progress” from the centre by different forms of “special and differentiated treatment”; ii) efforts by the international financial institutions to increase the developing countries’ leeway for adopting counter-cyclical macroeconomic policies, to check the concentration of credit by placing resources at the disposal of countries and agents which do not have access to credit on private international markets, and to speed up the financial development of the developing countries, as the only way of offsetting in the long term the imbalances that mark the international financial system, and iii) to ensure that international mobility of labour receives the same attention on the global agenda as the international mobility of capital.

3. Development from within

In Prebisch’s view, the importance of action to correct the imbalances characterizing the international economic system necessarily involved recognition of the equally important role of the policies adopted by the developing countries themselves to transform their economic and social structures. Correcting those imbalances would help to establish an “enabling environment” for the efforts to generate “development from within”.

It is now generally recognized, at the institutional level, that a development strategy must help to generate solid social compacts which will ensure political stability; non-discretional legal systems and forms of behaviour of the agents which will make contracts secure; and an impartial and sufficiently efficient State bureaucracy. Although these institutional frameworks serve as the backdrop for the development process, however, they do not explain the concrete growth impulses that economies receive, nor their exhaustion.[12] These impulses are related more directly with the matters mentioned in the previous sections: the reduction of macroeconomic and financial vulnerability, the rate of change of the structure of production, and the connections between growth patterns and equity, especially the “structural heterogeneity” of the productive sectors.

a) *Reducing macroeconomic and financial vulnerability*

As already noted, the emphasis in the first of these fields has been shifting from trade-related matters, on which Prebisch largely concentrated his attention, to those of financial origin. In this respect, Latin America’s experience in recent decades makes it possible to deduce some “stylized facts” which should be borne in mind for designing better macroeconomic policies (ECLAC, 2000 and 2001b; Ffrench-Davis, 1999; Ocampo, 2000):

i) There is no simple definition of macroeconomic stability. The return to fiscal discipline and low rates of inflation has not been reflected in greater stability in real terms, that is to say, in GDP growth and greater employment. Nor has it been reflected in better results in the external accounts, since private deficits have not been kept under control. Consequently, concern for the soundness of the fiscal accounts must be accompanied by measures to prevent the accumulation of unsustainable private deficits.

ii) Real stability is also costly. It gives rise to defensive strategies by firms, which put off their investment

[12] In the terminology used by Maddison (1991), they refer to the ultimate causes rather than the immediate causes of economic growth. See also Ocampo (2001b).

decisions, thus causing adverse effects on economic growth. In downward phases of the cycle there are also irreversible losses of both tangible and intangible business assets ("tacit" technological and organizational know-how, trade contacts, reputation of the firm), especially when those phases are accompanied by financial crises. For these reasons, there is an inverse relation between economic growth and real instability. As we shall see below, serious social imbalances are also generated during the cycle.

iii) In financial matters, balance sheets are just as important as flows. Financial crises have been originated not only by unsustainable current account deficits, but also by unsuitable financial structures in the public and especially the private sectors: that is to say, structures which have an excessive proportion of short-term liabilities or are open to risks from higher interest rates or rates of devaluation.

iv) In the absence of a fiscal policy with a medium- or long-term horizon, backed up by suitable institutions (stabilization funds), keeping fiscal deficits low is really a pro-cyclical policy approach. It encourages expansion of spending during boom periods on the basis of transitory public revenue. Subsequently, however, the cuts made due to short-term falls in revenue aggravate crises and thus lead to further reduction of public sector revenues.

v) In the developing countries, monetary policy autonomy is limited under all exchange-rate regimes. This fact has always been recognized in connection with fixed or semi-fixed exchange-rate systems, but in fact the same thing occurs when interest rates are managed in a pro-cyclical manner in flexible exchange-rate regimes in order to avoid exchange rate fluctuations. In view of the vital role played by the exchange rate in open economies –it is a determinant both of competitiveness and of price levels– some degree of intervention in foreign exchange markets may be necessary, but pro-cyclical management of interest rates is undoubtedly the wrong road to follow. For this reason, in spite of its limitations prudential regulation of capital flows can do a lot to increase the autonomy of monetary policy.

vi) Credibility is not necessarily attained by the use of "automatic pilots". If capital flows are pro-cyclical, explicit renunciation of monetary policy autonomy (as for example by adopting systems based on a currency board or the use of a foreign currency as an anchor) can result in more severe economic cycles. In that case, it is quite possible that the market may not validate the hypothetical increase in "credibility" by reducing the country risk accordingly. Furthermore, the country loses some degree of freedom to cope with external or domestic shocks. In both cases, the private agents may question the sustainability of the rules themselves and the high costs of breaking them. Prudent management of macroeconomic flexibility may therefore be a better way, in the long run, to build up greater policy credibility than the adoption of excessively rigid rules.

These lessons indicate that the concept of macroeconomic stability should be expanded to include not only price stability and the maintenance of low fiscal deficits, but also stability of economic growth rates, employment, the external accounts and the national financial systems, as well as the use of pluriannual horizons in fiscal policy design. They also mean that it must be recognized that the authorities are faced with complex dilemmas in seeking to ensure macroeconomic stability in this broad sense of the term, since there is no simple, straightforward association between its different components.

The most promising approach in order to achieve this result would appear to be to pragmatically combine three sets of policies. The first of these is made up of consistent but flexible macroeconomic policies –fiscal, monetary and exchange-rate– designed to prevent the public and private agents from building up heavy debts, to avoid the generation of imbalances in the most important macroeconomic prices (the exchange rate and interest rates) and in the prices of fixed assets and securities in boom periods, and to facilitate reactivation in the event of crises. The second is a stringent system of prudential regulation and supervision of financial systems, with a clear counter-cyclical orientation, which provides for stricter rules in periods of financial euphoria in order to counteract the increasing risks run by intermediaries at such times. The third element is a "liability policy" designed to ensure that a suitable profile of internal and eternal debt maturities is maintained in the public and private sectors (ECLAC, 2000, chap. 8; Ocampo, 2000).

Prudential regulation of the capital account, applied in periods of euphoria in order to prevent over-indebtedness, can play a vital role as a "liability policy", promoting an external finance structure in which long-term liabilities predominate, but also, as already noted, as an instrument designed to give monetary policy more leeway to adopt counter-cyclical policies. In the long term, however, the main instrument for breaking the asymmetries typical of the international financial system, which are accompanied by the pro-cyclical macroeconomic performance of the developing countries, is deeper financial development in those countries which will ensure suitable development of the long-term segments of the market and of the corresponding secondary securities markets.

Applying counter-cyclical macroeconomic policies is no easy task, since the international financial markets generate strong incentives to over-spend during periods of financial euphoria and over-adjust during crises. For this reason, counter-cyclical macroeconomic policies of the developing countries must be backed up by suitable international institutions. In particular, international financial institutions must take on the essential function of offsetting the pro-cyclical effect of the financial markets, damping down financial cycles from their source by suitable regulation in the industrialized countries, and must also give the countries more leeway to adopt counter-cyclical policies, both through suitable surveillance and incentives to reduce macroeconomic and financial risks at times of euphoria, and through mechanisms to soften adjustments when there are sudden interruptions in capital flows (Eatwell and Taylor, 2000; Ocampo, 2001c).

b) *Dynamic changes in production patterns*

Greater macroeconomic stability, even in the broad sense in which we have defined this term, is a necessary but not of itself sufficient condition for rapid economic growth. This is precisely what the various historical variants of structuralist economic thinking, to which Prebisch belongs, are trying to get across when they emphasize that different economic sectors have very of a sector can give a strong boost to the growth process or, alternatively, halt it (Rosenstein-Rodan, 1943; Taylor, 1991; Ros, 2000). These sectoral dynamics can give rise to successive phases of imbalance, as noted by Hirschman (1961). Technological dynamics can also give rise to processes of "creative destruction", to use the terminology of Schumpeter (1962, chap. VIII). Since technical knowledge, and indeed knowledge in general, is not transmitted through detailed manuals, the growth path of firms involves an intense adaptation and learning process which is intrinsically linked with the experience acquired in the production process and largely determines the capacity for the accumulation of technical, commercial and organizational know-how (Katz, 1976; Amsden, 2001).

Although other formulations could be used, one which captures the essence of structural dynamics centres on two fundamental concepts: i) innovations and the associated learning processes, and ii) the development of production linkages (ECLAC, 2000, chap. 9; Ocampo, 2001b). In this context, "innovation" must be considered to cover every new way of doing things: not only new technologies, but also the development of new sectors or products, new marketing strategies, and the opening of new markets. In the developing countries, many of these "innovations" are associated with the successful adaptation of technologies and activities developed earlier in the industrialized world, in this case through import substitution and/or export promotion. All innovations, in this broad sense of the term, involve learning and dissemination processes, many of them marked by the generation of dynamic economies of scale. This also applies to technological innovation and the development of new productive sectors, as well as new marketing networks, in which such economies are associated with the reduction of transaction costs over time. The second concept highlights the role of the externalities which the economic agents and sectors generate among

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