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The political economy of the uncertainty of capital flows: A historical reappraisal from Prebisch to Neo-Dependentists

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Abstract

The transformation of developing economies, particularly South American, triggered by the post-2008 reversal of international capital flows and the subsequent expansion of their financial sectors has implied a resurgence in the popularity of what we might call a neo-dependentist approach, focusing on the concept of financial subordination. This approach, while convincing on the theoretical and analytical planes, has revealed some controversial implications. By emphasising the role of external constraints on developing economies, the pivotal role of financial subordination implicitly limits the space for possible reforms at regional, subregional, and national levels to mitigate the effects of the uncertainty associated with international capital flows. Drawing from the history of economic thought, we consider the numerous analogies between the financial subordination approach and Latin American Structuralism and Raul Prebisch, particularly in the field of political economy. A careful reappraisal of Prebisch's (self-critical) last book can provide interesting insights into the current problems.

Keywords:

Financialisation, Developing Economies, Dependency, Prebisch, History of Economics.

JEL codes: F33, B31, B24.

Resumo

A transformação das economias em desenvolvimento, particularmente as sul-americanas, desencadeada pela reversão dos fluxos internacionais de capital após 2008 e pela subsequente expansão de seus setores financeiros, implicou um ressurgimento da popularidade do que poderíamos chamar de uma abordagem neodependente, focada no conceito de subordinação financeira. Embora essa abordagem seja convincente nos planos teórico e analítico, ela revela algumas implicações controversas. Ao enfatizar o papel das restrições externas nas economias em desenvolvimento, o papel central da subordinação financeira limita implicitamente o espaço para possíveis reformas em níveis regional, sub-regional e nacional que possam mitigar os efeitos da incerteza associada aos fluxos de capital internacional. Com base na história do pensamento econômico, consideramos as numerosas analogias entre a abordagem da subordinação financeira e o Estruturalismo Latino-Americano, particularmente em relação à economia política de Raul Prebisch. Uma reavaliação cuidadosa do último livro (autocrítico) de Prebisch pode fornecer insights interessantes sobre os problemas atuais.

Palavras-chave:

Financeirização, Economias em Desenvolvimento, Dependência, Prebisch, História da Economia.

Códigos JEL: *F33, B31, B24.*

1 Introduction

Since the second half of the 2000s, two phenomena have characterised numerous developing countries, particularly South America. From the point of view of the current account of the balance of payments, the commodity super cycle has made it possible for these countries to record a series of surpluses, sometimes very marked. In terms of external finance, this translated into greater ease of guaranteeing sustained economic growth that did not degenerate into crises driven by the external sector, similar to those that had characterised the stage of industrialisation with import substitution (ISI) or that following the commercial and financial liberalisation of the 1990s. The importance of the increase in raw material prices was certainly a key factor in the change in the South American economic cycle, given the profound change in the production of the countries in the region, which had shown rapid de-industrialisation in the 1990s and subsequently, the dizzy increase of the importance of the primary sector under the new guise of agribusiness. However, the emphasis placed on the commercial dimension of recent South American development processes has often taken on an exaggerated tone, which, above all, has led to an underestimation of another key factor for the growth of regional economies: the unusual surpluses of the financial account of the balance of payments, a reflection of the change in the global liquidity cycle that occurred after the 2008 financial crisis and the implementation of quantitative easing plans by the Federal Reserve (Fed) and the European Central Bank (ECB).

The reversal of the global liquidity cycle after 2008 marked an epochal change for South American countries. Attracted by the positive differentials in terms of interest rates, huge capital from advanced countries poured into regional economies, producing enormous financial surpluses and the rapid accumulation of huge international reserves even when the current account began to show continuous deficits caused by the end of commodity super cycle in 2011-2013, as in the case of Brazil (Lampa, 2018 and 2021). This phenomenon, epochal by some well-prepared analysts in the historical economic field, has given rise to two main reactions in the economic debate. On the one hand, the influx of massive capital towards South America and other emerging markets (for example, South Africa) has deluded some researchers (e.g. Harvey, in Patnaik and Patnaik 2016) that a historical change was taking place, which would bring to the end of imperialism and the definitive catching up between developing countries and advanced economies. However, this optimistic attitude soon gave way to a more cautious attitude, focused on the risks associated with the growing dependence of South American countries on international financial flows and the internal repercussions conveyed by similar external changes.

Along these lines, a series of critical economists have extended the concept of financialisation to peripheral and South American countries, introducing the idea of *financial subordinatio*n as an interpretative key to the new scenario. According to this approach, the growth of the financial sector of South American countries during the new millennium was the result of a series of external constraints of an institutional nature (international monetary system; the action of the IMF and the World Bank in the last twenty years) and political-economic (the change of agenda imposed on investors in advanced countries by negative discount rates and quantitative easing plans). However, rather than representing an opportunity for growth, this dynamic of capital flows outlined a new form of dependence in the region, this time of financial origin. For example, to protect themselves from the risks of a sudden stop crisis (Calvo *et al*., 1993), the central banks of South American countries had to implement a long series of macroprudential regulations, including the systematic accumulation of international reserves, the only function became that of collateral for capital flows and no longer anti-cyclical policies, and more generally the degrees of freedom of economic policy were severely restricted.

While the contributions from this approach have provided a convincing explanation, on an analytical level, of the difficulties that South American economies have experienced since 2013, on a political economy level, the concept of financial subordination has potentially controversial implications.

Stating that South American countries are financially subordinated and business cycle takers is, in fact, equivalent to limiting, at minimum, if not directly eliminating, the space for possible reforms to be implemented at regional, subregional, and national levels. In other words, if the continent's economic problems depend on the action of international institutions or advanced economies, the political-economic failures of regional governments take a back seat or become implicitly justified.

Starting from this observation, some authors (Palma, 2022) go so far as to equate the contributions coming from this approach to those of the dependency theory of the 1960s and 1970s, which emphasised the impossibility or near-impossibility of regional economic development and, therefore, they did not deal with the strictly domestic problems that hindered development. However, the analytical tools used by the group of authors who work along the lines of subordinated financialisation (Alves *et al*., 2022) suggest that there are some important updates to the old dependency theory, particularly in light of the emphasis on gross capital flows and their de-stabilising role in peripheral countries. In this sense, we think this group of authors should be more correctly labelled neo-dependentists. The prefix

Neo refers precisely to the new dependency characteristics in the contemporary world. More specifically, in the post-Bretton Woods era, the higher hierarchy and the hegemony of the US dollar imply that emerging countries lost control over the most determining factors of their interest and exchange rates. Consequently, the periphery became a 'business cycle taker" (De Paula *et al.*, 2017, p.24; Tavares, 1985 and 1997).

From a similar premise, we think that Palma has a good point in his criticism of this approach, but we consider that a useful comparison would be with the last phase of Raúl Prebisch's thinking, in which there is a kind of self-criticism of the structuralist thinking of CEPAL for not having sufficiently considered, from the center-periphery approach, certain internal power dynamics in developing countries. On the contrary, associating the financialisation approach with dependency theory is misleading, as dependency theorists were well aware of these factors. In some cases, denying the possibility of developing under existing institutions was the premise for supporting the need for a socialist transformation of South American political and economic institutions. A similar, radical political-economic implication is completely foreign to the neo-dependentists.

Drawing from the history of economic thought, we find interesting to consider the numerous analogies between the financial subordination approach and the trajectory of Latin American Structuralism and Raul Prebisch, particularly in the field of political economy.

Initially, and for many years, Prebisch embodied the figure of the technocratic economist who focused on examining the reasons underlying Latin American underdevelopment, consequently proposing solutions that descended directly and strictly from economic logic. In this way, Prebisch completely neglected the dimension linked to the transformation of existing institutions, showing himself convinced that the new economic policies would be imposed with the strength of the most convincing economic ideas underlying them.

However, the obvious failure of ISI's policies and Prebisch's withdrawal from the management positions of CEPAL-ECLAC and UNCTAD in the second half of the 1970s was at the origin of numerous self-criticisms of Prebisch and his final work, *Peripheral Capitalism*, which explicitly recognised the error of evaluation implicit in the previous part of its economic production and the need for a resolute transformation of capitalist institutions, even assonant with that of the dependentists.

Based on this premise, section 2 aims to critically reread the contributions from the literature on financial subordination. Subsequently, section 3 will show the similarities and common weaknesses between this approach and Prebisch's works in political economy. Finally, we will discuss our findings and draw some conclusions.

2 How dependent? The financial subordination approach and some controversial implications

The emphasis placed on the commercial dimension of the South American economy's boom after 2003 has often taken on an exaggerated tone, which frequently led to an underestimation of the unusual surpluses of the financial account of the balance of payments, a reflection of the change in the global liquidity cycle that occurred after the 2008 financial crisis and the implementation of quantitative easing plans by the Federal Reserve (Fed) and the European Central Bank (ECB).

Brazil is the most evident example of such a tendency from this perspective. The overall importance of this capital inflow was such that total reserves in U.S. dollars had already reached an unprecedented level of $373 billion by 2012.

However, a careful review of Latin American economies during the last twenty years shows a similar pattern. Focusing on the international reserves/GDP ratio of seven South American countries—Argentina, Brazil, Chile, Colombia, Peru, Uruguay, and Venezuela—from 2003 to 2017, we observe a sharp increase—approximately +50% (Lampa, 2021).

Such an increase in international reserves has been rather passive, engendered precisely by prolonged surpluses in financial accounts due to capital flows towards South America. Nevertheless, it is a remarkable piece of data, particularly if we consider that neither Argentina nor Venezuela have actively increased their reserves for different reasons (debt restructuring and massive capital flight triggered by political instability, respectively).

In short, capital inflows were matched with the accumulation of reserves, which in turn functioned as a typical macroprudential regulation. Monetary authorities of South America have treated capital inflows as a potential risk rather than an opportunity since the uncertainty about the amount and duration of capital inflows have historically exposed these economies to balance of payments crises. Accordingly, they have adopted prudential policies inspired by monetary conservatism, thus following the example of Taiwan, Singapore, Malaysia, India and China, who – after the catastrophic 1997 crises – had shown the beneficial effects of limiting the uncertainty generated by capital volatility using capital account management (Epstein *et al.* 2005; Epstein, 2009).

However, unlike Asian countries, South American economies were not able to detach their domestic policies from the international liquidity cycle, reinforcing the autonomy of macro and micro-economic policy and shifting investment toward the long term (Epstein et al. 2005; Epstein 2009).

By passively accepting the existing financial framework, international reserves could not be used to finance sovereign policies or even countercyclical fiscal policies during severe recessions, as Brazil demonstrated in 2015-2016 (Painceira, 2008; Lampa, 2018).

Since the degree of financial openness remained high, international reserves acted as a 'collateral' for foreign investors (both financial and corporations), guaranteeing that the country receiving capital flows would not suffer financial turmoil or abrupt devaluations in the case of sudden stops and the uncertainty they generate.

From this perspective, the accumulation of reserves represented a logical outcome of the inflation-targeting regimes effective since the early 2000s. After a wave of sovereign debt crises hit South America, inflation control and the prevention of balance-of-payments crises became necessary conditions to protect themselves from the risks and uncertainty associated with almost free capital mobility (Frenkel, 2006; Lampa 2021). In this sense, as stated by Palludeto and Abouchedid (2016, p. 71), the asymmetries of the international monetary regime meant that, even when a peripheral currency market has a high turnover during a liquidity boom, the abundant capital flowing into the country does not translate into a greater ability of its currency to fulfil the three traditional functions of money internationally, and thus achieving a higher political autonomy (Lampa, 2021).

Ultimately, the policies adopted by South American countries are determined by the need to reduce the uncertainty generated by dependence on foreign capital flows. This uncertainty originates from the fact that it is not possible to know when these capital flows will be reduced or, worse, reversed. Therefore, if they keep free capital mobility, they need to protect themselves against the potential risks generated by uncertainty regarding the flows of capital, which, in turn, limits the uses of this same capital.

Therefore, capital flows to emerging countries acted as a "safety valve mechanism preserving the international role of the dollar," preventing global imbalances resulting from the generation of global liquidity fostered by financialisation (Vasudevan, 2009; Lampa, 2021). In other words, there has been "no panacea" for the destabilising role of dollar hegemony in South American countries (Vernengo, 2006; Lampa, 2021), which became evident after the end of the commodities super cycle.

Brazil is the most outstanding example of this tendency: even during the most severe GDP contraction (2015-2016), the interest rate remained high, acting as an obstacle to credit and domestic investors. Only in June 2017 did the Central Bank of Brazil progressively lower the interest rate, which remained high compared to developed countries. The explanation lies in the need to feed capital inflows to achieve a surplus in the financial account capable of compensating the country's current account deficit.

The debate, starting from the critical reflection on the empirical evidence cited previously, led a large group of researchers to frame the South American problem (and common to other developing countries, primarily South Africa) within the more general problem of the financialisation of capitalist economies. However, adapting this (sometimes imprecise) interpretative category to the context of developing economies has imposed a substantial series of changes.

While financialisation in advanced countries tends to be associated with the liberalising action of states in the field of monetary and financial governance and, therefore, as a product shaped by the active role and interventionism of domestic public powers to foster economic growth and reinforce capital domination in a context of de-industrialisation (Palley, 2013; Karwowski, 2019), when the focus shifts to developing countries this judgment changes completely.

On this ground, the driving forces of financialisation stop being domestic and become external to developing economies. In particular, they focus on the monetary policy of advanced countries and the actions of international institutions, mainly the IMF and the World Bank. Succinctly, the underlying reasoning can be summarised in these terms: international institutions have exerted pressure on the countries of the Global South to remove obstacles to the free movement of capital and liberalise their capital accounts. Once this happened, developing countries became extremely vulnerable to external shocks, and their business cycles became extremely sensitive to the Federal Reserve's monetary policy. After the Volcker shock of 1981 and the catastrophic Lost Twenty crisis in developing countries – produced by the enormous flight of capital towards the United States and the explosion of external debt in dollars and culminating in the sovereign debt crises of the late 1990s – developing countries have maintained their commercial and financial openness unchanged but have adopted macroprudential measures to reduce external financial vulnerability and the uncertainty it causes in the economy. These measures have strengthened the growth of the financial sector of the Global South countries, which has acquired a central role. The growth in the size of the financial sector, however, is not a sign of greater degrees of freedom in the economic policy of developing countries but a reflection of what is happening in advanced countries. On this premise, financialisation becomes “subordinated” (Becker *et al*., 2010; Lapavitsas, 2013; Powell, 2013; Kaltenbrunner and Painceira, 2017a, 2017b).

In other words, the approach based on financial subordination takes up, taking them to the extreme, some concepts anticipated by the pioneering work of Tavares (1985) on the hegemonic centrality of the dollar in the post-1971 world and on the concrete risk that this would constitute a new form of dependence for South American economies, similar to that previously observed during the failed industrialisation attempt of the ISI stage but this time characterised by the clear prevalence of the financial and monetary dimension. Therefore, while the failure of the ISI could be summarised in the external strangulation of the balance of payments and, thus, in the progressive reduction of international reserves, in the new stage, the same constraints on economic policy manifested themselves in the context of a balance of payments largely in surplus and with strong international reserves: a paradox that echoes the Marxian description of misery amid abundance under a capitalist system: “Accumulation of wealth at one pole is at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation, at the opposite pole” (Marx, 1867, p. 709).

From this perspective, the subordinated financialisation approach has merits on an interpretative and strictly theoretical level. In particular, it should be underlined how the empirical observation of the effects of the commodities supercycle (after 2003) and the reversal of capital inflows towards developing countries (after 2008) initially led to optimistic and opposite reactions, which quickly proved unfounded. On the one hand, the growth of developing economies and the birth of the BRICS alliance re-ignited the eternal debate on the catching-up of developing countries compared to advanced ones. In this sense, the trend underway in the first fifteen years of the 21st century was projected into the future, concluding that there was even the possibility of it being overtaken by developing countries (Popov and Komo, 2017). On the other hand, some authoritative interpreters have even gone so far as to theorise the end of imperialism (Harvey, in Patnaik and Patnaik, 2016) based on the observation of international net capital flows.

It seems superfluous to underline how the pandemic and the economic consequences of the Russo-Ukrainian conflict have shown how such predictions were unfounded and, vice versa, that the pessimism of the neo-dependentist point of view based on the concept of financial subordination has proven to be more in line with reality.

However, this same point of view has more controversial implications once we move to the level of political economy. In fact, in this specific context, the description of developing countries as passive subjects, subordinated to the logic of advanced countries and international institutions, has translated into little attention to the theme of the transformation of the economic and political institutions of the Global South to cope with this danger. In addition, from such a premise, the political failures of South American governments, sub-regional and regional alliances, and South-South cooperation tend to take a back seat in front of the justification represented by external constraints.

Crucial issues such as the frustrated attempts to create alternative lenders of the last resort to the IMF (such as the *Banco del Sur*), the obstinate dollarisation of bilateral trade between regional economies and the negligible diversification of international reserves are thus relegated to the margins of the debate, instilling the erroneous perception that very little can be done to avoid the worst consequences of subordinated financialisation.

While valid on the theoretical plane, neo-dependentists' pessimism thus becomes a limit on the political-economic plane.

As Palma (2022) effectively summarised, several analysts fell into the same 'neo-phobic' trap, which kept them stuck in theoretical narratives that, instead of being invariably 'optimistic' (as those of the other analytical camp), were invariably 'pessimistic'.

On the contrary, drawing on Antonio Gramsci's well-known quote, a consistent development agenda should be based on "Pessimism of the intellect, optimism of the will", that is, on the definition of a set of policies, external constraints notwithstanding.

3 The 'non-dependentist sin' of neo-dependentists: a reappraisal from Prebisch

The critical judgment of Palma (2022), referred to at the end of the previous section, captures an important weakness of the financial subordination approach. On this premise, the author draws a parallel with the old dependency theory, suggesting that neo-dependentists have inherited the limitations of this theoretical approach to the problem of underdevelopment.

It is worth seriously considering this aspect and asking whether and to what extent this judgment is true. Recalling Palma's famous and influential contribution (1978) is certainly useful in this sense.

According to the author, three strands of dependency thought may be outlined.

The first (initiated by Paul Baran and represented by Marini, Dos Santos and Frank) criticised the allegedly dual nature of peripheral economies, so fashionable among mainstream development economics, by revealing how the different sectors of peripheral economies had always been linked to the world economy, not just in the modern era, but also in medieval times. In this sense, the development of the centre requires (and, as it unfolds, shapes) the underdevelopment of the periphery: dependency amounts to, or is synonymous with, permanent capitalist underdevelopment.

A second version of dependency appeared as a reformulation of ECLA's analysis in a more pessimistic vein. The failure of ECLA-inspired policies led Celso Furtado, Anibal Pinto and Osvaldo Sunkel to depart from canonical structuralist analysis as it sought to re-examine Latin American obstacles to national development.

Finally, the third dependency approach may be proposed as a "methodology for the analysis of concrete situations of underdevelopment" (Palma, 1978) and is associated with the work of Fernando Henrique Cardoso and Enzo Faletto. The possibility that capitalist development materialised in the periphery was generally accepted, although under very specific and problematic circumstances.

On this premise, dependency theory is criticised for its determinism and for confusing the specific way in which the contradictory, exploitative and immiserating nature of capitalist development shows up in the periphery with the absolute/extremely plausible impossibility of capitalist development in the periphery, just as neo-dependentists seem to suggest nowadays implicitly.There is no doubt that there was a potential risk of determinism in the eyes of the reader who approached dependency theory ignoring the South American context, on the other hand, it must be noted that such an accusation is completely unfounded precisely by reconstructing that context.

From this specific point of view, it should be remembered that the old dependentists' position was, first and foremost, a criticism of the Third International's determinism, which believed that South American countries had to go through all the stages of capitalist development before being able to aspire to their socialist transformation. Against this point of view, the dependentist position emphasised the urgency of the socialist revolution, given the impossibility of capitalist development.

Dependency theory was open to the political economy terrain and sought maximum social relevance, even to the detriment of analytical rigour. Alternatively, a parallel capable of more convincingly explaining the limitations of the contemporary debate can be made with the father of Latin American *old* structuralism[1], Raul Prebisch. This parallel recovers both his works from the ECLA-Cepal stage and his self-criticism, which began with the end of his executive positions in international institutions.

In opposition to the mainstream point of view, the cornerstone of Prebisch's work was the idea that Latin America needed, in the first place, *its* economic theory – able to capture the specificity of the regional economies – to achieve economic development. In his view (Prebisch, 1950), the most urgent problem for Latin America was to develop the necessary analytical tools to ensure a correct understanding of the *"economic facts"* since this was an unavoidable prerequisite to achieving a robust *"theoretical interpretation"* (Prebisch, 1949). Therefore, development became a matter of technique and practice: only by abandoning the *wrong* theory (and, vice versa, embracing the *right* one) would the South American leading classes be able to implement the right economic policies to eventually correct the continent's backwardness.

However, since its very beginnings, Prebisch's Structuralism also revealed a more controversial feature we might define as 'institutional optimism' (Lampa, 2019).

While questioning the neoclassical idea that economic theory is universal and, therefore, independent from any historical, political or geographical datum, Prebisch accepted institutions as an exogenous variable. Accordingly, choosing the best theories and practices did not imply choosing the best institutional organisation to implement them. Quite the contrary, the existence of capitalist economies (both central and peripheral) was taken for granted.

One may conclude that, according to Prebisch, development was essentially a technical issue: the economist's task, therefore, became to provide the *right* policy solutions resulting from the previous application of the *right* analytical and theoretical tools.

In other words, in Prebisch's view, filling a technocratic gap with the northern hemisphere had always implied filling a *theoretical* gap. Since choosing the best theories and practices did not also imply shaping the best institutional organisation to implement them, the existence of capitalist economies (both central and peripheral)

1 Following Vernengo (2004), we are persuaded that neo-structuralism heavily departed from the dependendist position, moving considerably in the direction of the liberal views on development, in particular, because of its emphasis on liberalization as a strategy to avoid technological isolation in an era of technological innovations in the information technology and biotechnological sectors (CEPAL, 1990). Further evidence can be traced in the theoretical recipe known as "open-regionalism" or regionalismo abierto (CEPAL 1994), heavily inspired by orthodox economic theory, whereby "competitiveness" and "internal and external equilibria" were portrayed as the most important goals in order to benefit from so-called neoliberal, open-market globalization policies (Lampa, 2018).

was taken for granted. Accordingly, analysing their potentially disturbing role was considered irrelevant to the development task: a technocratic flaw (clearly resembling neo-dependentists' limitations on the political ground) thus characterises Prebisch's stance.

Along these lines, the Brazilian sociologist Francisco the Oliveira criticised this vision as a typical case of exclusion of the political sphere from development discussion. Prebisch complained about the mechanisms of international commerce leading to the deterioration of the terms of trade to the detriment of the Latin American countries. "There would lie the basis for a reworking of the theory of imperialism; such a deeper reworking being aborted, the proposition that emerges is clearly reformist and self-denying: Prebisch expects the industrialised countries to "reform" their own behavior, increasing their payments for the Latin American commodities and decreasing the price of the goods they sell—a highly ethical and equally ingenuous proposition." (De Oliveira, 2003 [1981], p.21, fn. 2)

However, Prebisch's later work reveals some relevant changes, as reflected in his renowned *Peripheral Capitalism* (Prebisch, 1981). Since its preliminary version dated 1976 – which, not coincidentally, was the overture to the first issue of the *Cepal Review*, directed by Prebisch – this work can be legitimately interpreted as a self-criticism. Some authors, like Hodara (1988) consider that in this work, being free from the institutional constraints of other times, the author expressed himself more freely than on previous occasions and, above all, that it constitutes a conceptual break with the author's previous work (Hodara, 1988, 580– 581). We think instead that this self-criticism should not be interpreted as a complete rupture with his previous thought, but as a recognition that it needed to be complemented by new aspects (for more details, see Gurrieri (1982) and Sember (2016)).

Prebisch, on the contrary, considered that this last stage of his thinking was the result of his reflections on what was elaborated in previous stages, by once again formulating questions that had previously remained unanswered (Prebisch 1996). The new reflections led the Argentine scholar to incorporate a multidisciplinary approach, thanks to the interaction with other ECLAC scholars such as José Medina Echavarría, Aníbal Pinto (to whom he owes the expression "social use of the surplus") and Adolfo Gurrieri, of whom Prebisch points out that "thanks to his sociological knowledge I have been able to achieve my goal of breaking the narrow framework of economic theory" (Prebisch, 1981, p.10).

We consider Lira's interpretation correct, according to which Prebisch's reflections on peripheral capitalism are linked to the period he spent as Secretary General of

UNCTAD, in particular to the failure of the negotiations around a New International Economic Order (NIEO) (Lira, 1986).

The NIEO was an expression coined in the mid-1970s, in opposition to the old international order represented by organizations that contributed to preserving a structure biased in favour of developed countries. Calls for the NIEO were an attempt by developing countries to gain more benefits from the long period of post-war economic expansion. In their demand, developing countries sought greater access to the markets of developed countries, actions to reduce the volatility of raw material prices, alleviate the debt burden, establish controls over transnational companies and greater access to technology.

Prebisch had warned that peripheral economies had a structural tendency to develop an external imbalance that, together with internal factors, conspired against the possibilities of development. It was necessary for developing countries to be able to increase manufacturing exports in addition to encouraging import substitution, but the ability to achieve this objective depended on the "receptive capacity of the centres" (Prebisch 1988a, 34). Thus, from his beginnings at ECLAC, Prebisch had advocated the need to promote the export of manufactures in developing countries, a concern that he had reinforced as Secretary General of UNCTAD in 1964 (Prebisch, 1964). This, of course, required a change in the centres' protectionist policies.

The GATT, exponent of the old international economic order, was based on the postulate that the free play of international market forces would lead to the optimal use of world resources. From this perspective, the GATT was aimed at establishing the necessary conditions for free trade (Lira, 1986, 458–459). This orientation of the organization was evident in the Kennedy (1964-67) and Tokyo (1973-79) rounds, where liberalization had been for products that incorporate technological innovations, that is, those produced by the centres (Prebisch 1986). UNCTAD's only achievement in the Tokyo round was to get developed countries to grant developing countries non--reciprocal treatment through the extension of the Generalized System of Preferences.

Thus, given the impossibility of achieving international conditions favourable to peripheral countries through international negotiations, Prebisch pointed out that "Latin America demonstrated that it is not yet in a position to actively integrate into the international concert of nations as a true factor of power capable of impose their position, for commercial relations" (Prebisch, 1976b, 16).

In the 1980s, when Prebisch was writing his book *Peripheral Capitalism*, it was already clear that there was no possibility of obtaining the cooperation of developed countries to establish a New International Economic Order.

Attempts by developing countries to increase manufacturing exports always clashed with the protectionist measures of the centres. An example of this was the Trade and Tariff Law enacted in the United States in 1984. In a report for the President of the Nation, Prebisch described it as a "clear instrument of hegemony" to strengthen the position of that country in trade negotiations. (Prebisch, 1985, 1). Likewise, two years earlier, in an interview for the newspaper El País, Prebisch had lamented the lack of will of that country to collaborate with the resolution of the problem, stating that "the United States has no sympathy whatsoever with UNCTAD. President Reagan has never uttered the word UNCTAD. He has been heard a lot, yes, talking about GATT [...] The United States remains disinterested in this type of conference. They claim that market forces will solve these problems. What more would we economists like if market forces were the ones that would automatically solve so many headaches!" (Prebisch, 1983).

First, Prebisch's book entailed a shift regarding his previous views on the technocratic gap between the centre and the periphery. More precisely, in Section 3 ("The Evolution of my Ideas on Development") of the book's Introduction, Prebisch took note that his emphasis on the theoretical and analytical dimension of development made him underestimate a crucial issue, namely the transformation of peripheral institutions (Prebisch, 1981). He states: "I have become convinced of the impossibility of explaining development and, therefore, the distribution of income, within the framework of a mere economic theory" (Prebisch, 1981, 15). As a self-criticism, he remembers that at ECLA, "we did not know how to present an effective option to orthodoxy. It would not have been possible to do so until the social structure was deeply penetrated. We were not yet prepared to do it" (Prebisch, 1981, 28).

The analysis of late peripheral capitalism led Prebisch to conclude that the system contradictions were insurmountable within the system itself, making it unviable and requiring a transformation, which included economic planning. In his last presentation at the twenty-first session of ECLA in 1986, Prebisch even stated that in the face of new challenges, "the renewal of thought was unavoidable" (Prebisch, 1988a, 28).

In particular, Prebisch incorporated a multidisciplinary approach into his analysis, which led him to become convinced that late peripheral capitalism's characteristics made it qualitatively different from capitalism in the centres. Because of these qualitative differences, "the myth that we could develop in the image and likeness of the centres is fading" (Prebisch, 1981, 14).

With a social structure different from that of developed countries, an imitative type of capitalism, as Prebisch called the attempt at development on the model of the centres, presented insurmountable contradictions in the periphery.

Second, Prebisch observed that the class structure of peripheral economies has turned into an 'internal constraint' on development (Prebisch, 1976a, pp. 36-42) since development tended to by-pass a large part of the population, as the ownership of production resources enabled the upper strata to reap a large proportion of the fruits of technological improvement and higher productivity.

Prebisch's preliminary remarks stressed that the surplus[2], retained by the upper strata of society, owners of the means of production and land, was mainly used to imitate the consumption patterns of the centres, thus wasting resources necessary for capital accumulation. However, the privileged consumer society was not the only factor threatening accumulation. The centres sucked up another part of the surplus through transnational companies, and additionally, a portion was destined to finance what Prebisch called the "hypertrophy of the State" bureaucracy.

On this premise, Prebisch emphasised the "contradiction between the economic process and the democratic process" in the periphery (Prebisch, 1981, 14). In the less developed economies of the periphery, the surplus was appropriated by the higher-income sectors and used both for the consumption of luxury goods and to increase accumulation. With the advance of democratisation, the intermediate strata were acquiring union and political power and demanding greater participation in the surplus appropriated by the higher strata. Over time, these claims resulted in increased compensation beyond the reduction in costs resulting from increasing productivity. When this happened, the salary increase was transferred to prices, which in turn caused new union demands, which would be reflected in new price increases. Thus, the distribution struggle led to an inflationary spiral (Prebisch, 1981, 42-43). The workers' demands resulted from an inadequacy in the periphery's redistributive apparatus and reflected that in these countries, there was "apparent and not substantive democracy" (Prebisch, 1981, 43).

Therefore, the contradictory demands of the system were the distribution and accumulation of capital. In the periphery, the surplus was insufficient to achieve both, to which it was added that some of it was wasted in the privileged consumer society. "There is a conflict between the immediate redistribution of income, of a precarious and transitory nature and limited scope, and the dynamic redistribution which is the only way to continuously and persistently increase the income of the masses"

2 The concept of surplus in not always clear in Prebisch. For a discussion on the ambiguities of the concept see Hodara (1988) and Mallorquín (2023). In this work we refer to the surplus as the part of the increases in productivity that are not transferred to workers through wage increases (Prebisch 1981, pp39-40).

(Prebisch, 1981, 22). Prebisch feared that "the system, due to the great flaws it entails, will lead to a succession of political cycles, with periods of democratisation followed by political repression and worsening of social inequality" (Prebisch, 1981, 32).

Thirdly, Prebisch recognised the special nature of peripheral capitalism and the external (i.e. institutional) obstacles to its development (Prebisch, 1976a, pp. 60-76). Since market forces reflect the power relations between the centre and the periphery, there was no mechanism to avoid a mismatch between the rate of accumulation, on the one hand, and the growth rates of productivity and of the labour forces, on the other.

The solution thus implied a thorough institutional change. From this angle, the new socioeconomic system proposed by Prebisch was "a synthesis between socialism and economic liberalism, which is slow to arrive. Globally regulating accumulation and distribution means socialism. Leaving the market as an efficient mechanism, but not as the supreme development regulator, means liberalism" (Prebisch, 1981, p. 24). Collective rationality would prevail over the irrationality of the upper strata[3]. To Prebisch, collective rationality was democratic planning; it was a rationality that required that "the surplus be allocated to accumulation and redistribution, as well as to State expenditures and investments" (Prebisch, 1981, p.48).

Prebisch thought that if decisions about the use of surplus were left to the market, then the upper social strata would use it for luxury consumption instead of favouring accumulation. This was not a rational use of resources if the end was economic development, which included improving the quality of life of workers. On the other hand, a high level of development would not be reached if the surplus was completely redistributed without dedicating a part to capital accumulation. Deciding how to distribute the economic surplus between these uses and State expenditures would require democratic planning.

Democratic planning meant for Prebisch a combination of work on the technical plane and the political plane. Examining alternative uses of the surplus between capital accumulation, redistribution and State expenditures was a technical planning task, which ultimately had to be submitted to political decisions since "one must escape the seductions of an authoritarian technocracy" (Prebisch, 1981b, p. 312). The fundamental decisions are political, which is what makes planning technical and not technocratic.

3 Prebisch meant that if the aim of peripheral countries was development, the actions that were rational were the ones that brought the economy closer to that end. The behaviour of the upper classes was, in this sense, irrational, because it dilapidated the surplus. On the contrary, the rational actions to take were the ones that approached the economy to a development path.

Along these lines, Prebisch explicitly proved dependency's theory heuristic worth, concluding that" if *'dependence' is thought to be a better name for these phenomena of hegemony as manifested in the new forms which the evolution of capitalism has brought in its train, I have no objection whatsoever*" (Prebisch, 1976a p. 74). However, he never analised phenomena explicitly in terms of social classes, as marxists and some dependentists did (Lira, 1986). In fact, Celso Furtado himself, when meeting Prebisch at a OECD meeting in 1978, said that 'I wondered if he is more "progressive" today than he was three decades ago when he started the big fight at ECLAC. I believe that no. But the extraordinary thing is that he is not more conservative.' (Furtado, 2019, quoted in Medeiros, 2021, p. 152).

Prebisch's approved only the versions of dependency theory that did not propose a socialist revolution, but that thought some kind of (dependent) development was possible. He thought that the centre-periphery approach was enriched by considering power relations: "Perhaps the most important contribution has been the incorporation of power relations in this [centre-periphery] scheme. In the appendicular development of the periphery, the dominant groups of the centres had articulated with the similar groups of the periphery; there was a certain community of interests between these social groups, although with a clear subordination of the peripheral ones." (Prebisch, 1988b, p. 206).

4 Concluding Remarks

The discourse developed in this article focused on economic literature based on financial subordination.

In light of the profound changes that have characterised developing economies and South American ones in particular since the global financial crisis of 2008, a series of researchers began to reflect on the risks that the growth of capital financial flows towards the region represented for member countries. These risks are intimately related to uncertainty regarding the amount and direction of capital flows and consist mainly of the subordination of fiscal, monetary and exchange rate policies to external factors, such as the monetary policy of the Federal Reserve and advanced countries, as well as international institutions, primarily the IMF and World Bank. In this sense, the new stage of the South American economies is configuring a new type of dependence, paradoxically characterised by the extraordinary availability of international dollar reserves. However, despite the undeniable merits shown on an analytical and interpretative level, the neo-dependentist approach has highlighted limitations on the political economy level. In this context, the emphasis placed on the subordination of South American economies has led to a paradoxical underestimation of the importance of national, subregional and regional policies to contain or limit the disturbing role of external factors on development.

Contrary to the literature's opinions that associate this defect of the financial subordination approach directly with the legacy of dependency theory, we have argued that there is another more fruitful interpretation, which refers to Raul Prebisch and South American structuralism.

Like modern neo-dependentists, Prebisch's effort has been to arrive at a convincing theoretical explanation of the structural problems of Latin American economies. This emphasis on the technocratic dimension of development processes led Prebisch to ignore the role of institutions and internal characteristics of societies in developing countries, which were considered unimportant. However, in the last part of Prebisch's scientific production, starting from his retirement from ECLA-Cepal, it is possible to trace a self-criticism, which led him to reconsider many of the previously ignored aspects. In this way, a rigorous theory on the analytical level but mute on the political plane has evolved towards incorporating a substantial appendix on political economy, especially considering the internal social structure of these countries. From this point of view, Prebisch's trajectory represents an essential reference for researchers adhering to the financial subordination approach, useful for understanding the importance of integrating into their research agenda a widespread proposal for the reform of the economic institutions of the South American countries and the subregional and regional blocs. These reforms should aim to reduce the uncertainty generated by the dependence on external capital flows, for example, by undermining the dollar hegemony in the region or implementing capital controls. Only in this way will it be possible to fill the gap existing in current literature and to dismiss the not unfounded accusations of neo-phobia definitively.

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